
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 the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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China Natural Investment Company Limited
中國天然投資有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8250)

**VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION
IN RELATION TO THE ACQUISITION OF EVERBEST RETURN LIMITED
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

Financial adviser to China Natural Investment Company Limited



KINGSTON CORPORATE FINANCE LTD.

**Independent Financial Adviser to the Independent Board Committee
and to the Independent Shareholders**

VINCO 城高
Grand Vinco Capital Limited

(a wholly-owned subsidiary of Vinco Financial Group Limited)

Capitalised terms used in this cover page shall have the same meanings as those defined in this circular unless otherwise stated.

A letter from the Independent Board Committee is set out on pages 49 to 50 of this circular, and a letter from Vinco Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 51 to 76 of this circular.

A notice convening the extraordinary general meeting of the Company to be held at 3/F, Nexxus Building, 77 Des Voeux Road Central, Hong Kong, on Tuesday, 28 July 2015 at 11:00 a.m. (or immediately after the conclusion of the extraordinary general meeting of the Company to be held at 10:30 a.m. on the same date, if later) 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 the accompanying form of proxy in accordance with the instructions printed thereon and return the same 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 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. 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>.

30 June 2015

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.

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DEFINITIONS

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

“Acquisition”	the conditional acquisition of the Sale Shares by the Purchaser from the Vendors pursuant to the SPA
“Adjustment Amount”	an amount equal to the product of (a) the amount by which the 2016 After-Tax Profits falls below the Guaranteed Profits Amount and (b) 4.053 (i.e. HK\$760.0 million divided by HK\$187.5 million (being the Guaranteed Profits Amount converted from RMB into HK\$ based on the Fixed Exchange Rate))
“associate(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Board”	the board of Directors
“Business Day(s)”	a day (excluding Saturdays, Sunday or public holiday in Hong Kong) on which commercial banks are generally open for business in Hong Kong
“BVI”	British Virgin Islands
“Company”	China Natural Investment Company Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on GEM (stock code: 8250)
“Completion”	completion of the Acquisition
“Completion Date”	the date falling within ten Business Days after the conditions as set out in the paragraph headed “Conditions precedent” having been met to the satisfaction of the Purchaser (or waived, if applicable) (or such other date as the Purchaser and the Vendors may agree in writing)
“connected person(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Consideration”	the total consideration payable by the Purchaser to the Vendors pursuant to the SPA for all the Sales Shares being the aggregate sum of the Deposit, the Earnest Money, the Initial Completion Sum and the Retained Completion Sum

DEFINITIONS

“Cut-Off Accounts”	the audited financial statements of the Target Group for the period commencing from 1 January 2015 to the Completion Date or 30 June 2015 (whichever is earlier) (comprising a balance sheet and profit and loss account) and prepared in accordance with Relevant Accounting Standards
“Deposit”	the deposit in the amount of HK\$68.0 million paid by the Company to the Vendors on the date of the SPA
“Director(s)”	director(s) of the Company
“Earnest Money”	the earnest money in the amount of HK\$8.0 million paid by the Company to Mr. Hu pursuant to the MOU
“EGM”	the extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving the SPA and the transactions contemplated thereunder
“Enlarged Group”	the Group as enlarged by the Target Group (assuming the Acquisition has been completed)
“Fixed Exchange Rate”	the pre-agreed exchange rate of RMB1 = HK\$1.25
“Fluorspar Mining”	Sino-Mongolia Fluorspar Mining Co., Ltd., a company incorporated in BVI which is wholly owned by the Company
“GDP”	gross domestic product
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company together with its subsidiaries
“Guaranteed Profits Amount”	RMB150.0 million (equivalent to HK\$187.5 million based on the Fixed Exchange Rate)
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Hong Kong Company”	Winner Joy Holdings Limited, a company incorporated in Hong Kong with limited liability and a direct wholly-owned subsidiary of the Target Company
“Hongsheng Mining”	馬關縣鴻盛礦業有限責任公司 (Maguan County Hongsheng Mining Industry Limited*), a company incorporated in the PRC
“Independent Board Committee”	the independent committee of the Board comprising the four independent non-executive Directors, namely, Mr. Chi Chi Hung, Kenneth, Mr. Yan Shengxian, Ms. Tang Qing and Mr. Wang Zhixiang, which has been formed for the purpose of advising the Independent Shareholders as to the terms of the SPA and the transactions contemplated thereunder
“Independent Financial Adviser” or “Vinco Capital”	Grand Vinco Capital Limited, a wholly-owned subsidiary of Vinco Financial Group Limited (stock code: 8340) and a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the SPA and the transactions contemplated thereunder
“Independent Shareholder(s)”	Shareholders other than the Vendors and their respective associates, as defined under the GEM Listing Rules
“Independent Third Party”	an individual or a company which is independent of and not connected with the Group and any of the directors, chief executive, substantial shareholders of any of the Company and its subsidiaries (as defined under the GEM Listing Rules)
“Initial Completion Sum”	the first tranche of the outstanding Consideration in the amount of HK\$304.0 million (being 50% of the total Consideration payable to the Vendors less the Earnest Money and the Deposit) payable upon Completion
“Latest Practicable Date”	26 June 2015, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein

DEFINITIONS

“Long Stop Date”	31 December 2015 or such later date as the Purchaser may designate
“Major Customer”	a major customer of the Target Group which is mainly engaged in the production and sales of coal and coal related chemicals in the PRC
“Management Contracts”	management contracts pursuant to which the Target Group is to provide mining operation services
“MOU”	the memorandum of understanding dated 18 October 2013 (as subsequently supplemented by the supplemental and further supplemental memorandums of understanding dated 17 April 2014, 30 May 2014, 29 September 2014, 28 November 2014 and 30 March 2015 respectively) between the Company and Mr. Hu relating to the possible acquisition of not less than 51% of the issued share capital of Tai Pu
“Mr. Hu”	Mr. Hu Zhixiong, a substantial Shareholder and a holder of 70% of the total issued share capital of the Target Company
“Ms. Fan”	Ms. Fan Aixian, an Independent Third Party and a holder of 30% of the total issued share capital of the Target Company
“Paid Consideration Refund Amount”	an amount equal to the difference between the Adjustment Amount and HK\$380.0 million and shall be capped at HK\$379,999,999.0
“PRC”	the People’s Republic of China and, for the purpose of this circular, excluding Hong Kong and the Macao Special Administrative Regions of the People’s Republic of China and Taiwan
“PRC Properties”	certain commercial properties in Shenzhen, PRC owned by Mr. Hu Meng (呼勳)

DEFINITIONS

“Promissory Note(s)”	1% per annum interest bearing unsecured promissory note(s) (not convertible into Shares) which shall mature and become payable on the fifth anniversary of the date of issue of such promissory note(s) issued by the Company
“Purchaser”	Million Nature Holdings Limited, an indirect wholly-owned subsidiary of the Company
“Relevant Accounting Standards”	in relation to any of the 2016 Audited Accounts or any balance sheet (or statement of financial position) or profit and loss account (or statement of comprehensive income) of any company or entity, the Hong Kong Financial Reporting Standards which are in force as at the date of such balance sheet (or statement of financial position) or profit and loss account (or statement of comprehensive income)
“Retained Completion Sum”	the balance of the Consideration up to the amount of HK\$380.0 million (being the remaining 50% of the total Consideration payable to the Vendors) subject to adjustment as described in the paragraph headed “Adjustment to Consideration”
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Shares”	the entire issued share capital of the Target Company
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	share(s) of HK\$0.05 each in the issued share capital of the Company
“Shareholder(s)”	shareholder(s) of the Company
“SPA”	the conditional sale and purchase agreement dated 2 April 2015 entered into between the Purchaser and the Vendors in relation to the Acquisition (as amended by the Supplemental Agreements)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“substantial shareholder(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Supplemental Agreements”	the supplemental agreements dated 22 April 2015, 5 June 2015 and 24 June 2015 entered into between the Purchaser and the Vendors to supplement or amend the terms of the SPA
“Tai Pu”	鄂爾多斯市泰普礦業工程有限責任公司 (Ordos City Tai Pu Mining Engineering Company Limited*), whose entire registered share capital is indirectly held by the Target Company, being the sole operating subsidiary of the Target Group
“Target Company”	Everbest Return Limited, a limited liability company incorporated in BVI
“Target Group”	the Target Company together with its subsidiaries
“Target Group Reorganisation”	the Target Group’s reorganisation undertaken to facilitate the restructuring of Tai Pu from a domestic company to a subsidiary of a wholly foreign owned enterprise in the PRC
“Valuer” or “LCH (Asia-Pacific)”	LCH (Asia-Pacific) Surveyors Limited, an independent valuer
“Vendors”	collectively, Mr. Hu and Ms. Fan
“Warranties”	means the representations, warranties and undertakings contained or referred to in the SPA
“WFOE”	深圳金泉諮詢有限公司 (Shenzhen Jinquan Consulting Co., Ltd*), a wholly foreign owned enterprise established in the PRC and an indirect wholly-owned subsidiary of the Target Company
“2016 After-Tax Profits”	the net profits after tax of the Target Group for the year commencing from 1 July 2015 to 30 June 2016 based on the 2016 Audited Accounts, excluding extraordinary items not derived from the Target Group’s ordinary and usual course of business

DEFINITIONS

“2016 Audited Accounts”	the audited financial statements of the Target Group for the year commencing from 1 July 2015 to 30 June 2016 (comprising a balance sheet and profit and loss account and the auditor’s report of those accounts and the directors’ report in respect of such period and the notes to those accounts) prepared in accordance with Relevant Accounting Standards
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong
“US\$”	United States dollars, the lawful currency of United States of America
“%”	per cent

The English translation of company names in Chinese which are marked with “ ” is for identification purpose only. If there is any inconsistency between the Chinese names of entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail.*

LETTER FROM THE BOARD



China Natural Investment Company Limited

中國天然投資有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8250)

Executive Directors:

Mr. Cai Da

Mr. Miao Tianfu

Mr. Johnny Huang

Mr. Li Wai Hung

Mr. Chen Youhua

Mr. Chen Liang

Mr. An Fengcun

Registered office:

PO Box 309

Ugland House

Grand Cayman, KY1-1104

Cayman Islands

Principal place of business in Hong Kong:

Unit 1903, 19th Floor

West Tower, Shun Tak Centre

168-200 Connaught Road Central

Hong Kong

Independent non-executive Directors:

Mr. Chi Chi Hung, Kenneth

Mr. Yan Shengxian

Ms. Tang Qing

Mr. Wang Zhixiang

30 June 2015

To the Shareholders

Dear Sir/Madam,

**VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION
IN RELATION TO THE ACQUISITION OF EVERBEST RETURN LIMITED
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

LETTER FROM THE BOARD

INTRODUCTION

Reference is made to the announcement of the Company dated 23 April 2015 in relation to, among other things, the Acquisition, the SPA and the transactions contemplated thereunder.

On 2 April 2015, the Purchaser (being an indirect wholly-owned subsidiary of the Company), Mr. Hu and Ms. Fan (being the Vendors) entered into the SPA (as amended by the Supplemental Agreements dated 22 April 2015, 5 June 2015 and 24 June 2015), pursuant to which the Purchaser conditionally agreed to acquire, and the Vendors conditionally agreed to sell, the Sale Shares, being the entire issued share capital of the Target Company at the total consideration of HK\$760.0 million (subject to adjustment).

The purpose of this circular is to provide you with, among other things, (i) further information on the SPA and the transactions contemplated thereunder; (ii) financial and other information of the Group; (iii) financial and other information of the Target Group; (iv) unaudited pro forma financial information of the Enlarged Group; (v) the recommendation from the Independent Board Committee; (vi) a letter of advice from Vinco Capital to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition; and (vii) notice of the EGM.

THE SPA

Date : 2 April 2015 (after trading hours), (as amended by the Supplement Agreements dated 22 April 2015, 5 June 2015 and 24 June 2015)

Parties

The Purchaser : Million Nature Holdings Limited, an indirect wholly-owned subsidiary of the Company

The Vendors : Mr. Hu and Ms. Fan

Mr. Hu directly held 70% of the total issued share capital of the Target Company as at the Latest Practicable Date. He is also a substantial Shareholder by virtue of his beneficial interest in approximately 23.03% of the total issued share capital of the Company as at the Latest Practicable Date. Mr. Hu is therefore a connected person of the Company.

Ms. Fan directly held 30% of the total issued share capital of the Target Company as at the Latest Practicable Date. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Ms. Fan is an Independent Third Party.

LETTER FROM THE BOARD

Subject matter

Pursuant to the SPA, the Purchaser has conditionally agreed to purchase, and the Vendors have conditionally agreed to sell, the Sale Shares, being the entire issued share capital of the Target Company, free from all encumbrances. The Target Group is principally engaged in the provision of mine construction engineering, mechanical equipment installation and coal production and technical services in the PRC.

Pursuant to the terms of the SPA, the Vendors shall be entitled to declare, pay or make any dividends or other distributions in an amount not exceeding the retained profit of the Target Group for the period commencing from 1 January 2015 and ending on the Completion Date or 30 June 2015 (whichever is earlier) based on the Cut-Off Accounts. Such dividends or other distributions, if any, will not cause any adjustment to the Consideration and will be declared within 4 months from the date of the Cut-Off Accounts.

Consideration

The aggregate Consideration for the purchase of the Sale Shares is initially HK\$760.0 million (subject to adjustment as described in the paragraph headed “Adjustment to Consideration” below), which was determined after arm’s length negotiations between the Purchaser and the Vendors, having taken into account various factors, including but not limited to (i) the unaudited after-tax profit of the Target Group for the two years ended 31 December 2014 being approximately RMB43.2 million and RMB62.1 million respectively; (ii) the future business prospects of the Target Group, as it is expected that, with the increase in the number of mines which are under construction in Inner Mongolia, the demand for third-party mining service providers will rise, in particular the demand for local service providers in order to achieve the localisation of mine management in Inner Mongolia; and (iii) the draft preliminary valuation of Tai Pu as of 31 January 2015 performed by LCH (Asia-Pacific), an independent valuer, of RMB820.0 million (equivalent to HK\$1,025.0 million based on the Fixed Exchange Rate). The Directors consider that the basis of arriving at the Consideration is fair and reasonable as reference has been made to, among other things, independent valuation of Tai Pu, the Target Group’s sole operating subsidiary.

The valuation of Tai Pu was arrived at by the independent valuer, LCH (Asia-Pacific), using the “Guideline Publicly Traded Company Method” under the “Market Approach”, with reference to the price to earnings and enterprise value to earnings before interest, taxation, depreciation and amortization of comparable companies. The updated valuation report of Tai Pu as at the date of this circular issued by LCH (Asia-Pacific) is set out in Appendix IV to this circular.

LETTER FROM THE BOARD

Payment of the Consideration

The Consideration comprises (i) the Earnest Money in the amount of HK\$8.0 million paid by the Company pursuant to the MOU; (ii) the Deposit in the amount of HK\$68.0 million paid by the Company on the date of the SPA; (iii) the Initial Completion Sum in the amount of HK\$304.0 million will be settled upon Completion by Promissory Notes; and (iv) the Retained Completion Sum, if any, will be settled by Promissory Notes. The Earnest Money and Deposit shall be refundable in full if the SPA is terminated for any reason other than a material breach of the SPA by the Purchaser. At Completion, both the Earnest Money and the Deposit will be applied for settlement of part of the Consideration.

The Retained Completion Sum, if payable, up to the amount of HK\$380.0 million will be payable within 90 days after the 2016 Audited Accounts are issued and the 2016 After-Tax Profits is determined. Pursuant to the SPA, the Purchaser is entitled to choose the auditors for preparing the 2016 Audited Accounts for determination of the 2016 After-Tax Profits.

Adjustment to Consideration

The Consideration shall be subject to adjustment as described below.

If the 2016 After-Tax Profits is less than the Guaranteed Profits Amount of RMB150.0 million (equivalent to HK\$187.5 million based on the Fixed Exchange Rate), the Retained Completion Sum payable by the Company will be reduced by the Adjustment Amount which is calculated as below:

Retained Completion Sum = HK\$380.0 million (*initial Retained Completion Sum*) – Adjustment Amount

where the Adjustment Amount = (RMB150.0 million (equivalent to HK\$187.5 million based on the Fixed Exchange Rate) (*Guaranteed Profits Amount*) – 2016 After-Tax Profits) x 4.053

If the Adjustment Amount equals to or exceeds HK\$380.0 million (being the initial Retained Completion Sum), then: (i) no Retained Completion Sum shall be payable by the Purchaser to the Vendors; and (ii) the Vendors shall jointly and severally pay to the Purchaser the Paid Consideration Refund Amount on or before the 10th Business Day after the 2016 After-Tax Profits has been determined pursuant to the terms of the SPA, provided that the Paid Consideration Refund Amount shall be capped at the amount of HK\$380.0 million (being the sum of the Earnest Money, Deposit and Initial Completion Sum) less HK\$1.0. It follows that if the 2016 After-Tax Profits is zero or a negative amount, the Paid Consideration Refund Amount shall be HK\$379,999,999.0 and hence the total Consideration for the Acquisition will be adjusted to a nominal amount of HK\$1.0.

LETTER FROM THE BOARD

The calculation for the Paid Consideration Refund Amount is as follows:

Paid Consideration Refund Amount = Adjustment Amount – HK\$380.0 million (*initial Retained Completion Sum*)

where the Paid Consideration Refund Amount shall be capped at HK\$379,999,999.0

For illustrative purpose only, set out below is a table indicating the adjustment to the Consideration by assuming the 2016 After-Tax Profits being RMB150.0 million, RMB75.0 million, and nil:

2016 After-Tax Profits		Adjustment Amount	Retained Completion Sum	Paid Consideration Refund Amount	Total Consideration Paid
<i>(RMB million)</i>	<i>(HK\$ million) (based on the Fixed Exchange Rate)</i>	<i>(approximately, HK\$ million)</i>	<i>(approximately, HK\$ million)</i>	<i>(approximately, HK\$ million)</i>	<i>(approximately, HK\$ million)</i>
150.0	187.5	Nil	380.0	Nil	760.0
75.0	93.75	380.0	Nil	Nil	380.0
Nil	Nil	760.0	Nil	capped at HK\$379,999,999.0	HK\$1.0

Note: the figures are for illustrative purpose only.

The Paid Consideration Refund Amount payable by the Vendors will be (i) firstly, offset against the Promissory Notes already issued to the Vendors for settlement of the Initial Completion Sum on a dollar for dollar basis; and (ii) secondly, settled by cash. The Purchaser or the Company shall have the right to notify the Vendors of the amount to be offset against such Promissory Notes. The Promissory Notes will be deemed cancelled from the date of such notice. This offset mechanism in respect of the Promissory Notes, which cannot be redeemed on or before 30 September 2016, whereby the Adjustment Amount (if any) is known, will help ensure that the Vendors will settle the Paid Consideration Refund Amount (if any) in a timely manner. If part or all of the Promissory Notes for the Initial Completion Sum is cancelled as a result of the shortfall in the profit guarantee, there will be no interest payment on any of the cancelled Promissory Notes. Furthermore, Mr. Hu Meng, a son of Mr. Hu and the owner of the PRC Properties, has executed a deed of guarantee dated 5 June 2015 in favour of the Purchaser to secure the obligations of the Vendors for the possible refund of the deposit amount of not more than HK\$76 million, being the aggregate sum of the Deposit and the Earnest Money. The PRC Properties are security for a mortgage loan and based upon the information provided by the Vendors, the outstanding mortgage as at 29 May 2015 was approximately RMB45.05 million. Based on a property valuation report dated 5 June 2015 and issued by the Valuer, the valuation of the PRC Properties, as at 29 May 2015, was RMB117.60 million. Based upon the information above, the difference of the amount of valuation of the PRC Properties and the outstanding mortgage loan as at 29 May 2015 was approximately RMB72.55 million, equivalent to approximately HK\$90.69 million (based on the Fixed Exchange Rate). Further, according

LETTER FROM THE BOARD

to the PRC legal adviser of the Purchaser, the deed of guarantee is legally binding and enforceable. The Promissory Notes for settlement of the Retained Completion Sum, if any, will be issued after the Adjustment Amount is known.

The Guaranteed Profits Amount of RMB150.0 million (equivalent to HK\$187.5 million based on the Fixed Exchange Rate) was determined by the Vendors, by taking into account various factors, including (i) the unaudited profit after tax of Tai Pu for the year ended 31 December 2014 of approximately RMB62 million; and (ii) the two contracts secured with two new customers (which are Independent Third Parties) in December 2014 and January 2015 respectively to provide services to three coal mines located in Inner Mongolia and Ningxia, the PRC. The aggregate contract sum and preliminary estimated gross profit of the said contracts are approximately RMB410 million and RMB102 million respectively. As the Target Group's gross profit margin was approximately 21.1%, 24.2% and 30.2% for the three years ended 31 December 2012, 2013 and 2014 respectively, the Directors consider that the estimated aggregate gross profit margin of the three mines being approximately 24.9% to be reasonable.

The Guaranteed Profits Amount shall exclude extraordinary items not derived from the Target Group's ordinary and usual course of business and will exclude any profit generated by the Target Group from any business other than its current principal business. Furthermore, the above-mentioned adjustment mechanism was arrived at after arm's length negotiation among the Purchaser and the Vendors and was negotiated by the best efforts of the Directors with a view to securing additional downside protection on the profit of the Target Group, which may otherwise be unavailable without the Guaranteed Profits Amount. The Company confirms that such arrangement is the best terms which the Vendors are willing to offer in the transactions contemplated under the SPA and accepted by the Company after arm's length negotiation. Hence, the Board considers that the adjustment mechanism is fair and reasonable to the Company and the Shareholders as a whole.

The Company will publish an announcement after the issue of the 2016 Audited Accounts with respect to (i) the fulfillment of the Guaranteed Profits Amount by the Target Group irrespective of whether the Guaranteed Profits was met or not; and (ii) the fulfillment of the Vendors' obligations under the SPA in the event that the Guaranteed Profits Amount was not met.

LETTER FROM THE BOARD

Financing of the Consideration

The Earnest Money and the Deposit

The Earnest Money and the Deposit were paid out of the Company's internal resources.

Initial Completion Sum

The entire Initial Completion Sum will be financed by way of issuance of the Promissory Notes.

Retained Completion Sum (if any)

The Company expects that the Retained Completion Sum payable to the Vendors under the SPA (if any) will be financed by way of issuing the Promissory Notes up to the full amount of the Retained Completion Sum to the Vendors.

Principal terms of the Promissory Notes

The terms of the Promissory Notes have been negotiated on an arm's length basis between the Purchaser and the Vendors and the principal terms of which are summarised below:

Issuer	:	The Company
Principal amount	:	HK\$304.0 million in respect of the Initial Completion Sum; and up to HK\$380.0 million in respect of the Retained Completion Sum
Interest	:	The Promissory Notes carry interest at a rate of 1% per annum payable annually.
Maturity	:	The date falling on the fifth anniversary of the date of issue of the Promissory Notes.
Ranking	:	Rank equally among themselves and pari passu with other unsecured and unsubordinated obligations of the Company.
Security	:	The Promissory Notes are unsecured.
Transferability	:	Not transferrable

LETTER FROM THE BOARD

Early redemption : The Company shall have the right to redeem all or any part of the Promissory Notes issued at 100% of the principal amount in respect of (i) the Initial Completion Sum at any time from 1 October 2016 to the date immediately prior to their maturity date; and (ii) the Retained Completion Sum at any time from the date of issue of such Promissory Notes to the date immediately prior to their maturity date.

The holder(s) of the Promissory Notes shall not have the right to request the Company to redeem all or part of the outstanding Promissory Notes prior to their maturity date.

The Company will consider various means for repayment of the Promissory Notes upon their maturity, including the then financial position of the Group, and the various means and costs of fund-raising by that time. As at the Latest Practicable Date, no specific plan for equity or debt fund raising for repayment of the Promissory Notes has been determined.

Conditions precedent

Completion is conditional upon the following conditions being satisfied to the satisfaction of the Purchaser or waived by the Purchaser according to the SPA:

- (a) the Company having obtained approval from its Shareholders (other than those who are required to abstain from voting by law, the GEM Listing Rules, the Stock Exchange and/or the memorandum and articles of association of the Company) at the EGM;
- (b) the Acquisition not being regarded by the Stock Exchange as a “reverse takeover” under Rule 19.06(6) of the GEM Listing Rules or an “extreme” very substantial acquisition as referred to in paragraph 7 of the guidance letter issued by the Stock Exchange entitled “Guidance on application of the reverse takeover requirements under Rule 14.06(6) (GEM Rule 19.06(6))” in May 2014;
- (c) the Warranties remaining true and accurate and not misleading at Completion as if repeated at Completion and at all times between the date of the SPA and Completion;
- (d) the Purchaser notifying the Vendors in writing that the Purchaser is satisfied, in reliance on the Warranties, with the results of its due diligence against the Target Group;
- (e) each of the Vendors having complied fully with its obligations, and having performed all of the covenants and agreements required to be performed by it, under the SPA;

LETTER FROM THE BOARD

- (f) all necessary consents required in relation to the transactions contemplated under the SPA having been granted by third parties (including governmental or official authorities) to the Purchaser's satisfaction and not subsequently being revoked and no statute, regulation or decision which would prohibit, restrict or materially delay the sale and purchase of the Sale Shares or the operation of the Target Group after Completion having been proposed, enacted or taken by any governmental or official authority (if applicable);
- (g) the delivery of the legal opinion by the PRC legal counsel of the Company in a form and substance satisfactory to the Purchaser; and
- (h) there having been no material adverse change of any member of the Target Group.

The Purchaser may at any time waive any of the above conditions precedent except for the condition set out in paragraph (a) by notice in writing to the Vendors. If any of the above conditions precedent have not been fulfilled (or the case may be, waived by the Purchaser) at or before the Long Stop Date, then the Purchaser shall not be bound to proceed with the purchase of the Sale Shares; each of the Vendors shall forthwith and within three Business Days (the "Refund Date") refund the Earnest Money and the Deposit to the Purchaser and the SPA shall cease to be of any effect save in respect of, among others, claims arising out of any antecedent breach of the SPA. In the event that the Vendors fail to refund all or part of the Earnest Money and Deposit to the Purchaser by the Refund Date, the Vendors shall pay to the Purchaser interest accrued on the outstanding amount calculated at the rate of 5% per annum for the period from the Refund Date to the actual repayment date of all outstanding sum to the Purchaser. As at the Latest Practicable Date, the Company has no intention to waive any of the conditions precedent under the SPA.

Vendors' warranties, indemnities and covenants

Under the SPA, the Vendors have provided general warranties in respect of the Sale Shares and affairs relating to the Target Group, and have undertaken to indemnify the Purchaser against any loss or liability suffered by the Purchaser or any member of the Target Group as a result of or in connection with any breach of the Warranties. The Vendors have also provided general tax indemnity and other indemnities on specific matters relating to, among other things, employee payments, licensing, legal and regulatory compliance in respect of the Target Group.

Apart from the above, each of the Vendors has further provided, among other things, certain non-competition undertakings in favour of the Purchaser including but not limited to the undertaking that he/she shall not be engaged in any business of providing mine construction engineering, mechanical equipment installation and coal production and technical services and other business carried out by the

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Target Group and/or solicit any customer, prospective customer, or any employee, consultant of the Target Group within the restrictive period specified in the SPA. In relation to Mr. Hu the restrictive period includes a period of 24 months after he ceases to be the single largest Shareholder; or the period of 24 months after Completion, whichever is the longer and in relation to Ms. Fan, the period of 24 months after Completion.

Completion

Completion shall take place on the date falling within 10 Business Days after the above conditions having been met to the satisfaction of the Purchaser (or waived, if applicable) (or such other date as the Purchaser and the Vendors may agree in writing).

Upon Completion, members of the Target Group will become wholly-owned subsidiaries of the Company.

INFORMATION ON THE COMPANY

The Group is principally engaged in processing and trading of fluorite products, trading of other mineral products, and the provision of advertising and public relations services.

INFORMATION ON THE VENDORS

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry and based on Mr. Hu's confirmation, Mr. Hu does not have any relationship and/or business dealing with the vendors of Fluorspar Mining acquired by the Group in July 2013. As concerns Mr. Hu's relationship with the Company and its connected persons, Mr. Hu is currently a substantial Shareholder and is interested in approximately 23.03% of the total issued share capital of the Company as at the Latest Practicable Date. Furthermore, the Group as tenant and a family member of Mr. Hu as landlord entered into two tenancy agreements on 13 June 2013 and 11 June 2015 respectively and details of the tenancy agreements were disclosed in the Company's announcements dated 13 June 2013 and 11 June 2015 respectively. Apart from the aforesaid and the Acquisition, Mr. Hu has no further relationship and/or business dealing with the Company or any of its connected persons. In view of the experience of Mr. Hu in the business areas of the Target Group, the Company will consider to invite Mr. Hu to act as a Director after Completion.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry and based on Ms. Fan's confirmation, Ms. Fan does not have any relationship and/or business dealing with the vendors of Fluorspar Mining. As concerns Ms. Fan's relationship with the Company and its

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connected persons, given Mr. Hu is a connected person to the Company, taking into account Ms. Fan and Mr. Hu's respective 30% and 70% shareholding interest in the Target Company, Ms. Fan therefore is deemed to have business relationship with Mr. Hu (a connected person of the Company) in view of their respective shareholding in the Target Company. Apart from the aforesaid and the Acquisition, Ms. Fan has no further relationship and/or business dealing with the Company or any of its connected persons.

Mr. Hu became a substantial Shareholder upon conversion of convertible note held by Tai Pu International Mining Co., Ltd, the entire issued share capital of which is wholly and beneficially owned by Mr. Hu, in March and May 2013. Since then, Mr. Hu had visited the Company's office in Hong Kong several times and got acquainted with the Directors and obtained a general understanding of the Group's business. Subsequent to a gathering in July 2013 during which Mr. Hu and several executive Directors exchanged their respective business experience, the mining construction and engineering business operated by Tai Pu was made known to the Company. After a site visit to Tai Pu in September 2013, certain Directors discussed the possible Acquisition and a meeting of the Board was convened in October 2013 to consider the possible Acquisition. After discussion and consideration, the Board decided to enter into the MOU with Mr. Hu on 18 October 2013. The Company has not approached any other potential sellers for similar business as the Target Group.

With respect to Mr. Hu obtaining the convertible note, as disclosed in the Company's announcement dated 15 May 2012, the Company entered into a convertible notes placing agreement with Kingston Securities Limited (as the placing agent) as one of the way to financing the acquisition of Fluorspar Mining, pursuant to which Kingston Securities Limited has conditionally agreed to place the convertible notes in the maximum aggregate principal amount of HK\$100,000,000 to independent placee(s). The convertible notes will carry a right to convert into conversion shares of the Company at the conversion price of, subject to adjustment, HK\$0.05 per conversion share. Upon full conversion of the convertible notes at the conversion price, a total of 2,000,000,000 conversion shares will be issued. As disclosed in the Company's announcement dated 3 December 2012, all the convertible notes had been placed by Kingston Securities Limited to one placee, namely Tai Pu Mining International Co., Ltd, a company incorporated in the BVI with limited liability, which is wholly and beneficially owned by Mr. Hu.

LETTER FROM THE BOARD

INFORMATION ON THE TARGET GROUP

Mr. Hu and Ms. Fan respectively held 70% and 30% of the total issued share capital of the Target Company as at the Latest Practicable Date. Mr. Hu is the legal representative of Tai Pu, the Target Group's sole operating subsidiary.

A. History of the Target Group

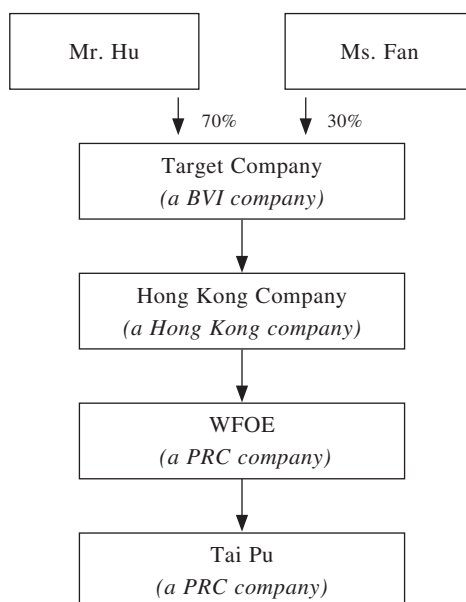
Tai Pu was established in February 2007 as a limited liability company in the PRC with an initial registered capital of RMB4,000,000 and the equity interest of which at that time was beneficially owned as to 57% by Mr. Hu, 20% by Ms. Fan and 23% by three other minority shareholders. In December 2008, the registered capital of Tai Pu was increased to RMB8,000,000. The additional registered capital was funded by the then shareholders of Tai Pu in proportion to their then equity interest in Tai Pu. As a result of various equity transfers in July 2009, Tai Pu was beneficially owned as to 37.5% by a company owned as to 90% by Mr. Hu, 31.5% by Mr. Hu and 31% by Ms. Fan. The consideration of these transfers were based on the respective sellers' contribution to the then registered capital of Tai Pu. In December 2009, the registered capital of Tai Pu was increased to RMB20,000,000. The additional registered capital was funded by the then shareholders of Tai Pu in proportion to their then equity interest in Tai Pu. In October 2013, upon completion of various equity transfers, Tai Pu was beneficially owned as to 70% by Mr. Hu and 30% by Ms. Fan.

The shareholding of the Target Group had undergone a Target Group Reorganisation which included, inter alia, the incorporation of the Target Company in July 2012 and other two intermediate subsidiaries, namely, the Hong Kong Company in November 2013 and the WFOE in October 2013. In November 2013, the then shareholders of Tai Pu transferred their respective equity interest in Tai Pu to the WFOE at a total consideration of RMB20,000,000. At that time, the WFOE was held as to 70% and 30% by the trustees of Mr. Hu and Ms. Fan respectively and the said sum of RMB20,000,000 was financed as to 70% and 30% by Mr. Hu and Ms. Fan respectively. In March 2014, the shareholding of the WFOE was transferred to the Hong Kong Company, which is in turn held by the Target Company. At that time, the Target Company had been held by the trustee of Mr. Hu. In April 2014, Mr. Hu's trustee transferred all the shares in the Target Company back to Mr. Hu pertaining to Mr. Hu's direction at nominal consideration being US\$1.00 per share. In mid May 2014, Mr. Hu and the trustee of Ms. Fan subscribed for new shares in the Target Company. In late May 2014, Ms. Fan's trustee transferred all the shares in the Target Company back to Ms. Fan pertaining to Ms. Fan's direction at nominal consideration being US\$1.00 per share. As a result of the above transfers, the Target Company was held directly as to 70% by Mr. Hu and 30% by Ms. Fan.

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All the Target Company, the Hong Kong Company and the WFOE had not carried on any business since their incorporation apart from directly or indirectly holding interests in Tai Pu.

Set out below is the organisational structure of the Target Group as at the Latest Practicable Date:



B. Business overview

Since 2007, Tai Pu has been principally engaged in the provision of mine construction engineering, mechanical equipment installation and coal production and technical services in the PRC. Tai Pu is one of the “second-tier mine construction and engineering main contractors” in Inner Mongolia, the PRC.

The Target Group principally provides mining operation services for coal mines located mainly in Inner Mongolia, the PRC. Such services comprise comprehensive mining exploitation, excavation works, mining supporting works and mine construction services for mining supporting works. Currently Tai Pu is engaged by its customers to provide the above services based on Management Contracts, normally with a term of one to two years and with pricing to be agreed yearly. In the course of the past eight years, the Target Group has built up a team of senior managers and engineers that have substantial experience in providing mining related services to coal mines.

Other than Tai Pu, the Target Group does not contain any other major assets or liabilities as at the Latest Practicable Date.

LETTER FROM THE BOARD

The following are the major milestones in the development of the business of the Target Group to date:

Year	Events
2012	Tai Pu obtained the “second-tier mine construction and engineering main contractors” certificate issued by the relevant authority in Inner Mongolia, the PRC
2014	Tai Pu obtained the Production Safety Certificate (安全生產許可證) issued by the relevant authority in Inner Mongolia with the validity period from December 2014 to December 2017
2015	The Target Group extended its service regions to Ningxia, the PRC

Major terms of the Management Contracts

The Target Group enters into Management Contracts with its customers in relation to the provision of mine construction engineering, mechanical equipment installation and coal production and technical services in the PRC.

Major terms of the Management Contracts normally include:

Service duration	Normally one to two years
Scope of service	May include one or more types of the following services: Mining exploitation – provision of ore body mining and transportation services Excavation works – provision of digging/excavation of mining tunnel services Mining supporting works – provision of general and specialised mining supporting works Mine construction services for mining supporting works – provision of construction project services in mining sites

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Basis fee calculation

Mining exploitation: (i) production output at agreed price per tonne; and (ii) fixed annual wages and management fee

Excavation works: production output at agreed price per meter

Mining supporting works: the number of projects in mining supporting works done at the agreed unit project service price

Mine construction services for mining supporting works: the number of construction projects completed at the agreed project service price

Termination conditions

- (a) Failure to achieve monthly production planning for three consecutive months
- (b) Occurrence of catastrophic casualties
- (c) Malicious damage to coal assets
- (d) Disobedience to the customer's instructions resulting in significant loss to such customer
- (e) Subcontracting of contracts

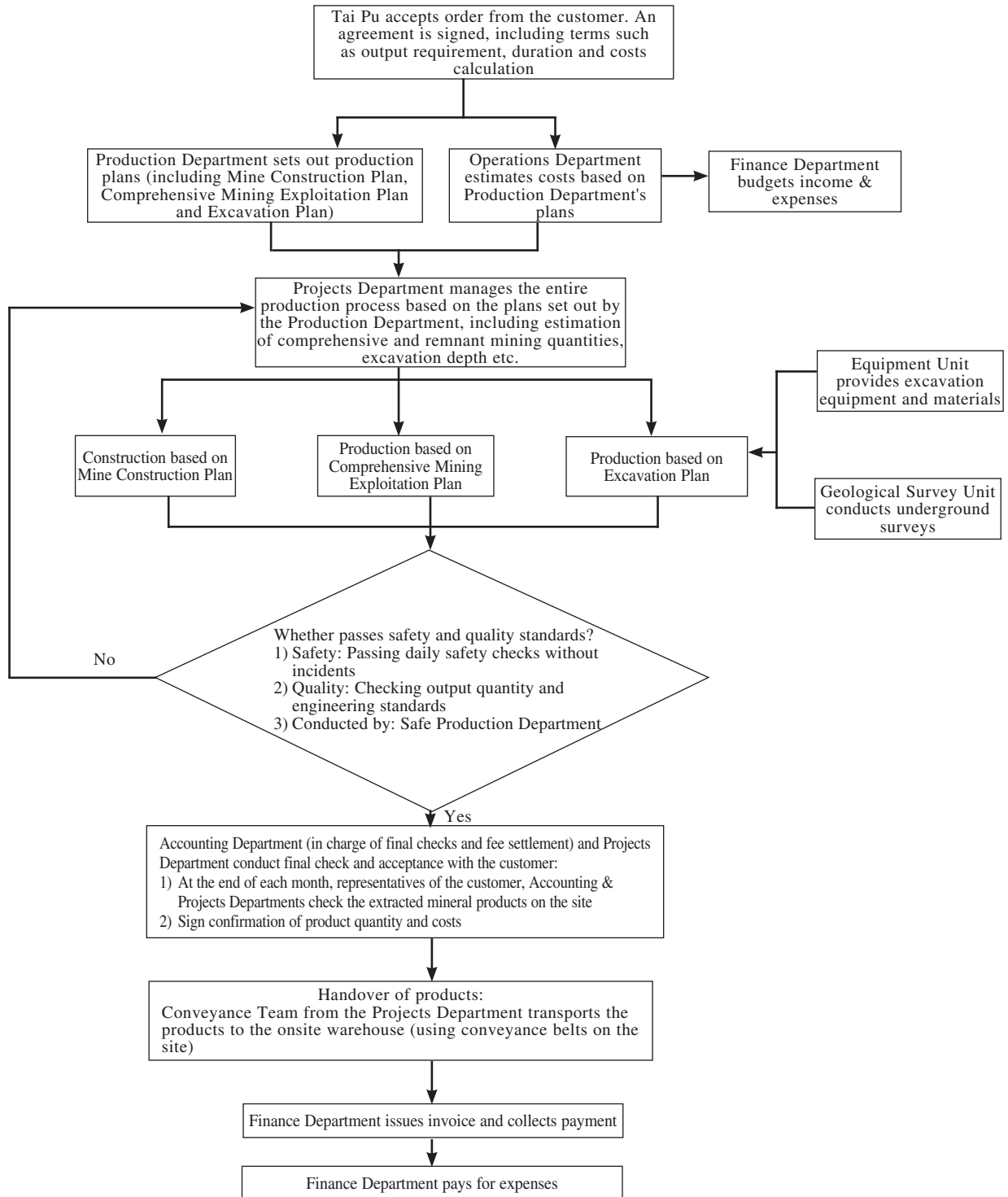
Right of termination

Each party has the right to terminate the contract by giving to the other party written notice of one to three months

LETTER FROM THE BOARD

Operational flow

The operational flow of Tai Pu is as follows:



LETTER FROM THE BOARD

Customers and suppliers

Customers of the Target Group mainly comprise mine owners and mine construction and engineering main contractors in the PRC.

The Target Group's suppliers mainly consist of suppliers of machineries and parts, leather conveyer and small facilities such as cables and water pumps in the PRC.

Major income/cost components

The income components of the Target Group mainly consist of service income from the provision of (a) comprehensive mining exploitation; (b) excavation works; (c) mining supporting works; and (d) mine construction services for mining supporting works.

As the Target Group's service income is determined with reference to the mine annual coal output tonnage and the cost of labour based upon the said annual coal output, it is expected that the Target Group's business will not be directly affected by the fluctuation of the price of coal. To reduce any possible effects of coal price fluctuations on the Target Group's business in case where the production volume of the coal mines serviced by the Target Group may decrease as a result of reduction in coal price, the Target Group has adopted a prudent approach in the selection of its customers. The major customers of the Target Group are well established mining enterprises with solid financial background that is less likely to be affected by the fluctuation of coal price. The coal production volume of the Major Customer decreased slightly by approximately 5.8% for the year ended 31 December 2014 mainly resulting from the relocation of the mining work according to its 2014 annual report, whilst the price of coal has decreased by approximately 17.1% between 27 December 2013 and 26 December 2014 based on the China-Taiyuan Coal Transaction Price Index (中國太原煤炭交易價格指數). Further, there was no material fluctuation in revenue of the Target Group between 2013 and 2014 and its coal production volume increased from approximately 12.9 million tonnes for the year ended 31 December 2013 to approximately 17.2 million tonnes for the year ended 31 December 2014.

The major cost components of the Target Group include (a) wages and salaries; (b) transportation costs; (c) depreciation for machinery and equipment; (d) utility; and (e) mining consumables.

Manpower

As at 31 March 2015, the Target Group had a total of 1,677 employees consisting of 14 senior management members, 40 administrative staff, 9 accounting staff, 35 qualified engineers (with related certificates), 140 technical staff and 1,439 operational staff.

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Future development plan

The Target Group aims to maintain its leading position in the mine construction industry in Inner Mongolia and extend its service regions to Ningxia, the PRC in 2015. The Target Group plans to (a) enhance its production capacity by expanding its service teams and acquiring machinery and equipment; and (b) further establish its marketing relationship with mine owners to increase its market share in Inner Mongolia and extend its services to Ningxia, the PRC. The Target Group has commenced work in June 2015 for the contract secured in January 2015 with respect to the provision of mining services for two mines in Ningxia after a preparation period of approximately 4 months. The Target Group has recruited a number of local workers and assigned its engineers to carry out the mining services. Up to the Latest Practicable Date, the Target Group has purchased machineries of approximately RMB8 million for the project in Ningxia.

The Company believes Tai Pu, with its professional team with substantial experience in the mining construction industry and extensive business network with its existing customers and mine owners, can co-operate with its existing customers, mine owners and mine construction engineering main contractors to explore new markets outside of the Inner Mongolia. To further develop the Target Group's business, the Company will seek to leverage the Target Group's business network to (i) provide a greater exposure to various channels and opportunities such as tendering and direct notices from mine companies with respect to potential customers seeking mining services provided by the Target Group; (ii) refer and promote the Target Group's mining services to the Company's existing network of customers; and (iii) explore business referrals provided by the Company's existing customers to provide Tai Pu with more business opportunities. As the Company's above business development measures have not materialised, the Company currently does not have any business obligations relevant to the above measures with a material capital requirement. If any of the measures and business opportunities materialise, the Company believes that the business opportunities can be financed by internal resources of the Enlarged Group, bank loans, or the Company's equity or debt financing.

Capital requirements and funding sources

The Target Group estimates that the total capital expenditures for the year ending 31 December 2015 will reach approximately RMB104,670,000 comprising (a) RMB65,210,000 for digging and related machinery; (b) RMB33,600,000 for construction vehicles; and (c) RMB5,860,000 for loaders and rigs. The Target Group has signed a memorandum of understanding with a leasing company in the PRC, which is an Independent Third Party, in January 2015 to obtain proposed finance leases with an amount up to RMB100 million to fund part of its capital expenditures for the year ending 31 December 2015. The Target Group intends to finance the remaining portion of its estimated capital expenditures for 2015 of approximately RMB4,670,000 by its internal resources.

LETTER FROM THE BOARD

The Target Group's reliance on a major customer and Mr. Hu

For the two years ended 31 December 2012, Tai Pu had been relying on the Major Customer, but such reliance was decreasing over these two years. Revenues derived from Management Contracts with the three mines that were majority owned by the Major Customer (of which two of these mines were owned as to 27% by Mr. Hu and his family) accounted for approximately 84% of total revenues of Tai Pu for the year ended 31 December 2012 as compared to approximately 99% for the previous year. Prior to entering into the MOU in October 2013, the Directors noted that Tai Pu's reliance on the Major Customer had been decreasing over the past two years. Moreover, the Directors understood from the management of Tai Pu that a Management Contract had been signed in June 2013 with a new customer, which is an Independent Third Party, for providing services to its coal mine, which was expected to help reduce Tai Pu's reliance on the Major Customer. For the two years ended 31 December 2014, approximately 85% and 74% respectively of total revenues of Tai Pu was derived from Management Contracts with the Major Customer. In view of the abundant reserves of coal and other minerals in Inner Mongolia and the increasing need for professional construction teams by mining companies, the Directors believe that there are opportunities for the Target Group to expand its customer base and reduce the risk of reliance on the Major Customer and Mr. Hu.

The Target Group has been exploring opportunities to expand its customer base to mitigate the risk of over-reliance and maintain its current level of revenue and profitability. Given the Target Group has commenced business since 2007, it has built up a team of professional and experienced staff in the mining construction industry and established an extensive business network in Inner Mongolia, the PRC. The Target Group secured a number of contracts with new customers (which are Independent Third Parties) in December 2014 and January 2015 respectively to provide services to various coal mines located in Inner Mongolia and Ningxia, the PRC. Based on the budgeted revenues derived from Management Contracts in respect of the existing mines for the year ending 31 December 2015 (which are prepared by Tai Pu and have not been reviewed by any other external accounting firm), the Directors expect that only approximately 46% of total revenues of Tai Pu would be derived from Management Contracts with the Major Customer for the year ending 31 December 2015. In addition, the Target Group has signed a memorandum of understanding with a potential customer, which is an Independent Third Party, in January 2015 to provide services to a coal mine in Inner Mongolia. The Target Group is negotiating a contract with this potential new customer for provision of services.

The Target Group's management has experience in the mining industry outside of Inner Mongolia to execute the Target Group's measures to explore new markets. Mr. Xie Chengniu, the general manager of Tai Pu since April 2011, had served as vice director and manager of a mining company affiliated with the Zibo Mining Bureau in Shandong Province, during the period from December 1997 to July 2007 and Mr. Huang Shiyi, a deputy general manager of Tai Pu since April 2011, had worked at the Silaogou Mine affiliated with the Dai Tong Mining Bureau, Shanxi Province, during the period from February 1974 to April 2007.

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Further, according to the legal opinion issued by the Company's PRC legal adviser, based on the qualification of "second-tier mine construction and engineering main contractors" obtained by Tai Pu, there are no specific restrictions imposed by the rules and regulations on mine construction works undertaken by Tai Pu outside Inner Mongolia.

The business relationship between the Target Group and the Major Customer

As at the date of this circular, the Target Group has entered into three Management Contracts for three mines with the Major Customer. Of the three Management Contracts, one Management Contract was entered into with the Major Customer, a company whose shares are listed on the Main Board of the Stock Exchange, and two Management Contracts were entered into with two of the Major Customer's subsidiaries. The Major Customer group's principal operations include, among others, (i) the production, transportation and sale of coal; and (ii) coal related chemical operations including the production and sale of coal-based synthetic fuels and other coal-related chemical business. The Major Customer owns 12 mines in the PRC and Tai Pu provides mining services to three of its mines. According to the latest annual report of the Major Customer for the year ended 31 December 2014, Tai Pu was the fourth major supplier for the Major Customer, accounting for approximately 13.8% of its total procurement amount for the year ended 31 December 2014.

Mining exploitation is usually performed in stages as only a portion of the mine is exploited or excavated during a period of time. It is usual that the costs of providing mining services varies according to the mining conditions of the portion of the mine being exploited or excavated. The mining conditions in deeper or unexplored areas of the mine are usually not known ahead of time, therefore it is the usual practice for mining service providers to enter into contracts with its customers for a duration of one to two years so that the terms of contract can be adjusted with reference to the stage of works. Therefore none of the Target Group's Management Contracts with the Major Customer group is long term.

Although the Target Group does not have long term contracts with the Major Customer group, through having a long business relationship with the Major Customer, Tai Pu has developed (i) a significant know-how and expertise with respect to the operation of the three mines that were being serviced; (ii) a deep understanding of the needs and requirements of the Major Customer resulting in a high level of customer satisfaction; and (iii) an amicable relationship with the Major Customer without any disputes, claims, or litigation. Further, the Target Group never had any major accident with respect to the work done for the Major Customer. For the reasons above, the Target Group is of the opinion that (i) the Target Group will continue to maintain a long term cooperative relationship with the Major Customer; and (ii) the Target Group has substantial bargaining power when negotiating new contracts with the Major Customer.

LETTER FROM THE BOARD

Generally, the pricing mechanism under the Management Contracts are (i) the customer will provide an annual coal output tonnage for the mine (the “Annual Coal Output”); (ii) the Target Group will then determine the cost of labour based on the Annual Coal Output and the staff required for rendering the mining services to achieve the Annual Coal Output; (iii) the Target Group will use the total labour cost as a basis of pricing for the mining service per tonnage (the “Mining Service Rate”); and (iv) if the actual output of the mine is greater than the Annual Coal Output, the additional output above the Annual Coal Output will be priced at a rate that is higher than the Mining Service Rate.

Directors’ due diligence review on the Target Group

In connection with the due diligence works on the Target Group, the Company has, among others, conducted site visits to Tai Pu and interviewing its management team, commissioned an independent coal association to prepare a report on the mining construction industry in Inner Mongolia, the PRC in connection with the Acquisition; engaged a PRC legal adviser in conducting legal due diligence and compiling a legal opinion relating to the PRC subsidiaries of the Target Group; engaged qualified accountants in conducting audit on the financial information of the Target Group; and engaged an independent professional valuer in performing valuation on Tai Pu.

C. Financial information of the Target Group

Set out below is the financial information of the Target Group for each of the two years ended 31 December 2013 and 2014 extracted from the accountant’s report of the Target Group as set out in Appendix II to this circular.

	For the year ended 31 December	
	2013	2014
	<i>(RMB’000)</i>	<i>(RMB’000)</i>
	(audited)	(audited)
Turnover	335,859	331,734
Profit before taxation	57,822	47,236
Profit for the year	43,228	35,202
Net assets	91,651	20,480
Operating cashflows before movements in working capital	65,285	87,740

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As at the Latest Practicable Date, the Target Group owed to Mr. Hu an interest free and repayable on demand payable of approximately RMB10.8 million. It is intended that the payable due to Mr. Hu (if any after the Completion Date) will be financed by internal resources of the Target Group and/or the Group.

D. Litigation

During 2013 and 2014, 內蒙古泰升實業集團有限責任公司鄂托克旗泰源煤礦 (Inner Mongolia Tai Sheng Industries Group Company Limited*) (“Tai Sheng”), a customer of Tai Pu, failed to pay its service fees to Tai Pu on time pursuant to the contracts executed on 1 January 2012 and 1 May 2012 with respect to the provision of coal mining services and mine construction engineering services (collectively, the “Tai Sheng Contracts”). Despite repeated demanded by Tai Pu, the outstanding service fee remained unsettled. On 17 August 2014, Tai Pu issued a notice to Tai Sheng to release the Tai Sheng Contracts and demanded for all outstanding payments. Since then, the outstanding service fees remained unsettled.

On 23 September 2014, Tai Pu has filed a claim against Tai Sheng in 內蒙古自治區鄂爾多斯市中間級人民法院 (Inner Mongolia Ordos City Intermediate People’s Court*) (the “Ordos City Intermediate People’s Court”) for the breach of the Tai Sheng Contracts. Tai Pu alleged that pursuant to the Tai Sheng Contracts, Tai Sheng has failed to pay its outstanding service fees and claimed for, inter alia, the sum of RMB51 million being (i) the outstanding service fees; (ii) damages for breach of contract; and (iii) interest. The Target Group recognised impairment loss on trade receivables due from Tai Sheng of approximately RMB35.9 million during the year ended 31 December 2014.

The claim was heard on 13 January 2015 and on 20 January 2015. The Ordos City Intermediate People’s Court has rendered its decision pursuant to which, inter alia, Tai Sheng shall pay Tai Pu (i) approximately RMB41.6 million as damages for the failure to pay the Tai Sheng Contracts service fees; and (ii) RMB1 million as damages for breach of the Tai Sheng Contracts. Tai Pu has sought advice from its PRC legal adviser relating to enforcement action and Tai Pu has attended a creditors’ meeting relating to debts recovery assessment. As at the Latest Practicable Date, Tai Pu has not received the said judgement sum.

As a measure to prevent similar incident, the Target Group will engage independent search agents to (i) conduct litigation search with respect to any future customers of Tai Pu to reduce the risk of engaging in customers with a track record of non-payment contractual disputes; and (ii) conduct background search with respect to the financial condition of any future customers (if available) to reduce the risk of engaging in customers with risk of non-payment.

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With respect to the dispute and impairment, the Directors have taken the following into consideration when contemplating the Acquisition:

1. Tai Pu has confirmed that by way of written confirmation dated 26 May 2015 that, save for (i) the case involving Tai Sheng; and (ii) a case filed on 29 January 2015 against Tai Pu in the Erdos People's Court* (鄂托克旗人民法院) by a former employee of Tai Pu for the amount RMB132,765 as compensation for personal injuries, Tai Pu was not party to any litigation or claim of material importance;
2. a full impairment on the debts due from Tai Sheng has been made in the Target Group's financial statements for the year ended 31 December 2014 in the Accountant's Report for the Target Group set out in Appendix II to this circular;
3. notwithstanding the impairment loss on accounts receivable, Tai Pu has generated positive cash flow from operating activities and has been profitable for the two years ended 31 December 2014;
4. the future business prospects of the Target Group is expected that, with the increased number of mines which are under construction in Inner Mongolia, the demand for third-party mining service providers will rise, in particular the demand for local service providers in order to the achieve localisation of mine management; and
5. the Acquisition is a means to steer the Group towards becoming an integrated natural resources related services provider by further developing its natural resources value chain through vertical integration by virtue of (i) expanding the Group's current down-stream business of mineral products trading by offering to customers the mid-stream services provided by the Target Group, being mining construction engineering and related services; (ii) enhancing the service offering to customers of the Target Group through the provision of down-stream mineral products trading services; and (iii) bringing in-house a competent team for the provision of mining construction engineering and related services.

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E. Industry overview

In connection with the proposed Acquisition, the Company commissioned 內蒙古煤炭工業協會 (Inner Mongolia Coal Association*) (an Independent Third Party) to prepare a report on the mining construction industry in Inner Mongolia, the PRC (the “IMCA Industry Report”). Inner Mongolia Coal Association is a non-profit making organisation established in November 2005 in Inner Mongolia, the PRC by participants of the Inner Mongolia coal industry and other stakeholders. The association is under the supervision of 內蒙古煤炭工業局 (Coal Industry Bureau of Inner Mongolia*) and aims to provide an information network for the coal industry in Inner Mongolia, the PRC.

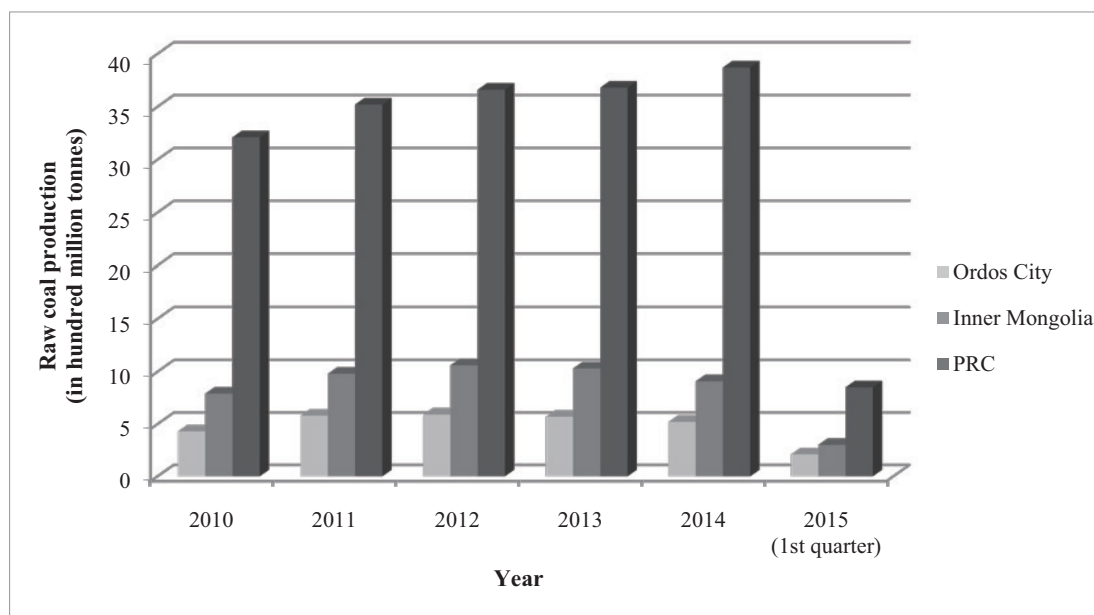
The information contained in the IMCA Industry Report is derived by means of data and intelligence gathering such as (i) annual statistics issued by the Coal Industry Bureau of Inner Mongolia; (ii) consultation with members of the Inner Mongolia Coal Association; (iii) primary research by interviewing major market participants; and (iv) coal and energy policies issued by the State Council of the PRC.

(i) Overview of coal industry in Inner Mongolia

Inner Mongolia has the largest proven coal reserve in the PRC, reaching over 800 billion tonnes. Annual coal output in Inner Mongolia has increased from 350,000 tonnes in 1947 to approximately 1 billion tonnes in 2014. Taking into account of approximately 70 billion tonnes of coal mined over the last 60 years, it is estimated that Inner Mongolia’s remaining coal reserves amount to over 700 billion tonnes. The chart below shows annual raw coal production in the PRC, Inner Mongolia and Ordos City from 2010 to the first quarter of 2015.

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Raw coal production from 2010 to the first quarter of 2015



Source: IMCA Industry Report

As indicated in the chart above, Ordos City, where Tai Pu is located, accounted for about half of the coal production in Inner Mongolia during 2010 to 2014, and over half for the first quarter of 2015.

(ii) Overview of mining construction industry in Inner Mongolia

國務院辦公廳《關於進一步加強煤礦安全生產工作的意見》(國辦發(2013)99號) (State Council's opinion to further strengthen coal mine production safety work (2013) No. 99) encourages the management of coal mines by professional safety management teams in order to improve mining technical efficiency, equipment and safety management quality. Alongside with the recent modernisation and consolidation of the coal industry, a high quality, professional management team and skilled labour are needed to support industry growth. However, it may be difficult for individual companies to train up a professional management team and skilled labour in-house. Moreover, some newly established mineral companies that have acquired abundant coal resources and capital through industry consolidation would face inadequate supply of professional management team. According to the IMCA Industry Report, engaging third-party service providers by coal producers to provide coal production and related services is important in achieving resource consolidation as well as enhancing competitiveness of the producers and mine safety.

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a. Resource consolidation

Consolidation of coal resources, capital, professional management team and skilled labour would enhance the coal companies' operational efficiency and safety assurance ability.

b. Professional management

The increase in operational efficiency comes from two dimensions: enhanced service quality provided by professional service providers and service standard setting with external parties by ensuring accuracy, timeliness and compliance.

c. Cost control

Companies procure services only when the need arises. This would enable the companies to control their operating costs and minimise the possibility of investment failures and over-budgets. This would also help to prevent manpower surplus when production volume falls or shortages due to rapid expansion.

d. Risk sharing

Through contractual arrangements, companies can distribute risks among service providers, which include labour-related risks, service quality risks and safety risks.

e. Work efficiency

By introducing market competition into the mining construction process, service providers will strive to maintain their competitiveness through technical and business innovation as well as operational efficiency and service quality enhancement.

LETTER FROM THE BOARD

(iii) Major market players

According to the IMCA Industry Report, the major mining service providers in Ordos City, Inner Mongolia as at 31 March 2015 were listed below:

Mining service providers	Nature of ownership	Number of projects in Inner Mongolia	Number of employees in Inner Mongolia
Company A	State-owned	3	1,050
Company B	State-owned	7	280
Company C	State-owned	2	830
Company D	Private	3	1,140
Tai Pu	Private	5	1,677

LETTER FROM THE BOARD

(iv) Competition landscape

According to the IMCA Industry Report, (a) as at 31 March 2015, mines engaging third-party service providers accounted for approximately 19.4% of all mines in Inner Mongolia, with the remaining 80.6% being operated by the mineral companies internally; and (b) the respective market share of third-party mining service providers in Inner Mongolia in terms of production output as at 31 March 2015 was as follows:

Mining service providers	Market share
Company A	2.5%
Company B	5.8%
Company C	1.6%
Company D	2.5%
Tai Pu	5.0%
Other mining service providers	2.0%
Total	19.4%

As shown above, Tai Pu is the second largest mining service provider among the major players in Inner Mongolia.

(v) Demand and supply

With the completion of coal industrial complexes such as 鄂爾多斯市大路煤化工園區 (Ordos Dalu Coal Chemical Complex*) and 上海廟工業園區 (Shanghaimiao Industrial Complex*), it is expected that demand for coal production services in Inner Mongolia will continue to rise. Moreover, according to the IMCA Industry Report, during 2013 to 2014, approval has been granted by the Office of the National Development and Reform Commission

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regarding the commencement of the elementary stage of construction projects with total investment of RMB500 billion in Inner Mongolia in respect of 28 billion square meters of coal gas and 2.5 million tonnes of coal oil. According to the IMCA Industry Report, these energy projects are expected to require the services of eighteen professional mining-related service providers in Inner Mongolia whilst currently only about five service providers meet the relevant requirements, hence creating demand for mining-related service providers.

(vi) Recent trend and prospects

According to the IMCA Industry Report, the scale and number of mines under construction in Inner Mongolia as at 31 March 2015 were listed below:

Name of mining area	Number of mines	Output capacity (million tonnes)
準格爾礦區 (Zhungeer Mine Area*)	8	30
東勝礦區 (Dongsheng Mine Area*)	4	8
上海廟礦區 (Shanghaimiao Mine Area*)	5	26
塔然高勒礦區 (Taran Gaole Mine Area*)	2	20
新街礦區 (Xinjie Mine Area*)	3	16
伊金霍洛旗礦區 (Ejin Horo Qi Mine Area*)	4	10
納林河礦區 (Nalinhe Mine Area*)	4	26

As stated in the IMCA Industry Report, with the number of mines under construction in Inner Mongolia, it is expected that the demand for third-party mining service providers will rise, in particular the demand for local service providers in order to achieve the localisation of mine management in Inner Mongolia.

LETTER FROM THE BOARD

F. Risk factors

(i) *Risk factors relating to the Target Group's business*

The Target Group's reliance on a major customer and Mr. Hu

Tai Pu had been relying on the Major Customer which accounted for approximately 85% and 74% of the total revenue of Tai Pu for the two years ended 31 December 2014 respectively. The Major Customer is the Target Group's largest customer for the two years ended 31 December 2014. The Major Customer entered into Management Contracts with Tai Pu for three mines and the Major Customer is the majority owner of all three mines (two of these mines were owned as to 27% by Mr. Hu and his family). The Major Customer is principally engaged in the production and sales of coal and coal related chemicals in the PRC.

The Target Group expects that the Major Customer will continue to account for a large percentage of the Target Group's revenue in the foreseeable future. The Target Group has not entered into any long term service contract with the Major Customer and there is no assurance that the Major Customer will continue to source mining operation services from the Target Group. In the event that the Major Customer experiences any adverse business conditions or terminates its business relationship with the Target Group and should the Target Group fail to identify new customers, there may be a material adverse impact on the Target Group's profitability, results of operations and financial condition.

The Target Group's future performance depends on its ability to retain key personnel

The Target Group's performance depends largely on the contributions and services of its key management, in particular, Tai Pu's executive director and senior management team including Mr. Hu. The Target Group has a stable, experienced, and well-educated management team with extensive expertise in the mining industry in the PRC. The Target Group's executive director and senior management team have been instrumental in the growth and expansion of the Target Group and are responsible for generating the Target Group's business growth and corporate development strategies. They are also responsible for the identification of business opportunities, recruitment of new staff and the motivation of the employees. The loss of any of these key management staff without a suitable and timely replacement candidate and the Target Group's inability to retain and attract qualified and experienced staff could have an adverse effect on the Target Group's operations and financial performance.

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The Target Group has no long term contracts with its customers

The Target Group provides mining operation services to its customers based on Management Contracts, normally with a term of one to two years, with the pricing to be agreed yearly. The Target Group's management cannot guarantee that its customers will renew their contracts or it will be able to seek new customers. If such events occur, the Target Group's future revenue and profit will be adversely affected.

(ii) Risk factors relating to the Target Group's industry

Demand for potential mining-related services may not materialise

According to the IMCA Industry Report, with the number of mines under construction in Inner Mongolia, it is expected that there will be an increase in demand for third party mining services. Further, according to the said report, the demand for coal production services in Inner Mongolia will continue to rise due to i) the completion of coal industrial complexes such as 鄂爾多斯市大路煤化工園區 (Ordos City Dalu Coal Chemical Complex*) and 上海廟工業園區 (Shanghaiiao Industrial Complex*) and ii) approval granted by the Office of National Development and Reform Commission regarding the commencement of elementary stage of construction projects with total investment of RMB500 billion in Inner Mongolia in respect of 28 billion square meters of coal gas and 2.5 million tonnes of coal oil. There is a risk that such expected increase in the demand for mining related services may not materialise. A lack of demand for coal production services will adversely affect the Target Group's financial condition and results of operation.

Mining service operations are subject to operating risks, hazards and unexpected disruptions

Mining service operations are subject to a number of operating risks and hazards, some of which are beyond its control. These operating risks and hazards include: (i) unexpected maintenance or technical problems; (ii) interruptions for the mining operations due to unfavourable weather conditions and natural disasters (such as earthquakes, floods and landslides); (iii) accidents; (iv) electricity or water supplies interruptions; (v) critical equipment failures in the mining operations; and (vi) unusual or unexpected variations in the mine and geological or mining conditions, such as instability of the slopes and subsidence of the working areas. These risks and hazards may result in personal injury, damage to, or destruction of production facilities, environmental damages and could temporarily disrupt the Target Group's operations and damage the Target Group's business reputation.

LETTER FROM THE BOARD

Further, mining activities may cause damage to the wall rock or orebody due to the complex geological structures of the mine. Mining activities may cause crustal stress in the roof of the stope which may cause accidents and adversely affect the Target Group's mining service operations.

Any disruption for a sustained period to the operations of the Target Group's mine or production service facilities may have a material adverse effect on the Target Group's business, financial condition and results of operations.

The Target Group's business faces increasing competition from domestic and foreign competitors

The Target Group faces increasing competition from other mining extraction and related service providers. The Target Group's major competitors are PRC based mining service providers in Inner Mongolia. Some of its competitors may have certain advantages over the Target Group, including greater financial and technical resources, greater economies of scale, better name recognition and better established relationships in certain markets. A significant increase in competition may force the Target Group to lower the relevant prices for mining related services provided, leading to a decrease in the Target Group's revenue and ultimately may have an adverse effect on its business, financial position and results of operations.

The PRC's entry into the World Trade Organisation may result in an increased number of foreign companies competing in the PRC. There may be an increased number of alliances between domestic competitors and foreign companies, and frequency of revisions to laws and regulations originally promulgated to protect PRC domestic enterprises. The increase of foreign competition may have an adverse effect on the Target Group's financial position and results of operations.

(iii) Risk factors relating to the PRC

PRC Laws, regulation and governmental policies changes for the mining industry could adversely affect the Target Group's business

A significant degree of control over the mining industry is exercised by the PRC local, provincial and central authorities. The Target Group's operations are governed by a wide range of PRC laws, regulations, policies, standards and requirements in relation to, among other things, mine exploration and exploitation, production safety, environmental protection, taxation, labour, foreign investment and operation management. Any change to these laws,

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regulations, policies, standards and requirements or to the interpretation or implementation or establishment of any local practice in enforcing such laws, regulations, policies, standards and requirements may incur additional compliance efforts and increase in the Target Group's operating costs and thus adversely affect the Target Group's business, financial condition and results of operations.

Political, social and economic environment in the PRC can adversely change and affect its overall economic development

The Target Group's business operation is in the PRC and the PRC's economic growth can affect the mining industry, which in turn can affect the Target Group's business. As a result, the Target Group's results of operations are sensitive to the economic, political and legal environment in the PRC, and the PRC's growth in GDP. The PRC's economy is unique from most developed countries, for example:

- The PRC's economy has a high level of government involvement;
- The PRC is in the early stages of development of a market-oriented economy;
- The PRC has experienced rapid growth; and
- The PRC's foreign exchange policy is tightly controlled;

Although the PRC's economy has gone through significant growth over the last 30 years, the growth is not even across all regions and economic sectors. A large portion of productive assets in the PRC, including mines, continues to be state-owned and its assets are tightly controlled by the PRC Government. Further, the PRC Government regulates the industrial development by imposing industrial policies and regulating the allocation of resources by means of setting monetary policy. The Target Group's results of operations could be adversely affected by changes in the political, social and economic policies applicable to the Target Group.

Interpretation of the PRC Laws and regulations involves uncertainties

Tai Pu, the sole operating subsidiary of the Target Group, is incorporated under the laws of the PRC with its operations mainly conducted in the PRC. As a result, the Target Group is governed by the PRC laws and regulations. The PRC Government has promulgated laws and regulations in relation to economic matters such as corporate organisation and governance, foreign investments, commerce, taxation, and trade, with a goal of developing a comprehensive system of commercial law. However, due to the laws and regulations not being fully developed, and the limited volume of cases and the non-binding nature of prior court decisions, the interpretation of PRC laws and regulations involves a degree of uncertainty. As such,

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the administration of PRC laws and regulations may be subject to a degree of discretion by the authorities. The Target Group may receive a less favorable interpretation of the laws and regulations than the Target Group's competitors depending on the government agency or how a case is presented to an agency. Further, any litigation in the PRC may be protracted and result in substantial costs and diversion of resources and management attention which adversely affects the Target Group's results of operations.

G. Regulatory overview

The main PRC laws and regulations relating to the mining construction service industry include:

- 《安全生產法》(Production Safety Law) requires that production units comply with this law and other regulations related to production safety, strengthen production safety management, establish a complete safety responsibility system and ensure production safety conditions. As regards mining construction projects, the relevant units must undertake the construction work in accordance with the approved safety facilities design. Moreover, mining construction projects are subject to safety facilities examination and approval upon completion of the construction projects prior to commencement of operations or use in accordance with the requirements under relevant laws and administrative measures.
- 《安全生產許可證條例》(Production Safety Licence Regulation) requires companies to obtain a production safety licence from the relevant authorities prior to commencement of production. The licence is valid for a period of three years subject to renewal upon expiration. Application for renewal of the licence should be made three months prior to its expiration.
- 《煤礦安全規程》(Coal Mines Safety Regulations) requires companies to build a production safety responsibility system, safety target management system, safety appraisal system, safety measures approval system, safety troubleshooting system, safety evaluation system, safety meetings system and equipment repair and maintenance system as well as conduct regular maintenance and ensure good record keeping. Mining sites must have drawings on a timely basis to reflect the actual situations at the site (including but not limited to geological map and hydrogeological map; mine surface and subsurface comparison chart; tunnel placement map; excavation plan, ventilation system maps; subsurface transportation system map; safety monitoring equipment placement plan; other maps showing the placement of drainage, dust-proof and fire-proof systems). Companies are also required to comply with relevant regulations in the use of tunnel digging and extraction machinery and equipment.

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- 《特種作業人員安全技術培訓考核管理辦法》(Administrative Measures for Special Operations Personnel Safety Training Assessment) requires special operations personnel to possess qualifications which include but are not limited to:
 1. Aged 18 or above but under the mandatory retirement age;
 2. Passed a health check at a qualified medical facility;
 3. Must be a junior high school graduate or above;
 4. Possess all necessary safety knowledge and skills;
 5. Undergo relevant safety training and examination; and
 6. Obtain《中華人民共和國特種作業操作證》(PRC Special Operations Permit) prior to commencement of work.

- 《內蒙古自治區煤礦建設施工(安裝)企業安全資格考核認證辦法》(Administrative Measures for Security Qualification Examination and Authentication of Coal Mine Construction (Installation) Enterprise of Inner Mongolia Autonomous Region) requires that Inner Mongolia Autonomous Region companies engaging in coal mine, mine construction and equipment installation must obtain the 《內蒙古自治區煤礦建設施工(安裝)企業安全資格證》(Security Certificate of Coal Mine Construction (Installation) Enterprise of Inner Mongolia Autonomous Region) issued by Inner Mongolia Coal Mine Safety Supervision Bureau. The certificate is valid for two years, if the expiration date needs to be extended, companies can apply for an extension.

DIRECTORS' EXPERIENCE AND EXPERTISE RELEVANT TO THE OPERATION OF THE TARGET GROUP'S BUSINESS

Directors who have considerable experiences in natural resources related business and the expertise that are relevant to the operation of the Target Group's mining construction business are as follows:

Mr. Cai Da, the chairman of the Board, served as the general manager of Hongsheng Mining in Yunnan Province, PRC during September 2010 to May 2013 and was responsible for the overall operation and management of Hongsheng Mining including, but not limited to, achieving sales and production budgets as well as ensuring compliance of mining production with applicable national safety standards. Based on Hongsheng Mining's confirmation, Hongsheng Mining is principally engaged in mining exploitation, production, processing and sales of minerals (mainly tin, lead and zinc). Hence, the Directors consider that Mr. Cai possesses considerable experience in the mining industry in the PRC and the expertise required to operate the Target Group's mining construction business.

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Mr. Chen Youhua, an executive Director, holds a Bachelor Degree of Accountancy from Shandong Economics College, PRC and an Executive Master Degree of Business Administration from Inner Mongolia University, PRC. Mr. Chen has worked for a number of mining companies in the PRC, taking the positions of accounting manager or financial controller of such companies. The Directors believe that Mr. Chen's education background and experience in the mining industry as described above would enable him to monitor and supervise the financial aspects of the Target Group's mining construction business.

Mr. Chen Liang, an executive Director, holds a Doctoral Degree in Engineering from China University of Petroleum (Beijing). Mr. Chen had been a vice president of CITIC Resources Holdings Limited (stock code: 1205) 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 March 2010. During the period from April 2010 to July 2011, Mr. Chen had been an executive director of L'sea Resources International Holdings Limited (formerly known as Goodtop Tin International Holdings Limited, stock code: 195). The Directors believe that Mr. Chen's education background and extensive experience in the mining industry as described above are relevant to the operation of the Target Group's mining construction business.

In addition, Mr. An Fengcun, an executive Director, holds a Bachelor Degree in Mining Engineering issued by Shandong University of Science and Technology (formerly known as Shandong Mining College). Mr. An has also been accredited as a senior engineer. Mr. An has worked for a number of coal mining companies in the PRC and has held positions as coal production technology engineer, mine safety officer, technical director and chief engineer. Mr. An has accumulated experience in coal production technology and management and hence the Directors are of the view that Mr. An possesses the relevant experience and expertise required to operate the Target Group's mining construction business.

Upon Completion, the Company will nominate the appointment of new director(s) and/or legal representative of the Target Group.

FINANCIAL EFFECTS OF THE ACQUISITION ON THE GROUP

Following the Completion, members of the Target Group will become wholly-owned subsidiaries of the Company, and the financial results of the Target Group will be consolidated into the Group's accounts.

Assets and liabilities

The unaudited consolidated total assets and total liabilities of the Group as at 31 December 2014, as extracted from the interim report of the Company for the six months ended 31 December 2014, were approximately HK\$664.9 million and HK\$16.0 million respectively. Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, assuming

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Completion had taken place on 31 December 2014, the pro forma total assets and total liabilities of the Enlarged Group would have been increased to approximately HK\$1,392.9 million and HK\$747.6 million respectively. The increase in the pro forma total assets was mainly due to the pro forma adjustments of goodwill of approximately HK\$260.5 million and intangible assets of approximately HK\$400 million. The increase in the pro forma total liabilities was mainly due to the pro forma adjustments of Promissory Notes payable of approximately HK\$516 million and deferred tax liabilities of approximately HK\$102 million, and the addition of current liabilities of the Target Group of approximately HK\$110.1 million.

Earnings

Following the Completion, members of the Target Group will become subsidiaries of the Company and the Group will be able to consolidate revenue and costs from the Target Group. The audited net loss of the Group for the financial year ended 30 June 2014 as extracted from the annual report of the Company for the year ended 30 June 2014 was approximately HK\$3.6 million. Based on the accountant's report of the Target Group as set out in Appendix II to this circular, for the year ended 31 December 2014, the Target Group recorded profit for the year of approximately RMB35.2 million (equivalent to approximately HK\$44.0 million based on the Fixed Exchange Rate.) According to the unaudited pro forma financial information of the Enlarged Group as set in Appendix III to this circular, as if the Acquisition had been completed on 31 December 2014, the pro forma loss for the year of the Enlarged Group would have been approximately HK\$25.3 million which was mainly due to the pro forma adjustments of (i) estimated outstanding acquisition-related cost of approximately HK\$3.5 million; (ii) additional depreciation and amortisation expenses of approximately HK\$34.9 million; (iii) additional finance cost of approximately HK\$36.1 million arising from the Promissory Notes issued; and (iv) deferred taxation of approximately HK\$8.7 million.

REASONS FOR AND BENEFITS OF THE ACQUISITION

In order to achieve stable growth and maintain its competitiveness, the Group actively seeks to diversify its investments and businesses and penetrate into new business segments whilst streamlining its existing business units. Against this backdrop the Group in July 2013 completed the acquisition of Fluorspar Mining, which together with its wholly-owned subsidiary, is principally engaged in the exploration, exploitation, processing and trading of fluorites, and during the year ended 30 June 2014 established its new mineral products trading business.

In line with the above, the Acquisition is a means to steer the Group towards becoming an integrated natural resources related services provider by further developing its natural resources value chain through vertical integration by virtue of (i) expanding the Group's current down-stream business of mineral products trading by offering to customers the mid-stream services provided by the Target Group, being

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mining construction engineering and related services; (ii) enhancing the service offering to customers of the Target Group through the provision of down-stream mineral products trading services; and (iii) bringing in-house a competent team for the provision of mining construction engineering and related services. The Acquisition would provide the Group with opportunity to (i) secure the supply of different mineral products from the mine owners to whom the Target Group provides services for its trading business; and (ii) offer its mineral products trading services to the customers of the Target Group, thus allowing the Group combine its down-stream and mid-stream customer resources and expand the scale of its down-stream and mid-stream business. Furthermore, the skilled labour of the Target Group will become immediately available to the Group, which would save the Group's time to recruit and train up the skilled labour by itself. With a view to stepping towards the vertical integration mentioned above, the Group will explore the opportunities for expanding its mineral trading business by making use of Tai Pu's established relationships with its customers and mine owners, such as approaching mine owners for offering coal trading and securing supply of coal products for the Group's trading business. The existing customers of the Group include companies that are engaged in coal trading. The Group will seek to leverage its existing customer base and the experience of Mr. Hu in coal trading to explore opportunities in expanding its mineral trading business to the trading of coal. The Group will also explore possible expansion of the business of the Target Group by offering a one-stop service such as mining construction engineering and mineral trading to the customers of the Group. To the best of the Directors' knowledge, coal mining is technically more complex than mining of other types of mineral products by involving harmful gas and potential fire disasters. Coal mining demands a more complex process and equipment to ensure a very high level of safety. Hence, the Directors believe that a professional coal mining team should be able to provide mining services for other mineral products. The Directors believe that (i) the established relationships of the Target Group and its management team with its customers and/or mine owners; (ii) Mr. Hu's experience in the trading of coal and mine management; (iii) the expertise of the management team of Tai Pu; and (iv) the experience and expertise of the Directors in the natural resources related business will facilitate the Group in the integration of its business with the Target Group's business.

The Group currently holds two mining licences in respect of two fluorite mines located in Mongolia. No extraction work has been carried out by the Group at these two mines since completion of the acquisition of Fluorspar Mining and up to the Latest Practicable Date. Should the Group decide to commence production at the mines and if the Acquisition can be materialised, the Group will be able to leverage on the experience and resources of the Target Group in mining construction and have immediate access to the management's expertise. The Group currently intends to maintain the overall management of the two fluorite mines and engage a third-party mining service provider with relevant qualification in Mongolia to provide its services under the Group's management. With the completion of the Acquisition, the Group will be positioned to leverage the experience and expertise of the Target Group to monitor and implement plans for these two mines regarding, among others, mine construction, production and quality control.

LETTER FROM THE BOARD

In late May 2015, the Company was approached by Mr. Ling Yee Fai, an associate of a director of a subsidiary of the Company, to discuss the proposed disposal of 40% of the entire issued share capital of PR ASIA Investment Holdings Limited, an indirectly wholly-owned subsidiary of the Company, whose wholly-owned subsidiary is principally engaged in the provision of advertising and public relation services. A meeting of the Board was convened on 3 June 2015 to consider the proposed disposal. The Directors are of the view that the disposal represents a good opportunity for the Group to realise part of its investments in the provision of advertising and public relations services in order to focus more resources for the development of the natural resources related business which is considered to be of growth potential. After discussion and consideration, the Board decided to proceed with the proposed disposal. As disclosed in the announcement of the Company dated 3 June 2015, on 3 June 2015, Chemosino International Limited, a wholly-owned subsidiary of the Company, as the vendor and Mr. Ling Yee Fai, as purchaser entered into a sale and purchase agreement in respect of the sale of 40% of the entire issued share capital of PR ASIA Investment Holdings Limited, at a consideration of HK\$13 million. Save for the above, there has been no material change to any of the Group's existing business segments since 8 May 2015, being the date of publication of the third quarterly report of the Company for the nine months ended 31 March 2015, and up to the Latest Practicable Date. Other than the proposed Acquisition, the Directors will continue to seek potential investments in the natural resources related business when suitable opportunities arise, so as to consolidate the Group's existing business and to increase the income base of the Group.

As at the Latest Practicable Date, save as disclosed above, the Company has no intention, negotiation, agreement, arrangement and understanding (concluded or otherwise) in relation to (i) any disposal, scaling-down and/or termination of its existing businesses and/or major operating assets; (ii) any acquisition/investment of new business or injection of any new business to the Group save for the Acquisition; and (iii) any changes in the Company's shareholding structure and board composition, save for the possible appointment of Mr. Hu as a Director as disclosed in this circular. Further announcement will be made by the Company as and when appropriate in accordance with the GEM Listing Rules for any changes on the board composition of the Company.

The Directors (including the independent non-executive Directors) consider that the Acquisition and the terms and conditions of the SPA, which were determined after arm's length negotiations between the Purchaser and the Vendors, are fair and reasonable and on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

IMPLICATIONS UNDER THE GEM LISTING RULES

As one or more of the relevant percentage ratios applicable to the Company exceeds 100%, the entering into of the SPA constitutes a very substantial acquisition of the Company under Chapter 19 of the GEM Listing Rules.

LETTER FROM THE BOARD

As at the Latest Practicable Date, Mr. Hu, being one of the Vendors, is a connected person of the Company under Chapter 20 of the GEM Listing Rules by virtue of being a substantial Shareholder. Accordingly, the entering into of the SPA also constitutes a connected transaction of the Company pursuant to the GEM Listing Rules and is subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

Based on the information provided to the Company, the Directors consider that the Vendors made an initial investment of approximately RMB20 million to establish the Target Group and to acquire the minority equity interests thereof from its minority shareholders.

The EGM will be convened to consider, and if thought fit, to pass the proposed resolution to approve the SPA and the transactions contemplated thereunder. The Vendors and their respective associates shall abstain from voting on the proposed resolution(s) at the EGM. Save for the aforesaid and to the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, no Shareholder, except for Mr. Hu and his associates, is involved in or interested in the Acquisition which requires him/her/it to abstain from voting on the proposed resolution(s) to approve the transactions contemplated under the SPA at the EGM as at the Latest Practicable Date.

EXTRAORDINARY GENERAL MEETING

The EGM will be held for considering and, if thought fit, passing the ordinary resolution to approve the SPA and the transactions contemplated thereunder. A notice convening the EGM to be held at 3/F, Nexus Building, 77 Des Voeux Road Central, Hong Kong, on Tuesday, 28 July 2015 at 11:00 a.m. (or immediately after the conclusion of the extraordinary general meeting of the Company to be held at 10:30 a.m. on the same date, if later) is set out on pages EGM-1 to EGM-2 of this circular.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, there is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon any Shareholder; and (ii) no obligation or entitlement of any Shareholder as at the Latest Practicable Date, whereby it has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its Shares to a third party, either generally or on a case-by-case basis.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same 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 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. 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.

LETTER FROM THE BOARD

RECOMMENDATION

The Independent Board Committee has been established to advise the Independent Shareholders whether the terms of the Acquisition are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole. The Independent Financial Adviser, Vinco Capital, has been appointed to advise the Independent Board Committee and the Independent Shareholders in that connection.

The text of the letter from Vinco Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 51 to 76 of this circular and the text of the letter from the Independent Board Committee to the Independent Shareholders is set out on pages 49 to 50 of this circular.

The Board considers that the terms of the SPA are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Acquisition, the SPA and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

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

By order of the Board
China Natural Investment Company Limited
Cai Da
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



China Natural Investment Company Limited

中國天然投資有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8250)

30 June 2015

To the Independent Shareholders

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION
IN RELATION TO THE ACQUISITION OF EVERBEST RETURN LIMITED**

We refer to the circular of the Company dated 30 June 2015 (the “**Circular**”) of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

We have been appointed to advise the Independent Shareholders in connection with the terms of the Acquisition. Vinco Capital has been appointed as the Independent Financial Adviser to advise you and us in this respect. The text of the letter of advice from Vinco Capital containing its recommendations and the principal factors it has taken into account in arriving at its recommendations are set out on pages 51 to 76 of the circular.

Having considered the terms of the Acquisition, as well as the advice and recommendations of the Vinco Capital set out in its letter of advice, we consider that the Acquisition are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

On the basis above, we recommend that the Independent Shareholders vote in favour of the resolution(s) approving the Acquisition at the EGM.

Yours faithfully,

for and on behalf of

Independent Board Committee
China Natural Investment Company Limited

Mr. Chi Chi Hung,
Kenneth

Independent
Non-executive Director

Mr. Yan Shengxian

Independent
Non-executive Director

Ms. Tang Qing

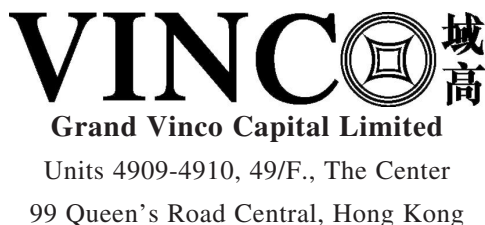
Independent
Non-executive Director

Mr. Wang Zhixiang

Independent
Non-executive Director

LETTER FROM VINCO CAPITAL

The following is the text of a letter of advice from Vinco Capital to the Independent Board Committee and the Independent Shareholders in connection with terms of the SPA and the transactions contemplated thereunder which has been prepared for the purpose of incorporation in this circular:



30 June 2015

*To the Independent Board Committee and the Independent Shareholders of
China Natural Investment Company Limited*

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF EVERBEST RETURN LIMITED

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and Independent Shareholders in respect of the terms of the SPA and the transactions contemplated thereunder, details of which are set out in the section headed "Letter from the Board" in the circular issued by the Company to the Shareholders dated 30 June 2015 (the "Circular"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

Reference is made to the announcement of the Company dated 23 April 2015. On 2 April 2015 (after trading hours), the Purchaser, Mr. Hu and Ms. Fan entered into the SPA (as amended by the Supplemental Agreement dated 22 April 2015, 5 June 2015 and 24 June 2015), pursuant to which the Purchaser conditionally agreed to purchase and the Vendors conditionally agreed to sell, the Sale Shares, being the entire issued share capital of the Target Company at the total consideration of HK\$760.0 million (subject to adjustment).

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As one or more of the relevant percentage ratios applicable to the Company exceeds 100%, the entering into of the SPA constitutes a very substantial acquisition of the Company under Chapter 19 of the GEM Listing Rules. As at the Latest Practicable Date, Mr. Hu, being one of the Vendors, is a connected person of the Company under Chapter 20 of the GEM Listing Rules by virtue of being a substantial Shareholder. Accordingly, the entering into of the SPA also constitutes a connected transaction of the Company pursuant to the GEM Listing Rules and is subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

The Independent Board Committee, comprising Mr. Chi Chi Hung, Kenneth, Mr. Yan Shengxian, Ms. Tang Qing and Mr. Wang Zhixiang, all being the independent non-executive Directors, has been formed to advise the Independent Shareholders in respect of the terms of the SPA and the transactions contemplated thereunder. We have been appointed, and approved by the Independent Board Committees, as the independent financial adviser to advise the Independent Board Committees and the Independent Shareholders in respect of the terms of the SPA and the transactions contemplated thereunder.

As at the Latest Practicable Date, we are not connected with the directors, chief executive and substantial shareholders of the Company or any of their respective subsidiaries or their respective associates and, as at the Latest Practicable Date, did not have any shareholding, directly or indirectly, in any of their respective subsidiaries or their respective associates and, as at the Latest Practicable Date, did not have any shareholding, directly or indirectly, in any member of the Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group. We were not aware of any relationships or interest between us and the Company or any other parties that could be reasonably be regarded as hindrance to our independence as defined under Rule 17.96 of the GEM Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the SPA and the transactions contemplated thereunder. We are eligible to give independent advice and recommendations on the terms of the SPA and the transactions contemplated thereunder. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we will receive any fees from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates. We have not acted as the independent financial adviser to the Company's other transactions during the last two years.

LETTER FROM VINCO CAPITAL

BASIS OF OUR OPINION AND RECOMMENDATION

In forming our opinion and recommendation, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, management of the Company and its subsidiaries. We have assumed that all information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true, accurate and complete as at the date of the Circular despatch and that all expectations and intentions of the Directors, management of the Company and its subsidiaries, will be met or carried out as the case may be. We have no reason to doubt the truth, accuracy and completeness of the information, facts, opinions and representations provided to us by the Directors, management of the Company and its subsidiaries. The Directors have confirmed to us that no material facts have been withheld or omitted from the information supplied and opinions expressed. We have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular or the reasonableness of the opinions and representations provided to us by the Directors, management of the Company and its subsidiaries.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We have relied on such information and opinions and have not, however, conducted any independent verification of the information provided, nor have we carried out any independent investigation into the business, financial conditions and affairs of the Group or its future prospects.

Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the terms of the SPA and the transactions contemplated thereunder, as referred to in Rule 17.92 of the GEM Listing Rules (including the notes thereto).

This letter is issued for the information to the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the terms of the SPA and the transactions contemplated thereunder, and except for its inclusion and reference to it in the Circular and any relevant announcements to the Shareholders and at the EGM, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

LETTER FROM VINCO CAPITAL

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee and Independent Shareholders in relation to the terms of the SPA and the transactions contemplated thereunder, we have considered the principal factors and reasons set out below:

1. Business and Financial Information of the Group

The Group is principally engaged in processing and trading of fluorite products, trading of other mineral products, and the provision of advertising and public relations services.

Set out below is a summary of the financial information on the Group as extracted from the annual report of the Company for the year ended 30 June 2014 (the “2013/2014 Annual Report”) and the interim report of the Company for the six months ended 31 December 2014 (the “2014/2015 Interim Report”):

	For the six month ended 31 December		For the year ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2014 HK\$'000 (Audited)	2013 HK\$'000 (Audited)
Revenue	307,837	25,857	272,200	44,203
(Loss)/ Profit for the year/period	(5,323)	(4,459)	(3,556)	11,683

	As at 31 December 2014 HK\$'000 (Unaudited)	As at 30 June 2014 HK\$'000 (Audited)	2013 HK\$'000 (Audited)
	Total assets	664,897	588,223
Total liabilities	16,019	15,351	6,161
Total equity attributable to owners of the Company	648,878	572,872	472,610
Cash and cash equivalents	125,295	62,025	120,984

Audited consolidated results for the year ended 30 June 2014

According to the 2013/ 2014 Annual Report, the revenue of the Group for the year ended 30 June 2014 amounted to approximately HK\$272.2 million, representing an increase of approximately 515.8% from the same period of 2013 amounted to approximately HK\$44.2 million. The increase in revenue was mainly attributable to the new business commenced during

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the year ended 30 June 2014, which includes (i) processing and trading of fluorite products and (ii) trading of other mineral products. Despite the increase in revenue, the Group recorded a decrease in profit from profit of approximately HK\$11.7 million for the year ended 30 June 2013 to a loss of approximately HK\$3.6 million for the year ended 30 June 2014. This was mainly due to the fact that no more profit was recognised from the discontinued operation from the disposal of property investment operation for the year ended 30 June 2014 as compared to profit of approximately HK\$22.9 million recognized from discontinued operation for the year ended 30 June 2013.

As at 30 June 2014, the Group recorded total assets, total liabilities and equity attributable to owners of the Company of approximately HK\$588.2 million, HK\$15.4 million and HK\$572.9 million, respectively.

Unaudited consolidated results for the six months ended 31 December 2014

According to the 2014/2015 Interim Report, the revenue from continuing operations amounted to approximately HK\$307.8 million, representing an increase of 1,090.5% as compared with that of the corresponding period in 2013 of approximately HK\$25.9 million. The substantial increase in revenue was mainly contributable to the natural resources related business in trading of other mineral products commenced only from the first quarter of 2014. The loss for the six months ended 31 December 2014 was approximately HK\$5.3 million, representing approximately 19.4% increase in loss as compared to approximately HK\$4.5 million for the six months ended 31 December 2013. Notwithstanding a gain of approximately HK\$13.4 million was recognized from the disposal of the manufacturing and sales of medicine business during the six months ended 31 December 2014, loss was still incurred for the six months ended 31 December 2014 as compared to that of the same period last year, which was contributable mainly to (i) the increase of approximately HK\$8.9 million in administrative and other operating expenses as compared to that of the same period last year which was due to the legal and professional fee incurred for the acquisition of Tai Pu and the increase in staff cost as compared to that of the same period last year; (ii) the share of loss of associates of approximately HK\$977,000 recorded during the six months ended 31 December 2014 as compared to a share of profits of approximately HK\$9.1 million for the same period last year; and (iii) the loss of approximately HK\$2.4 million arising on change in fair value of held-for-trading investments recorded during the six months ended 31 December 2014 as compared to a gain of approximately HK\$4.7 million for the same period last year.

As at 31 December 2014, the Group recorded total assets, total liabilities and equity attributable to owners of the Company of approximately HK\$664.9 million, HK\$16.0 million and HK\$648.9 million, respectively.

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2. Information of the Target Group

Since 2007, Tai Pu has been principally engaged in the provision of mine construction engineering, mechanical equipment installation and coal production and technical services in the PRC. Tai Pu is one of the “second-tier mine construction and engineering main contractors” in Inner Mongolia, the PRC.

The Target Group provides mining operation services to mine owners mainly in Inner Mongolia, the PRC. Such services comprise comprehensive mining exploitation, excavation works, mining supporting works and mine construction services for mining supporting works. Currently Tai Pu is engaged by mine owners to provide the above services based on Management Contracts, normally with a term of one to two years and with pricing to be agreed yearly. In the course of the past eight years, the Target Group has built up a team of senior managers and engineers that have substantial experience in providing mining related services to coal mines.

Other than Tai Pu, the Target Group does not contain any other major assets or liabilities as at the Latest Practicable Date.

Set out below is the financial information of the Target Group for each of the three years ended 31 December 2012, 2013 and 2014 extracted from the audited financial statements of the Target Group prepared in accordance with the Hong Kong Financial Reporting Standards as set out in Appendix II to the Circular:

Consolidated statement of profit or loss	For the year ended		
	31 December		
	2012	2013	2014
	(Audited)	(Audited)	(Audited)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	284,976	335,859	331,734
Profit and total comprehensive income for the year	21,236	43,228	35,202

Consolidated statement of financial position	For the year ended		
	31 December		
	2012	2013	2014
	(Audited)	(Audited)	(Audited)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total assets	125,219	147,257	108,542
Total liabilities	76,796	55,606	88,062
Total Equity	48,423	91,651	20,480

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Audited consolidated results for the year ended 31 December 2014

From the table above, the turnover of the Target Group for the year ended 31 December 2014 amounted to approximately RMB331.7 million, representing a slightly decrease of approximately 1.2% from approximately RMB335.9 million for the year ended 31 December 2013. There was no material fluctuation in revenue. In addition, the Target Group recorded a decrease in profit and total comprehensive income for the year as compared to that of the corresponding period of 2013. Such profit was amounted to approximately RMB35.2 million, as compared to a profit of approximately RMB43.2 million in the same period of 2013. The decrease in profit after tax was mainly due to the substantial increase in administration costs due to the impairment loss on trade receivables of approximately RMB35.9 million during the year.

Audited consolidated results for the year ended 31 December 2013

From the table above, the turnover of the Target Group for the year ended 31 December 2013 amounted to approximately RMB335.9 million, representing an increase of approximately 17.9% from approximately RMB285.0 million for the year ended 31 December 2012. The increase was mainly due to a management contract had been signed with a new independent third party customer for providing services to its coal mine in July 2013. In addition, the Target Group recorded an increase in profit and total comprehensive income for the year as compared to that of the corresponding period of 2012. Such profit was amounted to approximately RMB43.2 million, as compared to a profit of approximately RMB21.2 million in the same period of 2012. The increase in profit after tax was mainly due to the increase in revenue as explained above and gross profit margin as well as decreased maintenance works in 2013.

Target Group's pricing mechanism and bargaining power

As stated in the Letter from the Board and based on our review of some Management Contracts, the pricing mechanism under the Management Contracts are (i) the customer will provide an annual coal output tonnage for the mine (the "Annual Coal Output"); (ii) the Target Group will then determine the cost of labour based on the Annual Coal Output and the staff required for rendering the mining services to achieve the Annual Coal Output; (iii) the Target Group will use the total labour cost as a basis of pricing for the mining service per tonnage (the "Mining Service Rate"); and (iv) if the actual output of the mine is greater than the Annual Coal Output, the additional output above the Annual Coal Output will be priced at a rate that is higher than the Mining Service Rate.

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In addition, mining exploitation is usually performed in stages as only a portion of the mine is excavated during a period of time. It is usual that the costs of providing mining services vary according to the mining conditions of the portion of the mine being excavated. The mining conditions in deeper or unexplored areas of the mines are usually not known ahead of time, therefore it is the usual practice for mining service providers to enter into contracts with its customers for a duration of one to two years so that the terms of contract can be adjusted with reference to the stage of works in the mines.

In addition, Tai Pu has developed (i) a significant know-how and expertise with respect to the operation of the three mines that were being exploited; (ii) a deep understanding of the needs and requirements of the Major Customer resulting in a high level of customer satisfaction; and (iii) an amicable relationship with the Major Customer without any disputes, claims, or litigation. Further, the Target Group never had a major accident with respect to the exploitation work done for the Major Customer. For the reasons above, the Target Group is of the opinion that (i) the Target Group will continue to maintain a long term cooperative relationship with the Major Customer and (ii) the Target Group has substantial bargaining power when negotiating new contracts with the Major Customer. We are of the view that the track record performance and the substantial industry experience of the Target Group have further enhanced its bargaining power and the pricing mechanism of the Target Group has effectively protected Tai Pu from cost overrun and allow flexibility on pricing when providing mining services to customers at different stage of mining works. The flexible pricing also allows the Target Group to sustain a certain profit margin along with the changing cost structure.

Target Group's reliance on the Major Customer and expansion plan

As at the date of this circular, the Target Group has entered into three Management Contracts for three mines with the Major Customer. Of the three Management Contracts, one Management Contract was entered with the Major Customer, a company whose shares are listed on the Main Board of the Stock Exchange, and two Management Contracts were entered with two of the Major Customer's subsidiaries. The Major Customer group's principal operations include, among others, (i) the production, transportation and sale of coal; and (ii) coal related chemical operations including the production and sale of coal-based synthetic fuels and other coal-related chemical business. The Major Customer owns 12 mines in the PRC and Tai Pu provides mining services to three of its mines. We noted that the Target Group has a reliance on the Major Customer (of which two of these mines were owned as to 27% by Mr. Hu and his family). However, we also noted that the reliance is decreasing. For each of the four years ended 31 December 2014, the Major Customer accounted for approximately 99%,

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84%, 85% and 74% of the total revenue of Tai Pu, respectively. In addition, we noted that the Target Group has engaged with several new customers who are the Independent Third Parties. We have obtained and reviewed those newly entered management contracts and the budgeted revenues derived from Management Contracts and it is estimated that the reliance on the Major Customer will keep decreasing and the Target Group expected that approximately 46% of total revenue of Tai Pu would be derived from Major Customer for the year ending 31 December 2015. In addition, in order to mitigate the reliance on the Major Customer and maintain its business operation and profit level, the Target Group plans to expand its service outside Inner Mongolia to Ningxia.

We have also reviewed the memorandum of understanding in which the Target Group has signed with a potential customer, which is an Independent Third Party, in January 2015 to provide services to a coal mine in Inner Mongolia. The Target Group is negotiating a contract with this potential new customer for provision of services.

According to the legal opinion issued by the Company's PRC legal adviser, based on the qualification of "second-tier mine construction and engineering main contractors" obtained by Tai Pu, there are no specific restrictions imposed by the rules and regulations on mine construction works undertaken by Tai Pu outside Inner Mongolia. In addition, the Target Group's management has experience in the mining industry outside Inner Mongolia to execute the Target Group's measures to explore new markets as both the general manager and deputy general manager of Tai Pu had experience in mining industry outside Inner Mongolia as stated in the Letter from the Board. The Target Group has already commenced work in June 2015 for provision of mining services for two mines in Ningxia and has already invested over RMB8 million on machineries for the Ningxia project up to the Latest Practicable Date.

To further develop the business and reduce the reliance of Tai Pu, the Company will seek to leverage the Target Group's business network to (i) provide a greater exposure to various channels and opportunities such as tendering and direct notices from mine companies with respect to potential customers seeking mining services provided by the Target Group; and (ii) refer and promote the Target Group's mining services to the Company's existing network of customers; and (iii) explore business referrals provided by the Company's existing customers to provide Tai Pu with more business opportunities.

Given that (i) there are no restrictions for Tai Pu to provide its services outside Inner Mongolia; (ii) Tai Pu's management expertise and business network on the mining industry outside Inner Mongolia and (iii) the niche and marketing strategy to be adopted by the Company to expand Tai Pu's business as mentioned above, we consider that the expansion plan of Tai Pu is fair and reasonable and may help the Target Group to reduce the reliance on the Major Customer.

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Dispute with the Target Group's customers

Tai Pu has entered 2 contracts on 1 January 2012 and 1 May 2012 with 內蒙古泰升實業集團有限責任公司鄂托克旗泰源煤礦 (Inner Mongolia Tai Sheng Industries Group Company Limited*) (“Tai Sheng”) in relation to the provision of coal mining services and mine construction engineering services (collectively, the “Tai Sheng Contracts”). However, Tai Sheng has failed to pay its outstanding service fees and hence Tai Pu filed a claim on 23 September 2014 in 內蒙古自治區鄂爾多斯市中級人民法院 (Inner Mongolia Ordos City Intermediate People's Court*) (the “Ordos City Intermediate People's Court”) for the breach of Tai Sheng Contracts and claimed for inter alia, the sum of RMB51 million being (i) the outstanding service fees; (ii) damages for breach of contract; and (iii) interest. In light of this, the Target Group has recognised impairment loss on trade receivables due from Tai Sheng of approximately RMB35.9 million during the year ended 31 December 2014. Please refer to section “D. Litigation” of the Letter from the Board for further details.

In order to prohibit similar incident from happening from the future, the Company will engage independent search agents to (i) conduct litigation search with respect to any future customers of Tai Pu to reduce the risk of engaging in further customers with a track record of non-payment contractual disputes and (ii) conduct background search with respect to the financial conditions of any future customers to reduce the risk of engaging in further customers with risk of non-payment. Given that the Company will evaluate the creditability of potential new customers and perform a ‘know your customer’ check before entering Management Contracts with the potential new customers, we are of the view that the above measures are able to reduce the risk of default payment from future customers.

Relationship between the Target Group's business and coal price

As the Target Group's service income is determined with reference to the customer's annual coal output tonnage and the cost of labour based upon the said annual coal output, it is expected that the Target Group's business will not be directly affected by the fluctuation of the price of coal. To reduce any possible effects of coal price fluctuations on the Target Group's business in case where the production volume of the coal mines serviced by the Target Group may decrease as a result of reduction in coal price, the Target Group has adopted a prudent approach in the selection of its customers. The major customers of the Target Group are well established mining enterprises with solid financial background that is less likely to be affected by the fluctuation of coal price. The coal production volume of the Major Customer decreased slightly by approximately 5.8% for the year ended 31 December 2014 mainly resulting from the relocation of the mining work according to its 2014 annual report, whilst the price of coal

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has decreased by approximately 17.1% between 27 December 2013 and 26 December 2014 based on the China-Taiyuan Coal Transaction Price Index (中國太原煤炭交易價格指數). Further, there was no material fluctuation in revenue of the Target Group between 2013 and 2014 and its coal production volume increased from approximately 12.9 million tonnes for the year ended 31 December 2013 to approximately 17.2 million tonnes for the year ended 31 December 2014.

Taking into the consideration of (i) the flexible pricing mechanism and the bargaining power of the Target Group; (ii) the expansion plan of Tai Pu is reasonable and the decreasing reliance on Major Customer evidenced by securing several new Management Contracts with Independent Third Party customers; (iii) no restriction to perform its mining services outside Inner Mongolia and Tai Pu is able to leverage on its management experience and expertise in mining industry outside Inner Mongolia; (iv) Target Group's business is less likely to be affected by the fluctuation of coal price and (v) the reasons for and benefits of the Acquisition as explained below, we consider that the Target Group's business operation and profit level is sustainable subject to the section headed "Risk factors" stated in the Letter from the Board.

3. Reasons for and benefits of the Acquisition

As stated in the Letter from the Board, in order to achieve stable growth and maintain its competitiveness, the Group actively seeks to diversify its investments and businesses and penetrate into new business segments whilst streamlining its existing business units. Against this backdrop the Group in July 2013 completed the acquisition of Fluorspar Mining, which together with its wholly-owned subsidiary, which is principally engaged in the exploration, exploitation, processing and trading of fluorites, and during the year ended 30 June 2014, the Group established its new mineral products trading business. The Acquisition would provide the Group with opportunity to (i) secure the supply of different mineral products from the mine owners to whom the Target Group provides services for its trading business; and (ii) offer its mineral products trading services to the customers of the Target Group, thus allowing the Group combine its down-stream and mid-stream customer resources and expand the scale of its down-stream and mid-stream business. The Group currently holds two mining licences in respect of two fluorite mines located in Mongolia. No extraction work has been carried out by the Group at these two mines since completion of the acquisition of Fluorspar Mining and up to the Latest Practicable Date. Should the Group decide to commence production at the mines and if the Acquisition can be materialised, the Group will be able to leverage on the experience and resources of the Target Group in mining construction and have immediate access to the management's expertise. The Group currently intends to maintain the overall management of the two fluorite mines and engage a third-party mining service provider with relevant qualification in Mongolia to provide its services under the Group's management. With

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the completion of the Acquisition, the Group will be positioned to leverage the experience and expertise of the Target Group to monitor and implement plans for these two mines regarding, among others, mine construction, production and quality control. We are advised by the management of the Company that the Acquisition can bring a revenue synergy to the Enlarged Group by (i) expanding the Group's products offerings to other types of minerals other than fluorites as the Enlarged Group able to secure the supply of different mineral products from the mine owners and (ii) provide mineral products trading services to the customers of the Target Group thus allowing the Group combine its down-stream and mid-stream customer resources and expand the scale of its down-stream and mid-stream business. In addition, as for costs, we noted from the above that two fluorite mines' extraction work have not commenced and the Group can leverage on the Target Group's expertise and experience to monitor and implement plans for these two mines. The Directors also consider that the creation of economies of scale as it may also reduce multiple levels of management and spread fixed cost over a larger operation. Based on the aforesaid, we consider that the integration plan would enhance revenue stream and create costs synergies that may benefit the business and operation of the Enlarged Group as a whole.

Inner Mongolia has a total area of 1.18 million square kilometers, accounting for 12.3% of the national total and is the third largest province or autonomous region of China. The total population stood at 25 million in 2013. The capital city is Hohhot city. It is one of the five autonomous regions of China. Inner Mongolia is rich in mineral deposits, such as rare earth and coal. According to report published by Hong Kong Trade Development Council Research in March 2015, among the 136 kinds of minerals, the amount of available reserves of 31 kinds of minerals rank in the PRC's top three, and the amount of proven reserves of 13 kinds of minerals rank at the PRC's top, including several rare earths, coal and coke. It is the region which discovered the largest number of new minerals. Among the more than 50 recognised new minerals in the world, Inner Mongolia has ten of them. The region is one of the leading production bases of coal in China. It has the second largest reserves of coal after Shanxi. The region is also rich in nonferrous metals, and the proven reserves of natural gas exceed 1,000 billion cubic metres. It is estimated that petroleum resources could reach three to four billion tons. The proven reserves of nonferrous minerals such as kaolinite, lake salt, gypsum, mirabilite, graphite and trona also rank first in the nation.

According to the statistics published by National Bureau of Statistics of China, the total investment in fixed assets in mining industry in Inner Mongolia amounted to approximately RMB158.7 billion in 2013, an increase from approximately RMB97.6 billion in 2011, representing an annual compound growth rate of approximately 27.5%. According to information published by Inner Mongolia Economic Information Network in December 2014, up to September 2014, the total investment in fixed assets in Inner Mongolia amounted to approximately RMB1446.5 billion while the portion of total investment in fixed assets in relation to mining industry was 9.8% (i.e.

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approximately RMB141.8 billion). We noted that the investments in fixed assets on mining industry in Inner Mongolia is increasing. In addition, according to a notice published by 國務院安全生產委員會 (Commission of Work Safety, The State Council) on 29 April 2015, 《關於進一步加強與煤共(伴)生金屬非金屬礦山安全生產工作的通知》 (Notice to further strengthen work safety on coal with metal and non-metal mines), in order to strengthen work safety on the mines, several measures are imposed such as to increase efforts to fight with illegal mining, increase supervision on mines with mines production safety experts etc. This notice applies to China including Inner Mongolia. Furthermore, as stated in the Letter from the Board, there are increase in the number of mines under construction in Inner Mongolia. Hence, the demand for mining construction service provider is expected to increase.

Having considered that (i) Acquisition allows the Group to vertically integrate its business activities in coal mines; (ii) the potential synergy benefits that may bring to the Group if the Acquisition materializes; (iii) Inner Mongolia is rich in mineral deposits and being one of the top reserves in China; (iv) the investments in fixed assets on mining section in Inner Mongolia is increasing; (v) notice as announced by the PRC government to increase work safety on mines; and (vi) increase in the number of mines under construction in Inner Mongolia, we are of the view that the Acquisition is conducted in the ordinary and usual course of business of the Company and is in the interest of the Company and the Shareholders as a whole.

4. Principal terms of the SPA

Subject Matter

Pursuant to the SPA, the Purchaser has conditionally agreed to purchase, and the Vendors have conditionally agreed to sell, the Sale Shares, being the entire issued share capital of the Target Company, free from all encumbrances. The Target Group is principally engaged in the provision of mine construction engineering, mechanical equipment installation and coal production and technical services in the PRC.

Pursuant to the terms of the SPA, the Vendors shall be entitled to declare, pay or make any dividends or other distributions in an amount not exceeding the retained profit of the Target Group for the period commencing from 1 January 2015 and ending on the Completion Date or 30 June 2015 (whichever is earlier) based on the Cut-Off Accounts. Such dividends or other distributions, if any, will not cause any adjustment to the Consideration and will be declared within 4 months from the date of the Cut-Off Accounts.

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Consideration

The aggregate Consideration for the purchase of the Sale Shares is initially HK\$760.0 million (subject to adjustment as described in the paragraph headed “Adjustment to Consideration” below), which was determined after arm’s length negotiations between the Purchaser and the Vendors, having taken into account various factors, including but not limited to (i) the unaudited after-tax profit of the Target Group for the two years ended 31 December 2014 being approximately RMB43.2 million and RMB62.1 million respectively; (ii) the future business prospects of the Target Group, as it is expected that, with the increase in the number of mines which are under construction in Inner Mongolia, the demand for third-party mining service providers will rise, in particular the demand for local service providers in order to achieve the localisation of mine management in Inner Mongolia; and (iii) the draft preliminary valuation of Tai Pu as of 31 January 2015 performed by LCH (Asia-Pacific) Surveyors Limited (the “Independent Valuer”), an independent valuer, of RMB820.0 million (equivalent to HK\$1,025.0 million based on the Fixed Exchange Rate).

Adjustment to Consideration

If the 2016 After-Tax Profits is less than the Guaranteed Profits Amount of RMB150.0 million (equivalent to HK\$187.5 million based on the Fixed Exchange Rate), the Retained Completion Sum payable by the Company will be reduced by an the Adjustment Amount which is calculated as below:

Retained Completion Sum = HK\$380.0 million (initial Retained Completion Sum) – Adjustment Amount

where the Adjustment Amount = (150.0 million (Guaranteed Profits Amount) – 2016 After-Tax Profits) x 4.053

If the Adjustment Amount equals to or exceeds HK\$380.0 million (being the initial Retained Completion Sum), then: (i) no Retained Completion Sum shall be payable by the Purchaser to the Vendors; and (ii) the Vendors shall jointly and severally pay to the Purchaser the Paid Consideration Refund Amount on or before the 10th Business Day after the 2016 After-Tax Profits has been determined pursuant to the terms of the SPA, provided that the Paid Consideration Refund Amount shall be capped at the amount of HK\$380.0 million (being the sum of the Earnest Money, Deposit and Initial Completion Sum) less HK\$1.0. It follows that if the 2016 After-Tax Profits is zero or a negative amount, the Paid Consideration Refund Amount shall be HK\$379,999,999.0 and hence the total Consideration for the Acquisition will be adjusted to a nominal amount of HK\$1.0.

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The calculation for the Paid Consideration Refund Amount is as follows:

Paid Consideration Refund Amount = Adjustment Amount – HK\$380.0 million (initial Retained Completion Sum)

where the Paid Consideration Refund Amount shall be capped at HK\$379,999,999.0

The Paid Consideration Refund Amount payable by the Vendors will be (i) firstly offset against the Promissory Notes already issued to the Vendors for settlement of the Initial Completion Sum on a dollar for dollar basis; and (ii) secondly settled by cash. The Purchaser or the Company shall have the right to notify the Vendors of the amount to be offset against such Promissory Notes. The Promissory Notes will be deemed cancelled from the date of such notice. This offset mechanism in respect of the Promissory Notes, which cannot be redeemed on or before 30 September 2016, whereby the Adjustment Amount (if any) is known, will help ensure that the Vendors will settle the Paid Consideration Refund Amount (if any) in a timely manner. If part or all of the Promissory Note for the Initial Completion Sum is cancelled as a result of the shortfall in the profit guarantee, there will be no interest payment on any of the cancelled Promissory Note. Furthermore, Mr. Hung Meng, a son of Mr. Hu and the owner of the PRC Properties, has executed a deed of guarantee dated 5 June 2015 in favour of the Purchaser to secure the obligations of the Vendors for the possible refund of the deposit amount of not more than HK\$76 million, being the aggregate sum of the Deposit and the Earnest Money. The PRC Properties are security for a mortgage loan and based upon the information provided by the Vendors, the outstanding mortgage as at 29 May 2015 was approximately RMB45.05 million. Based on a property valuation report dated 5 June 2015 and issued by the Independent Valuer, the valuation of the PRC Properties, as at 29 May 2015, was RMB117.60 million. Based upon the information above and the calculation on the basis of the difference of amount of valuation of the PRC Properties and the outstanding mortgage loan, the value of the PRC Properties after deducting the outstanding loan as at 29 May 2015 was approximately RMB72.55 million, equivalent to approximately HK\$90.69 million (based on the Fixed Exchange Rate). Further, according to the PRC legal adviser, the deed of guarantee is legally binding and enforceable. The Promissory Notes for settlement of the Retained Completion Sum, if any, will be issued after the Adjustment Amount is known.

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Given that (i) the Consideration will be reduced in proportion should the after tax profits of the Target Group in 2016 do not match with the Guaranteed Profits Amount of RMB150 million and (ii) the Group will be subject to the Paid Consideration Refund Amount and the Consideration will be adjusted to HK\$1.0 if the 2016 After-Tax Profits is zero or in negative amounts, we are of the view that adjustment to the Consideration is in the interest of the Company and the Shareholders as a whole as it has effectively protected the Company from bearing loss of the Target Group within the prescribed period.

Fairness and reasonableness of the Consideration

a. Comparable analysis

In assessing the fairness and reasonableness of the Consideration and, it is a general practice to search for comparables companies listed on the Stock Exchange which are primarily engaged in business similar to the Target Group, i.e. principally engaged in the provision of mine construction engineering, mechanical equipment installation and coal production and technical services in Inner Mongolia. However, we are not able to identify any comparables that have similar businesses to the Target Group as the business segments engaged by the Target Group are quite unique. In light of this, we have extended our searches to the companies listed on the stock exchanges of Shanghai and Shenzhen. Similarly, to the best of our efforts, we are unable to identify comparable companies engaging similar business to the Target Group.

b. Valuation of the Target Group

Regarding the valuation (the “Valuation”) according to the valuation report in relation to Tai Pu (“Valuation Report”) issued by the Independent Valuer, as disclosed in Appendix IV to the Circular, the possible fair value of the entire entity interest of Tai Pu (before taking into consideration of any transaction cost) as at 31 May 2015 (“Valuation Date”) was RMB750,000,000. The Valuation was prepared by the Independent Valuer using the market approach which is basically a comparison method to value a business enterprise by comparison to the prices at which other similar business nature companies or interests changed hands in arm’s length transactions.

In assessing the fairness and reasonableness of the Consideration, for our due diligence purpose, we have reviewed the Valuation Report and discussed with the Independent Valuer the methodology, basis and assumptions used in arriving at the Valuation as at the Valuation Date, as well as raised questions on areas which we require

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further explanation. We were advised by the Independent Valuer, in which we are satisfied with their qualifications and experience, that there are three generally accepted valuation approaches, namely the asset-based approach, the income approach and the market approach.

Regarding the asset-based approach, the Independent Valuer considered it is not appropriate to be used in the Valuation as in the asset-based approach, it is assumed that when each of the elements of working capital, tangible and intangible assets is individually valued, their sum represents the value of a business enterprise and equals to the value of its invested capital (equity and long term debt). In other words, the value of the business enterprise is represented by the money that has been collected to purchase the business assets needed. After our discussion with the Independent Valuer, we noted that they considered that Tai Pu is not asset-rich, the adoption of cost approach in this case may not be appropriate for valuing Tai Pu.

Regarding the income approach which focuses on the economic benefits generated by the income-producing capability of a business enterprise. The underlying of the theory of this approach is that the value of a business enterprise can be measured by the present worth of the economic benefits to be received over the useful life of the business enterprise. This approach is subject to the assumption that the business enterprise has been maintaining stable economic benefits and growth rate. After our discussion with the Independent Valuer, we noted that the business model of Tai Pu does not fit in this approach as the business model of Tai Pu is based on management contracts and those management contracts are usually with a term ranging from one year to two years. In addition, those management contracts are subject to annual review. Given that the short term of the management contracts, the Independent Valuer considered that it would be difficult to justify the projection growth of the revenue. In additions, the Independent Valuer also considers that there are some other assumptions to be made under the income approach such as the numbers and pricing of new management contracts, the pricing of the existing management contracts, the growth rate of Tai Pu and inflation rate which are subjective in nature. Based on the above, the income approach requires more judgement and assumptions on projection of future financial results, therefore the adoption of income approach in this case may not be appropriate for valuing Tai Pu.

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The market approach which is basically a comparison method to value a business enterprise by comparison to the prices at which other similar business nature companies or interests changed hands in arm's length transactions. In determining the valuation of Tai Pu, there are two methods under the market approach which are the guideline publicly traded company method and the guideline merged and acquired company method. The Independent Valuer has adopted the guideline publicly traded company method under the market approach. The Independent Valuer further states that they are not aware of any merger and acquisition regarding similar business of Tai Pu as at the Valuation Date. Therefore, the Independent Valuer considered that it would not be appropriate to adopt the guideline merged and acquired company method as there was no similar transaction conducted in the market. Hence, the Independent Valuer adopted the guideline publicly traded company method. We are advised by the Independent Valuer that they have selected five comparables which comprising similar business nature with Tai Pu. We are advised by the Independent Valuer that those comparables are listed on various exchanges including China, India and Indonesia and to their best efforts, they are unable to identify any stock exchange listed comparable which are engaging similar business of Tai Pu in Inner Mongolia. As mentioned in the section headed "a. Comparable analysis" above, to our best efforts, we are unable to identify any comparable companies which are engaging similar business with Tai Pu in Inner Mongolia in the Stock Exchange, the Shanghai Stock Exchange and the Shenzhen Stock Exchange. Accordingly, we have reviewed the comparables' websites and/or annual reports selected for the Valuation by the Independent Valuer and noted that the comparables are engaged in the provision of mining equipment, technical and consultation services related to beminig activities, including general surveying, exploration, exploitation, production, transportation, and marketing. We concur with the Valuer's view that they are the best available comparable information to Tai Pu as the comparables are engaging in similar business given that no listed comparable company which engaging in similar business with Tai Pu in Inner Mongolia is identified. In addition, we noted that the Independent Valuer has applied a discount rate of 25% to determine the Valuation. We are advised by the Independent Valuer that the discount rate was derived based on their research on the consideration difference on historical merger and acquisition of publicly traded companies and historical merger and acquisition of private companies as published in Mergerstat Review 2014 conducted by Factset Mergerstat. As the private companies are not as liquid as the publicly traded companies, therefore we are of the view that the application on a discount rate to the Valuation by the Independent Valuer is justifiable. Regarding the new management contracts entered by the Target Group recently, we have discussed with the Independent Valuer and noted that latest audited financial results for the year ended 31 December 2014 and historical financial multiples were used under the market approach, therefore the future unrealized

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profits from the new management contracts were not taken into account. We also noted from the Independent Valuer that they have taken into account of the impairment loss on accounts receivables as the latest audited financial results for the year ended 31 December 2014 was used under the market approach, and only impairment on accounts receivables of RMB10.8 million has been taken into account in the valuation as the remaining RMB25.1 million was attributable to accounts receivables in 2013.

We also noted that the Valuation Report has been prepared in accordance with the reporting guidelines set by the International Valuation Standards 2013 and published by the International Valuation Standards Council. Furthermore, we have enquired the Independent Valuer as to its independence to the Group, and were given to understand that the Independent Valuer has no prior relationship with the Group, the connected persons of the Group. We have also reviewed the Independent Valuer's terms of engagement and its scope of work. We were not aware of any irregularities during our interview with the Independent Valuer or in our review of the work. Also, during the course of our discussion with the Independent Valuer, we have not identified any major factors which cause us to doubt the fairness and reasonableness of the basis and assumptions adopted for the Valuation and the Valuation is a fair assessment of the value of Tai Pu.

Having considered (i) the independence, qualification and experience of the Independent Valuer; (ii) the application of the valuation methods; and (iii) the Valuation Report are prepared in accordance with the reporting guidelines set by the International Valuation Standards 2013 and published by the International Valuation Standards Council, there is no reason for us to believe any of the information in the Valuation is not true or omits a material fact. Hence, after due and careful inquiry, we are of the view that the Valuation has been reasonably prepared and is normal in nature and that the methodology and assumptions adopted for the Valuation are reasonable and we concurred with the Independent Valuer's opinion. As such, we consider the Valuation is a fair reference for Independent Shareholders to assess the fairness and reasonableness of the value of Tai Pu.

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Given that (i) the Group has been in loss making for the year ended 30 June 2014 and the six months ended 31 December 2014; (ii) the potential synergies benefits that may bring to the Group if the Acquisition materializes; (iii) the potential positive outlook of mining construction in Inner Mongolia; (iv) the Consideration will be adjusted should the Target Group does not meet the Guaranteed Profits Amount and (v) the valuation of Tai Pu is fair and reasonable; we are of the view that the Consideration is determined based on normal commercial terms, is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Financing of and the settlement method of the Consideration

As stated in the Letter from the Board, the Earnest Money and the Deposit were paid out of the Company's internal resources. The entire Initial Completion Sum will be financed by way of issuance of the Promissory Notes. The Company expects that the Retained Completion Sum payable to the Vendors under the SPA (if any) will be financed by way of issuing the Promissory Notes up to the full amount of the Retained Completion Sum to the Vendors.

We noted that the Consideration will be settled in the means of the Group's internal resources and the issuance of the Promissory Notes. We understand from the Company that apart from the Promissory Notes, the Company has also considered other debt financing methods such as bank borrowing or equity financing methods. However, the Group may not get favourable terms in bank loan given the fact that the loss making performance of the Group recently. In addition, we consider that it may subject to the pledge of the Group's asset in order to obtain the bank loans. For equity financing methods, placement of new Shares will cause immediate dilution to the shareholding of existing Shareholders. For other equity financing method such as rights issue and open offer, the management of the Company consider that such pro rata equity financing would incur substantial costs in form of legal costs and underwriting commission. The Company may also not be able to procure favourable terms in commercial underwriting. Therefore, the Company considers using the Promissory Notes to finance the part of the Consideration is more suitable.

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Principal terms of the Promissory Notes

Issuer	:	The Company
Principal amount	:	HK\$304.0 million in respect of the Initial Completion Sum; and up to HK\$380.0 million in respect of the Retained Completion Sum
Interest	:	The Promissory Notes carry interest at a rate of 1% per annum payable annually
Maturity	:	The date falling on the fifth anniversary of the date of issue of the Promissory Notes.
Ranking	:	Rank equally among themselves and pari passu with other unsecured and unsubordinated obligations of the Company.
Security	:	The Promissory Notes are unsecured.
Transferability	:	Not transferrable
Early redemption	:	The Company shall have the right to redeem all or any part of the Promissory Notes issued at 100% of the principal amount in respect of (i) the Initial Completion Sum at any time from 1 October 2016 to the date immediately prior to its maturity date; and (ii) the Retained Completion Sum at any time from the date of issue of such Promissory Notes to the date immediately prior to its maturity date.

The holder(s) of the Promissory Notes shall not have the right to request the Company to redeem all or part of the outstanding Promissory Notes prior to its maturity date.

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Conditions precedent

Completion is conditional upon the following conditions being satisfied to the satisfaction of the Purchaser or waived by the Purchaser according to the SPA:

- (a) the Company having obtained approval from its Shareholders (other than those who are required to abstain from voting by law, the GEM Listing Rules, the Stock Exchange and/or the memorandum and articles of association of the Company) at the EGM;
- (b) the Acquisition not being regarded by the Stock Exchange as a “reverse takeover” under Rule 19.06(6) of the GEM Listing Rules or an “extreme” very substantial acquisition as referred to in paragraph seven of the guidance letter issued by the Stock Exchange entitled “Guidance on application of the reverse takeover requirements under Rule 14.06(6) (GEM Rule 19.06(6))” in May 2014;
- (c) the Warranties remaining true and accurate and not misleading at Completion as if repeated at Completion and at all times between the date of the SPA and Completion;
- (d) the Purchaser notifying the Vendors in writing that the Purchaser is satisfied, in reliance on the Warranties, with the results of its due diligence against the Target Group;
- (e) each of the Vendors having complied fully with its obligations, and having performed all of the covenants and agreements required to be performed by it, under the SPA;
- (f) all necessary consents required in relation to the transactions contemplated under the SPA having been granted by third parties (including governmental or official authorities) to the Purchaser’s satisfaction and not subsequently being revoked and no statute, regulation or decision which would prohibit, restrict or materially delay the sale and purchase of the Sale Shares or the operation of the Target Group after Completion having been proposed, enacted or taken by any governmental or official authority (if applicable);
- (g) the delivery of the legal opinion by the PRC legal counsel of the Company in a form and substance satisfactory to the Purchaser; and
- (h) there having been no material adverse change of any member of the Target Group.

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The Purchaser may at any time waive any of the above conditions precedent except for the condition set out in paragraph (a) by notice in writing to the Vendors. If any of the above conditions precedent have not been fulfilled (or the case may be, waived by the Purchaser) at or before the Long Stop Date, then the Purchaser shall not be bound to proceed with the purchase of the Sale Shares; each of the Vendors shall forthwith and within three Business Days (the “Refund Date”) refund the Earnest Money and the Deposit to the Purchaser and the SPA shall cease to be of any effect save in respect of, among others, claims arising out of any antecedent breach of the SPA. In the event that the Vendors fail to refund all or part of the Earnest Money and Deposit to the Purchaser by the Refund Date, the Vendors shall pay to the Purchaser interest accrued on the outstanding amount calculated at the rate of 5% per annum for the period from the Refund Date to the actual repayment date of all outstanding sum to the Purchaser. As at the Latest Practicable Date, the Company has no intention to waive any of the conditions precedent under the SPA.

Given that (i) the interest rates will be 1% per annum payable annually; (ii) the Promissory Notes are not secured with a pledge of assets or collaterals; (iii) the Promissory Notes are not transferrable and (iv) there are early redemption clauses as the Group has the option to redeem all or part of the Promissory Notes at its own discretion, therefore we are of the view that the terms of the Promissory Notes are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

5. Possible financial effects of the Acquisition

Following the Completion, members of the Target Group will become subsidiaries of the Company, and the financial results of the Target Group will be consolidated into the Group’s accounts.

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Tabularised below is a summary of the unaudited pro forma consolidated financial information of the Enlarged Group as extracted from the unaudited pro forma consolidated statements of the Enlarged Group as set out in Appendix III to the Circular:

	For the year ended 30 June 2014 (HK\$'000)
Revenue	686,868
Loss for the year	(25,333)

	As at 31 December 2014 (HK\$'000)
Total assets	1,392,946
Cash and cash equivalents	64,075
Total Liabilities	747,584
Equity attributable to equity holders of the Company	645,362

Effects on equity

As at 31 December 2014, the unaudited total equity attributable to the owners of the Company amounted to approximately HK\$648.9 million. As shown above, had the Completion taken place on 31 December 2014, the pro forma unaudited total equity attributable to the owners of the Company would have been approximately HK\$645.4 million, representing a slight decrease of approximately 0.5%.

Effects on earnings

Following the Completion, members of the Target Group will become subsidiaries of the Company and the Group will be able to consolidate revenue and costs of the Target Group. The audited net loss of the Group for the financial year ended 30 June 2014 as extracted from the 2014 annual report of the Company was approximately HK\$3.6 million. According to the unaudited pro forma income statement of the Enlarged Group as set in Appendix III to the Circular, as if the Acquisition had been completed on 31 December 2014, the pro forma net loss of the Enlarged Group would have been approximately HK\$25.3 million which was mainly due to the pro forma adjustments of (i) estimated acquisition-related cost of approximately HK\$3.5 million; (ii) additional depreciation and amortisation expenses of approximately

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HK\$34.9 million; (iii) additional finance cost of approximately HK\$36.1 million arising from the Promissory Notes issued; and (iv) additional deferred taxation of approximately HK\$8.7 million.

Effects on asset to liabilities ratio

As at 31 December 2014, the unaudited total assets and total liabilities of the Group amounted to approximately HK\$664.9 million and approximately HK\$16.0 million respectively. As shown above, had the Completion taken place on 31 December 2014, the total assets and total liabilities of the Enlarged Group would have been HK\$1,392.9 million and HK\$747.6 million, respectively, representing a decrease in the assets to liabilities ratio from approximately 4,155.6% to approximately 186.3%. Such decrease was due to the increase in total liabilities as a result of the pro forma adjustments of Promissory Notes payable of approximately HK\$516 million and deferred tax liabilities of approximately HK\$102 million, and the addition of current liabilities of the Target Group of approximately HK\$110.1 million.

Effects on gearing and liquidity

As at 31 December 2014, the cash and cash equivalents of the Group was approximately HK\$125.3 million while the total borrowings were nil. The Group had net cash position of approximately HK\$125.3 million as at 31 December 2014 and the gearing ratio (as defined as total borrowings less cash and cash equivalent divided by total equity) of the Group is nil. Based on the unaudited pro forma consolidated balance sheet as set out in the Appendix III to the Circular, the total cash and cash equivalents of the Enlarged Group would be approximately HK\$ 64.1 million, while the total borrowings would also increase to approximately HK\$517.6 million. The gearing ratio of the Enlarged Group will be 70.3%. Based on above, we are of the view that the gearing ratio will increase due to the Promissory Notes.

As stated in the Appendix III to the Circular, the unaudited pro forma financial information have been prepared by the directors of the Company for illustrative purposes only and because of their hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group as at 31 December 2014 or at any future date had the Acquisition been completed on 31 December 2014 or the results and cash flows of the Enlarged Group for the year ended 31 December 2014 or for any future period had the Acquisition been completed on 31 December 2014.

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Having taking into consideration of the above paragraphs headed “Reasons for and benefits of the Acquisition” and “Principal terms of the SPA”, we consider that it is a fair expectation that the Acquisition will have a positive impact on the earnings position of the Group, we therefore are of the view that the SPA is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

Having taken into consideration the principal factors and reasons set out above and in particular,

- (i) the Group has been in loss making for the year ended 30 June 2014 and the six months ended 31 December 2014;
- (ii) the potential synergy benefits that may bring to the Group if the Acquisition materializes;
- (iii) the potential positive outlook of mining construction in Inner Mongolia;
- (iv) the Consideration will be adjusted should the Target Group does not meet the Guaranteed Profits Amount; and
- (v) the valuation of Tai Pu is fair and reasonable to the Company and the Shareholders,

we are of the view that the terms of the SPA and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable, and the Acquisition is conducted in the ordinary and usual course of business of the Company and is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the SPA and the transactions contemplated thereunder at the EGM.

Yours faithfully
For and on behalf of
Grand Vinco Capital Limited
Alister Chung
Managing Director

Note:

Mr. Alister Chung is a licensed person registered with the Securities and Future Commission of Hong Kong and a responsible officer of Grand Vinco Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the Securities and Future Ordinance and has participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong for over 10 years.

I. FINANCIAL INFORMATION OF THE GROUP

Financial information on the Group for (i) each of the three years ended 30 June 2012, 2013 and 2014; and (ii) the six months ended 31 December 2014 are set out in (i) the annual reports of the Group for the years ended 30 June 2012 (pages 30 to 110), 2013 (pages 36 to 131) and 2014 (pages 34 to 126); and (ii) the interim report of the Group for the six months ended 31 December 2014 (pages 4 to 29), respectively, which are published on both the GEM website (www.hkgem.com) and the website of the Company (www.chinanatural.com.hk) respectively.

II. INDEBTEDNESS

As at close of business on 31 May 2015, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had outstanding unsecured bank loan of approximately HK\$952,000 which is repayable within one year and amount payable to Mr. Hu of approximately HK\$13,504,000 which is repayable on demand.

Save as disclosed above, as at the close of business on 31 May 2015, the Enlarged Group did not have any debt securities issued and outstanding, and authorised or otherwise created but unissued, or any outstanding term loans, other borrowings or indebtedness in the nature of borrowing including bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptance credits, material hire purchase commitments, mortgages and charges, material contingent liabilities and guarantees.

III. WORKING CAPITAL

The Directors are of the opinion that taking into account the existing banking and other borrowing facilities available, the existing cash and bank balances and the effect of the Acquisition, the Enlarged Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of publication of this circular, in the absence of unforeseeable circumstances.

IV. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial position or trading position of the Group since 30 June 2014, being the date to which the latest published audited financial statements of the Group was made up.

V. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

Upon Completion, members of the Target Group will become wholly-owned subsidiaries of the Company and the financial information of the Target Group will be consolidated into the consolidated financial statements of the Group. According to the annual report of the Company for the year ended 30 June 2014, the Group recorded (i) revenue of approximately HK\$272.2 million; (ii) gross profit of approximately HK\$21.4 million; and (iii) cash outflow from operating activities of approximately HK\$53.9 million for the year ended 30 June 2014. Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, assuming Completion had taken place on 31 December 2014, the unaudited pro forma (i) revenue, (ii) gross profit and (iii) cash inflow from operating activities of the Enlarged Group will be approximately HK\$686.9 million, HK\$146.6 million and HK\$17.4 million respectively. The Target Group has been generating positive cash flow from operating activities and has been profitable for the two years ended 31 December 2014. It is expected that the Acquisition would bring positive impact on the Group's revenue, profit and operating cash flow.

As mentioned under the paragraph headed "Reasons for and benefits of the Acquisition" in the Letter from the Board in this circular, the Acquisition is a means to steer the Group towards becoming an integrated natural resources related services provider by further developing its natural resources value chain through vertical integration by virtue of (i) expanding the Group's current down-stream business of mineral products trading by offering to customers the mid-stream services provided by the Target Group, being mining construction engineering and related services; (ii) enhancing the service offering to customers of the Target Group through the provision of down-stream mineral products trading services; and (iii) bringing in-house a competent team for the provision of mining construction engineering and related services. The Acquisition would also provide the Group with opportunity to (i) secure the supply of different mineral products from the mine owners to whom the Target Group provides services for its trading business; and (ii) offer its mineral products trading services to the customers of the Target Group, thus allowing the Group combine its down-stream and mid-stream customer resources and expand the scale of its down-stream and mid-stream business.

Upon Completion, the key management of the Target Group is expected to remain unchanged and the Company will nominate the appointment of new director(s) and /or legal representative(s) to the Target Group. The Directors consider that with the experienced management team of the Target Group together with the experience and expertise of the Group, the Enlarged Group will have sufficient management expertise and personnel at operational level to operate the business of the Target Group.

The Group currently holds two mining licences in respect of two fluorite mines located in Mongolia and no extraction work has been carried out by the Group at these two mines since completion of the acquisition of Fluorspar Mining. In the event that the Group decides to commence production at the mines and the Acquisition can be materialised, the Group will be able to leverage on the experience and resources of the Target Group in mining construction and have immediate access to the management's expertise. Furthermore, the skilled labour of the Target Group will become immediately available to the Group, which would save the Group's time to recruit and train up the skilled labour by itself.

In view of the benefits of the proposed Acquisition mentioned above, the Directors believe that the proposed Acquisition is in the interest of the Company and the Shareholders as a whole.

Set out below is a summary of the audited financial information of the Target Group for the three years ended 31 December 2014 prepared in accordance with Hong Kong Financial Reporting Standards, for the purpose of incorporation in this circular.



SHINEWING (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

30 June 2015

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

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information (the “Financial Information”) regarding Everbest Return Limited (the “Target Company”) and its subsidiaries (hereinafter collectively referred to as the “Target Group”) for each of the three years ended 31 December 2012, 2013 and 2014 (the “Relevant Periods”) for inclusion in the circular of the Target Company dated 30 June 2015 (the “Circular”) in connection with the proposed acquisition of 100% equity interest in the Target Company by Million Natural Holdings Limited (the “Proposed Acquisition”).

The Target Company was incorporated in the British Virgin Islands on 3 July 2012 as an exempted company with limited liability under the Companies Act of the British Virgin Islands. Pursuant to a Target Group reorganisation as detailed in the section headed “INFORMATION ON THE TARGET GROUP” and in Page 19 of the Circular (the “Reorganisation”), which was completed on 18 March 2014, the Target Company became the holding company of the companies now comprising the Target Group, details of which are set out below. The Target Company has not carried out any business since the date of its incorporation save for the Reorganisation.

During the Relevant Periods and up to the date of this report, the Target Company has direct and indirect interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

Name of subsidiaries	Place and date of incorporation/ establishment	Issued and fully paid share capital/registered capital	Percentage of equity interest attributable to the Target Company		Principal activities
			Direct	Indirect	
Winner Joy Holdings Limited (“Winner Joy”)	Hong Kong 2 November 2013	Registered Capital HK\$1	100%	–	Investment Holding
深圳金泉諮詢有限公司 (“Shenzhen Jinquan”) (Note (i))	The People’s Republic of China (the “PRC”) 24 October 2013	Registered Capital RMB20,000,000	–	100% (Note iii)	Investment Holding
鄂爾多斯市泰普礦業工程有限責任公司 (“Tai Pu”)	The PRC 7 February 2007	Registered Capital RMB20,000,000	–	100% (Note ii)	Provision of professional mining services

Notes:

- (i) The entity is wholly foreign-owned enterprise established in the PRC.
- (ii) On 22 November 2013, Shenzhen Jinquan acquired the entire equity interest in Tai Pu for total cash consideration of RMB20,000,000. As at 31 December 2013, the 95% and 5% of equity interest of Shenzhen Jinquan were indirectly held by the other parties on behalf of the controlling shareholders.
- (iii) On 18 March 2014, Winner Joy acquired the entire equity interest in Shenzhen Jinquan for the total cash consideration of RMB20,000,000 from the controlling shareholders.

All companies now comprising the Target Group have adopted 31 December as their financial year end date.

No audited statutory financial statements have been prepared for the Target Company and Winner Joy since the date of its incorporation as the Target Company has not carried on any business other than acting as an investment holding company and there is no statutory audit requirement in the British Virgin Islands. For the purpose of this report, we have, however, reviewed all the relevant transactions of the Target Company and Winner Joy since their incorporation to the date of this report and carried out such procedures as we considered necessary for inclusion of the financial information relating to the Target Company and Winner Joy in the Financial Information.

The statutory financial statements of Tai Pu for each of the year ended 31 December 2012, 2013 and 2014 was prepared in accordance with relevant accounting principles and financial regulation applicable to enterprise established in the PRC and was audited by 內蒙古誠信泰會計師事務所有限公司, Certified Public Accountants registered in the PRC.

BASIS FOR PREPARATION

For the purpose of this report, the directors of the Target Company have prepared the consolidated financial statements of the Target Group for the Relevant Periods, which were prepared in accordance with Hong Kong Financial Reporting Standards (the “HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (the “Underlying Financial Statements”). We have undertaken an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA for the Relevant Periods.

The Financial Information has been prepared by the directors of the Target Company based on the Underlying Financial Statements, with no adjustments thereto, and in accordance with the applicable disclosure provisions of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”).

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Target Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with HKFRSs issued by the HKICPA, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of GEM Listing Rules, and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error. The directors of the Target Company are responsible for the contents of the Circular in which this report is included.

Our responsibility is to form an independent opinion on the Financial Information based on our procedures and to report our opinion thereon to you.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have examined the Underlying Financial Statements and have carried out such appropriate procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

OPINION

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the Target Group's consolidated results and consolidated cash flows for the Relevant Periods, and of the state of affairs of the Target Group as at 31 December 2012, 2013 and 2014.

A. FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE THREE YEARS ENDED 31 DECEMBER 2012, 2013 AND 2014

	Notes	Year ended 31 December		
		2012 RMB'000	2013 RMB'000	2014 RMB'000
Revenue	7	284,976	335,859	331,734
Cost of sales		<u>(224,860)</u>	<u>(254,699)</u>	<u>(231,546)</u>
Gross profit		60,116	81,160	100,188
Other income	7	34	49	37
Administrative expenses		(31,697)	(23,382)	(52,842)
Finance costs	9	<u>(68)</u>	<u>(5)</u>	<u>(147)</u>
Profit before taxation		28,385	57,822	47,236
Income tax expense	10	<u>(7,149)</u>	<u>(14,594)</u>	<u>(12,034)</u>
Profit and total comprehensive income for the year	11	<u>21,236</u>	<u>43,228</u>	<u>35,202</u>

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012, 2013 AND 2014

	Notes	At 31 December		
		2012 RMB'000	2013 RMB'000	2014 RMB'000
Non-current assets				
Property, plant and equipment	14	18,191	16,382	16,372
Deferred tax assets	27	–	–	8,966
		<u>18,191</u>	<u>16,382</u>	<u>25,338</u>
Current assets				
Inventories	15	–	119	–
Trade and bills receivables	16	100,229	87,828	47,060
Deposits and other receivables	17	5,811	19,794	30,720
Amount due from a shareholder	18	–	14,599	–
Bank balances and cash	19	988	8,535	5,424
		<u>107,028</u>	<u>130,875</u>	<u>83,204</u>

	<i>Notes</i>	At 31 December		
		2012	2013	2014
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current liabilities				
Trade and other payables	20	69,284	47,988	66,884
Obligations under finance leases	23	210	–	–
Bank borrowing	22	–	–	1,266
Amount due to a shareholder	21	–	20	10,804
Income tax payables		7,302	7,598	9,108
		<u>76,796</u>	<u>55,606</u>	<u>88,062</u>
Net current assets (liabilities)		<u>30,232</u>	<u>75,269</u>	<u>(4,858)</u>
Net assets		<u>48,423</u>	<u>91,651</u>	<u>20,480</u>
Capital and reserves				
Share capital	24	20,000	20,000	–
Reserves		<u>28,423</u>	<u>71,651</u>	<u>20,480</u>
Total equity		<u>48,423</u>	<u>91,651</u>	<u>20,480</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE THREE YEARS ENDED 31 DECEMBER 2012, 2013 AND 2014

	Share capital RMB'000	Statutory reserve RMB'000 (note i)	Capital reserve RMB'000 (note ii)	Retained profits/ accumulated losses RMB'000	Total RMB'000
At 1 January 2012	20,000	167	–	7,020	27,187
Profit and total comprehensive income for the year	–	–	–	21,236	21,236
Transfer	–	1,208	–	(1,208)	–
At 31 December 2012 and 1 January 2013	20,000	1,375	–	27,048	48,423
Profit and total comprehensive income for the year	–	–	–	43,228	43,228
Transfer	–	4,464	–	(4,464)	–
At 31 December 2013 and 1 January 2014	20,000	5,839	–	65,812	91,651
Profit and total comprehensive income for the year	–	–	–	35,202	35,202
Acquisition of subsidiaries	(20,000)	–	–	–	(20,000)
Contribution from shareholder	–	–	20,508	–	20,508
Dividends	–	–	–	(106,881)	(106,881)
Transfer	–	4,161	–	(4,161)	–
At 31 December 2014	<u>–</u>	<u>10,000</u>	<u>20,508</u>	<u>(10,028)</u>	<u>20,480</u>

Note i: As stipulated by regulations in the PRC, the Target Company's subsidiaries established and operated in the PRC are required to appropriate 10% of their after-tax profit (after offsetting prior year losses) as determined in accordance with the PRC accounting rules and regulations, to statutory reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to equity owners.

Note ii: It represents the deemed contribution from a controlling shareholder for offering an interest-free advance to the Target Group.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE YEARS ENDED 31 DECEMBER 2012, 2013 AND 2014

	Year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
OPERATING ACTIVITIES			
Profit before taxation	28,385	57,822	47,236
Adjustments for:			
Finance costs	68	5	147
Interest income	(34)	(49)	(37)
Impairment loss recognised in respect of trade and other receivables	–	–	35,862
Exchange difference	–	–	508
Depreciation of property, plant and equipment	8,751	7,507	3,536
Written off of property, plant and equipment	–	–	488
	<u> </u>	<u> </u>	<u> </u>
Operating cash flows before movements in working capital	37,170	65,285	87,740
(Increase) decrease in inventories	–	(119)	119
(Increase) decrease in trade and bills receivables	(60,508)	12,401	4,906
Increase in deposits and other receivables	(4,682)	(13,983)	(10,926)
Increase (decrease) in trade and other payables	20,853	(23,173)	(2,480)
	<u> </u>	<u> </u>	<u> </u>
Cash (used in) generated from operations	(7,167)	40,411	79,359
PRC Tax paid	(2,196)	(14,298)	(19,490)
	<u> </u>	<u> </u>	<u> </u>
NET CASH (USED IN) FROM OPERATING ACTIVITIES	<u>(9,363)</u>	<u>26,113</u>	<u>59,869</u>

	Year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment	(3,837)	(3,821)	(4,014)
Advance to a shareholder	–	(14,599)	(60,102)
Interest received	34	49	37
NET CASH USED IN INVESTING ACTIVITIES	<u>(3,803)</u>	<u>(18,371)</u>	<u>(64,079)</u>
FINANCING ACTIVITIES			
Finance costs	(68)	(5)	(147)
New bank borrowing raised	–	–	2,384
Repayment of bank borrowing	–	–	(1,118)
Repayment of obligations under finance leases	(1,064)	(210)	–
(Repayment to) advance from a shareholder	(2,100)	20	(20)
Repayment to a related company	(720)	–	–
NET CASH (USED IN) FROM FINANCING ACTIVITIES	<u>(3,952)</u>	<u>(195)</u>	<u>1,099</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(17,118)	7,547	(3,111)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>18,106</u>	<u>988</u>	<u>8,535</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	<u><u>988</u></u>	<u><u>8,535</u></u>	<u><u>5,424</u></u>

NOTES TO THE FINANCIAL INFORMATION*FOR THE THREE YEARS ENDED 31 DECEMBER 2012, 2013 AND 2014***1. BASIS OF PRESENTATION OF THE FINANCIAL INFORMATION**

The Target Company was incorporated in the British Virgin Islands on 3 July 2012 as an exempted company with limited liability under the Companies Law of the British Virgin Islands.

The address of the registered office is Overseas Management Company (B.V.I.) LTDOMC Chambers, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands. The address of the principal place of business of the Target Company is 14/F., Chun Wo Commercial Centre, 25 Wing Wo Street, Central, Hong Kong. The Target Company is engaged in investment holding while the principal subsidiaries are principally engaged in provision of mining construction engineering, coal production and technical services.

Pursuant to the Reorganisation, the Target Company became the holding company of the companies now comprising the Target Group on 18 March 2014. The Target Group has been under the control and beneficially owned by Mr. Hu Zhixiong and Ms. Fan Aixian (collectively referred to as the "Controlling Shareholders") throughout the Relevant Periods or since their respective dates of incorporation or establishment up to 18 March 2014. The Target Group comprising the Target Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity. Accordingly, the Financial Information of the Target Group has been prepared on the basis as if the Target Company had always been the holding company of the companies comprising the Target Group throughout the Relevant Periods, using the principles of merger accounting as set out in note 3 below.

The consolidated statements of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows include the results and cash flows of the companies comprising the Target Group have been prepared as if the current group structure had been in existence throughout the Relevant Periods or since their respective date of incorporation up to 18 March 2014. The consolidated statements of financial position of the Target Group as at 31 December 2012, 2013 and 2014 have been prepared to present the assets and liabilities of the companies comprising the Target Group as if the current group structure had been in existence as at those dates.

In preparing the consolidated financial statements, the directors of the Target Company have assessed the liquidity position and going concern of the Target Group in light of the fact that the Target Group had net current liabilities of approximately RMB4,858,000 as at 31 December 2014. The directors of the Target Company are satisfied that the Target Group will have sufficient financial resources to meet its financial obligations as they fall due in the foreseeable future, after taking into account the projected working capital generating from operation and working capital requirement in the foreseeable future.

In view of the projected working capital generating from operation, the directors of the Target Company believe that the Target Group will have adequate financial resources for its working capital requirement for the ensuing year, accordingly, the directors of the Target Company are of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis. Should the Target Company be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts and to provide for further liabilities which might arise and to reclassify non-current assets as current assets. The effect of these adjustments has not been reflected in the consolidated financial statements.

The functional currency of the Target Company and the subsidiaries are RMB. The Financial Information is presented in RMB, which is the same as the functional currency of the Target Company.

2. APPLICATION OF NEW AND REVISED HKFRSs

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the Target Group has consistently adopted all of the new and revised HKFRSs, Hong Kong Accounting Standards (“HKASs”), amendments and the interpretations (thereinafter collectively referred to as “new and revised HKFRSs”) issued by the HKICPA which are effective for the Target Group’s financial year beginning on 1 January 2014 throughout the Relevant Periods.

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle ²
HKFRS 9 (2014)	Financial Instruments ⁴
HKFRS 14	Regulatory Deferral Accounts ²
HKFRS 15	Revenue from Contracts with Customers ³
Amendments to HKAS 1	Disclosure Initiative ²
Amendments to HKAS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception ²
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations ²
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ²
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plant ²
Amendments to HKAS 19	Defined Benefit Plans – Employee Contributions ¹
Amendments to HKAS 27	Equity Method in Separate Financial Statements ²

¹ Effective for annual periods beginning on or after 1 July 2014, with earlier application is permitted.

² Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

³ Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

⁴ Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

The directors of the Target Company anticipate that, except as described below, the application of other new and revised HKFRSs, HKASs, amendments and Ints will not have material impact on the results and the financial position of the Target Group.

Annual Improvements to HKFRSs 2010-2012 Cycle

The Annual Improvements to HKFRSs 2010-2012 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 2 (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to HKFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to HKFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial.

The amendments to HKAS 16 and HKAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to HKAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The directors of the Target Company do not anticipate that the application of the amendments included in the Annual Improvements to HKFRSs 2010-2012 Cycle will have a material effect on the Target Group's Financial Information.

Annual Improvements to HKFRSs 2011-2013 Cycle

The Annual Improvements to HKFRSs 2011-2013 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to HKFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a Target Group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, HKAS 39 or HKFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within HKAS 32.

The amendments to HKAS 40 clarify that HKAS 40 and HKFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

- (a) the property meets the definition of investment property in terms of HKAS 40; and
- (b) the transaction meets the definition of a business combination under HKFRS 3.

The directors of the Target Company do not anticipate that the application of the amendments included in the Annual Improvements to HKFRSs 2011-2013 Cycle will have a material effect on the Target Group's Financial Information.

Annual Improvements to HKFRSs 2012 – 2014 Cycle

The Annual Improvements to HKFRSs 2012-2014 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 5 clarify that changing from one of the disposal methods (i.e. disposal through sale or disposal through distribution to owners) to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan.

There is therefore no interruption of the application of the requirements in HKFRS 5. Besides, the amendments also clarify that changing the disposal method does not change the date of classification.

The amendments to HKFRS 7 clarify that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in HKFRS 7 in order to assess whether the additional disclosures for any continuing involvement in a transferred asset that is derecognised in its entirety are required. Besides, the amendments to HKFRS 7 also clarify that disclosures in relation to offsetting financial assets and financial liabilities are not required in the condensed interim financial report, unless the disclosures provide a significant update to the information reported in the most recent annual report.

The amendments to HKAS 19 clarify that the market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

HKAS 34 requires entities to disclose information in the notes to the interim financial statements 'if not disclosed elsewhere in the interim financial report'. The amendments to HKAS 34 clarify that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report. The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete.

The directors of the Target Company do not anticipate that the application of the amendments included in the Annual Improvements to HKFRSs 2012-2014 Cycle will have a material effect on the Target Group's Financial Information.

Amendments to HKAS 16 and HKAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to HKAS 16 prohibit entities the use of revenue-based depreciation methods for property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that use of revenue-based amortisation methods for an intangible asset is appropriate. This presumption can only be rebutted in the following two limited circumstances:

- i) when the intangible asset is expressed as a measure of revenue; or
- ii) when a high correlation between revenue and the consumption of the economic benefits of the intangible asset are highly demonstrated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Target Group uses the straight-line method for depreciation for its property, plant and equipment. The directors of the Target Company believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the directors of the Target Company do not anticipate that the application of these amendments to HKAS 16 and HKAS 38 will have a material impact on the Target Group's Financial Information.

Amendments to HKAS 1 Disclosure Initiative

The amendments clarify that companies should use professional judgement in determining what information as well as where and in what order information is presented in the financial statements. Specifically, an entity should decide, taking into consideration all relevant facts and circumstances, how it aggregates information in the financial statements, which include the notes. An entity does not require to provide a specific disclosure required by a HKFRS if the information resulting from that disclosure is not material. This is the case even if the HKFRS contain a list of specific requirements or describe them as minimum requirements.

Besides, the amendments provide some additional requirements for presenting additional line items, headings and subtotals when their presentation is relevant to an understanding of the entity's financial position and financial performance respectively. Entities, in which they have investments in associates or joint ventures, are required to present the share of other comprehensive income of associates and joint ventures accounted for using the equity method, separated into the share of items that (i) will not be reclassified subsequently to profit or loss; and (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

Furthermore, the amendments clarify that:

- i) an entity should consider the effect on the understandability and comparability of its financial statements when determining the order of the notes; and
- ii) significant accounting policies are not required to be disclosed in one note, but instead can be included with related information in other notes.

The amendments will become effective for financial statements with annual periods beginning on or after 1 January 2016. Earlier application is permitted.

The directors of the Target Company anticipate that the application of Amendments to HKAS 1 in the future may have a material impact on the disclosures made in the Target Group's consolidated Financial Information.

HKFRS 9 (2014) Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 and includes the requirements for the classification and measurement of financial liabilities and for derecognition. In 2013, HKFRS 9 was further amended to bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. A finalised version of HKFRS 9 was issued in 2014 to incorporate all the requirements of HKFRS 9 that were issued in previous years with limited amendments to the classification and measurement by introducing a "fair value through other comprehensive income" ("FVTOCI") measurement category for certain financial assets. The finalised version of HKFRS 9 also introduces a "expected credit loss" model for impairment assessments.

Key requirements of HKFRS 9 (2014) are described as follows:

- HKFRS 9 (2014) requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9 (2014), entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- The most significant effect of HKFRS 9 (2014) regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9 (2014), for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to change in the financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.
- In relation to the impairment of financial assets, HKFRS 9 (2014) requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

HKFRS 9 (2014) will become effective for annual periods beginning on or after 1 January 2018 with early application permitted.

The directors of the Target Company anticipate that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Target Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKFRS 15 Revenue from Contracts with Customers

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Thus, HKFRS 15 introduces a model that applies to contracts with customers, featuring a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The five steps are as follows:

- i) Identify the contract with the customer;
- ii) Identify the performance obligations in the contract;
- iii) Determine the transaction price;
- iv) Allocate the transaction price to the performance obligations; and
- v) Recognise revenue when (or as) the entity satisfies a performance obligation

HKFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

HKFRS 15 will become effective for annual periods beginning on or after 1 January 2017 with early application permitted. The directors of the Target Company anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Target Group's Financial Information. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Target Group performs a detailed review.

In addition, the annual report requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the company's first financial year commencing on or after 3 March 2014 in accordance with section 358 of that Ordinance. The Target Group is in the process of making an assessment of expected impact of the changes in the Hong Kong Companies Ordinance on the consolidated financial statements in the period of

initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and will primarily only affect the presentation and disclosure of information in the Financial Information.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the GEM Listing Rules and the Hong Kong Companies Ordinance which for the Relevant Periods continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap.622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 of that 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 goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Target Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The Financial Information incorporates the financial statements of the Target Company and entities controlled by the Target Company and its subsidiaries. Control is achieved where the Target Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Target Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Target Company obtains control over the subsidiary and ceases when the Target Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the Target Company gains control until the date when the Target Company ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Target Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Target Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

All intra-Target Group assets and liabilities, equity, income and expenses are eliminated in full on consolidation.

Changes in the Target Group's ownership interests in existing subsidiaries

Changes in the Target Group's ownership interests in existing subsidiaries that do not result in the Target Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Target Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Target Company.

When the Target Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Target Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations under common control

Business combinations under common control are accounted for using merger accounting. In applying merger accounting, the Financial Information incorporates the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the Controlling Shareholder.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statements of profit or loss and other comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the Financial Information are presented as if the entities or businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Target Group, liabilities incurred by the Target Group to the former owners of the acquiree and the equity interests issued by the Target Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Target Group are measured in accordance with HKFRS 2 *Share-based payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another standard.

Revenue recognition

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

Service income from provision of services is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Target Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial assets to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the supply of services or for administrative purposes as described below are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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

Leasing

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

The Target Group as lessee

Assets held under finance leases are recognised as assets of the Target Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statements of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Target Group's policy on borrowing costs (see the accounting policy below).

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Building

When a lease includes building elements, the Target Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Target Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments, including any lump-sum upfront payments, are allocated to the building elements in proportion to the relative fair values of the leasehold interests in the building element of the lease at the inception of the lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items 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.

Borrowing costs

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

Retirement benefits costs

Payments to state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contribution.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before taxation' as reported in the consolidated statements of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Target Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

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

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

Deferred tax 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 the tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Target Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statements of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Target Group's financial assets are loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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 debt instrument 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 debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bills receivables, deposits and other receivables, amounts due from a shareholder, related companies and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of financial assets

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

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade and bills receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Target Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the financial assets' original effective interest rate.

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

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

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

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

Financial liabilities

Financial liabilities including trade and other payables, obligations under finance leases, bank borrowings and amount due to a shareholder are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Derecognition

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Target Group derecognises financial liabilities when, and only when, the Target Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Cash and cash equivalents

Bank balances and cash in the consolidated statements of financial position comprise bank deposits with original maturity of three months or less, cash at banks and on hand. For the purpose of the consolidated statements of cash flows, cash and cash equivalents consist of bank balances and cash as defined above.

Impairment losses on tangible assets

At the end of the reporting period, the Target Group 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 Target Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generation 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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Target Group's accounting policies, which are described in note 3, the directors of the Target Company are required to make 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 followings are the key assumptions concerning the future, and other 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.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual values. The determination of the useful lives and residual values involves management's estimation. The directors of the Target Company assess annually the residual value and the useful life of the property, plant and equipment and if

the expectation differs from the original estimate, such a difference may impact the depreciation in the year and the estimate will be changed in the future period. As at 31 December 2012, 2013 and 2014, the carrying amounts of property, plant and equipment are approximately RMB18,191,000, RMB16,382,000 and RMB16,372,000 respectively. No impairment loss was recognised as at 31 December 2012, 2013 and 2014.

Estimated impairment of property, plant and equipment

The Target Group determines whether the property, plant and equipment are impaired whenever there is indication of impairment presented. The impairment loss for property, plant and equipment are recognised for the amounts by which the carrying amounts exceed their recoverable amounts, in accordance with the Target Group's accounting policy. The recoverable amounts of property, plant and equipment have been determined based on value-in-use calculations. These calculations require the use of judgements and estimates such as future revenue and discount rates. As at 31 December 2012, 2013 and 2014, the carrying values of property, plant and equipment were approximately RMB18,191,000, RMB16,382,000 and RMB16,372,000 respectively. No impairment was recognised as at 31 December 2012, 2013 and 2014.

Estimated allowance for inventories

The management of the Target Group reviews an ageing analysis at the end of the reporting period and makes allowance for obsolete and slow-moving items identified that are no longer suitable for sale or use. The Target Group makes allowance for inventories based on the assessment of the net realisable value. The management estimates the net realisable value for inventories based primarily on the latest invoice prices and current market conditions. As at 31 December 2012, 2013 and 2014 the carrying amounts of inventories were approximately nil, RMB119,000 and nil respectively. No impairment was recognised as at 31 December 2012, 2013 and 2014.

Estimated impairment of trade, bills and other receivables

The Target Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Target Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience. Credit losses have historically been within the Target Group's expectations and the Target Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses. As at 31 December 2012, 2013 and 2014, the carrying amounts of trade, bills and other receivables were approximately RMB106,040,000, RMB107,622,000 and RMB77,780,000 respectively, There were no impairment loss recognised for

the Target Group's trade, bills and other receivables as at 31 December 2012 and 2013, there was approximately RMB35,862,000 impairment loss recognised in respect of the Target Group's trade receivables as at 31 December 2014.

Income tax

The Target Group is subject to income taxes in several jurisdictions. There are certain transactions and calculations for which the ultimate tax determination may be uncertain. The Target Group recognises liabilities for anticipated tax liabilities based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made. As at 31 December 2012, 2013 and 2014, the carrying amount of income tax payables were approximately RMB7,302,000, RMB7,598,000 and RMB9,108,000 respectively.

5. CAPITAL RISK MANAGEMENT

The Target Group manages its capital to ensure that entities in the Target Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Target Group's overall strategy remains unchanged during the Relevant Periods.

The capital structure of the Target Group consists of bank borrowing, obligations under finance leases, amount due to a shareholder and bank balances and cash, and equity attributable to the owners of the Target Company, comprising issued share capital and reserves.

The directors of the Target Company review the capital structure regularly. As part of this review, the directors of the Target Company consider the cost of capital and the risks associated with each class of capital. The Target Group will balance its overall capital structure through the payment of dividends, issuance of new shares as well as the issue of new debts or the redemption of borrowings.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	At 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Financial assets			
Loans and receivables (including bank balances and cash)	106,817	127,991	78,269
	<u>106,817</u>	<u>127,991</u>	<u>78,269</u>
Financial liabilities			
Amortised cost	61,007	41,914	51,081
	<u>61,007</u>	<u>41,914</u>	<u>51,081</u>

(b) Financial risk management objectives and policies

The Target Group's major financial instruments include trade and bills receivables, deposits and other receivables, amount due from a shareholder, bank balances and cash, trade and other payables, amount due to a shareholder, obligations under finance leases and bank borrowing. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include interest rate risk, credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market riskInterest rate risk

The Target Group is exposed to fair value interest rate risk in relation to fixed-rate obligations under finance leases (see note 23 for details) for the Relevant Periods. The Target Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary action when significant interest rate exposure is anticipated.

The Target Group is exposed to cash flow interest rate risk in relation to variable-rate, bank balances (note 19) and variable rate bank borrowing (note 22) carried at prevailing market rates for the Relevant Periods. However, the exposure in bank balances is minimal to the Target Group for the Relevant Periods as the bank balances are all short-term in nature. It is the Target Group's policy to keep its borrowings at floating rate of interest so as to minimise the fair value interest rate risk.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at the end of reporting period. The analysis is prepared assuming the amount of liability outstanding at the end of reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used for the Relevant Periods when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower for the Relevant Periods and all other variables were held constant, the Target Group's post-tax profit for each of the three years ended 31 December 2012, 2013 and 2014 would decrease/increase by approximately RMB4,000, RMB32,000 and RMB16,000 respectively. This is mainly attributable to the Target Group's exposure to cash flow interest rate risk on its variable rate bank borrowing.

Credit risk

At the end of each reporting period, the Target Group's maximum exposure to credit risk which will cause a financial loss to the Target Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position.

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

With respect to credit risk arising from amount due from a shareholder, the Target Group's exposure to credit risk arising from default of this counterparty is limited as the Target Group reviews the recoverable amount of such individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The Target Group does not expect to incur a significant loss for uncollected amount due from this party.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Target Group has concentration of credit risk as 46%, 34% and 43% of the total trade receivables at 31 December 2012, 2013 and 2014 was due from the Target Group's largest customer respectively.

The Target Group has concentration of credit risk as 100%, 98% and 98% of the total trade receivables at 31 December 2012, 2013 and 2014 was due from the Target Group's five largest customers respectively.

The Target Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 100% of the total trade receivables as at 31 December 2012, 2013 and 2014.

Liquidity risk

In management of liquidity risk, the Target Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Target Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of bank borrowing and ensures compliance with loan covenants.

The following table details the Target Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Target Group can be required to pay.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of each reporting period.

	As at 31 December 2012		
	On demand or within 1 year <i>RMB'000</i>	Total undiscounted cash flows <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
Trade and other payables	60,797	60,797	60,797
Obligations under finance leases	215	215	210
	<u>61,012</u>	<u>61,012</u>	<u>61,007</u>

	As at 31 December 2013		
	On demand or within 1 year <i>RMB'000</i>	Total undiscounted cash flows <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
Trade and other payables	41,894	41,894	41,894
Amount due to a shareholder	20	20	20
	<u>41,914</u>	<u>41,914</u>	<u>41,914</u>

	As at 31 December 2014		
	On demand or within 1 year <i>RMB'000</i>	Total undiscounted cash flows <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
Trade and other payables	39,011	39,011	39,011
Bank borrowing	1,364	1,364	1,266
Amount due to a shareholder	10,804	10,804	10,804
	<u>51,179</u>	<u>51,179</u>	<u>51,081</u>

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of each reporting period.

(c) Fair value

The directors of the Target Company consider that the carrying amounts of current financial assets and current financial liabilities recorded at amortised cost using the effective interest rate method in the Financial Information approximate to their fair values due to their immediate or short-term maturities.

7. REVENUE AND OTHER INCOME

Turnover represents the amounts received and receivable for services rendered in the normal course of business, net of discounts and sales related taxes. Analysis of the Target Group's turnover for the Relevant Periods is as follows:

	Year ended 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue			
Rendering of services	<u>284,976</u>	<u>335,859</u>	<u>331,734</u>
Other income			
Bank interest income	<u>34</u>	<u>49</u>	<u>37</u>

8. SEGMENT INFORMATION

Information reported to the Chief Executive Officer of the Target Group, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Target Group.

Specifically, the Target Group's reportable and operating segments under HKFRS 8 are as follows:

1. Comprehensive mining exploitation – provision of ore body mining and transportation services
2. Excavation works – provision of digging excavation of mining tunnel services
3. Mining supporting works – provision of general and specialised mining supporting works services
4. Mine construction services for mining supporting works – provision of construction project in mining sites

Segment revenues and results

The following is an analysis of the Target Group's revenue and results by reportable and operating segments.

	For the year ended 31 December 2012				
	Comprehensive mining exploitation <i>RMB'000</i>	Excavation works <i>RMB'000</i>	Mining supporting works <i>RMB'000</i>	Mine construction services for mining supporting works <i>RMB'000</i>	Total <i>RMB'000</i>
REVENUE					
External sales	123,213	65,486	44,337	51,940	284,976
Segment results	24,505	4,487	2,043	29,081	60,116
Unallocated income					34
Unallocated expenses					(31,697)
Finance costs					(68)
Profit before tax					28,385

	For the year ended 31 December 2013				Total RMB'000
	Comprehensive mining exploitation RMB'000	Excavation works RMB'000	Mining supporting works RMB'000	Mine construction services for mining supporting works RMB'000	
REVENUE					
External sales	<u>171,518</u>	<u>84,592</u>	<u>43,499</u>	<u>36,250</u>	<u>335,859</u>
Segment results	<u>62,061</u>	<u>6,753</u>	<u>3,845</u>	<u>8,501</u>	81,160
Unallocated income					49
Unallocated expenses					(23,382)
Finance costs					<u>(5)</u>
Profit before tax					<u>57,822</u>

	For the year ended 31 December 2014				Total RMB'000
	Comprehensive mining exploitation RMB'000	Excavation works RMB'000	Mining supporting works RMB'000	Mine construction services for mining supporting works RMB'000	
REVENUE					
External sales	<u>208,931</u>	<u>71,184</u>	<u>38,401</u>	<u>13,218</u>	<u>331,734</u>
Segment results	<u>64,188</u>	<u>21,070</u>	<u>11,420</u>	<u>(32,352)</u>	64,326
Unallocated income					37
Unallocated expenses					(16,980)
Finance costs					<u>(147)</u>
Profit before tax					<u>47,236</u>

The accounting policies of the operating segments are the same as the Target Group's accounting policies described in note 3. Segment profit (loss) represents the profit earned by/(loss from) each segment without allocation of central administration costs, directors' emoluments, investment income and finance costs. This is the measure reported to the Chief Executive Officer for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

The following is an analysis of the Target Group's assets and liabilities by reportable and operating segments:

Segment assets

	At 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Comprehensive mining exploitation	36,452	49,021	48,099
Excavation works	13,976	12,932	3,122
Mining supporting works	10,816	6,369	9,308
Mine construction services for mining supporting works	52,389	34,345	1,120
	<u>113,633</u>	<u>102,667</u>	<u>61,649</u>
Total segment assets	113,633	102,667	61,649
Unallocated assets	11,586	44,590	46,893
	<u>125,219</u>	<u>147,257</u>	<u>108,542</u>
Consolidated total assets	<u><u>125,219</u></u>	<u><u>147,257</u></u>	<u><u>108,542</u></u>

Segment liabilities

	At 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Comprehensive mining exploitation	13,421	12,277	10,338
Excavation works	5,259	6,694	2,228
Mining supporting works	15,779	7,176	8,073
Mine construction services for mining supporting works	19,626	–	–
Total segment liabilities	54,085	26,147	20,639
Unallocated liabilities	22,711	29,459	67,423
Consolidated total liabilities	<u>76,796</u>	<u>55,606</u>	<u>88,062</u>

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than deferred tax assets, amount due from a shareholder, bank balances and cash and certain unallocated head office assets. Assets used jointly by operating segments are allocated on the basis of the revenues earned by individual reportable segments; and
- all liabilities are allocated to operating segments other than income tax payables, bank borrowing, obligations under finance leases, amount due to a shareholder, and certain unallocated head office liabilities. Liabilities for which operating segments are jointly liable are allocated in proportion to segment revenue.

For the year ended 31 December 2012

	Comprehensive mining exploitation <i>RMB'000</i>	Excavation works <i>RMB'000</i>	Mine construction services for mining supporting works <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Total <i>RMB'000</i>
<i>Amounts included in the measure of segment profit or loss or segment assets:</i>					
Additions to non-current assets	–	4,547	–	–	4,547
Depreciation of property, plant and equipment	–	8,751	–	–	8,751
	<u>–</u>	<u>8,751</u>	<u>–</u>	<u>–</u>	<u>8,751</u>
<i>Amounts regularly provided to the chief executive officer but not included in the measure of segment profit or loss or segment assets:</i>					
Interest income	–	–	–	34	34
Finance costs	–	–	–	68	68
Income tax expenses	–	–	–	7,149	7,149
	<u>–</u>	<u>–</u>	<u>–</u>	<u>7,149</u>	<u>7,149</u>

For the year ended 31 December 2013

	Comprehensive mining exploitation <i>RMB'000</i>	Excavation works <i>RMB'000</i>	Mine construction services for mining supporting works <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Total <i>RMB'000</i>
<i>Amounts included in the measure of segment profit or loss or segment assets:</i>					
Additions to non-current assets	–	5,698	–	–	5,698
Depreciation of property, plant and equipment	–	7,507	–	–	7,507
	<u>–</u>	<u>7,507</u>	<u>–</u>	<u>–</u>	<u>7,507</u>
<i>Amounts regularly provided to the chief executive officer but not included in the measure of segment profit or loss or segment assets:</i>					
Interest income	–	–	–	49	49
Finance costs	–	–	–	5	5
Income tax expenses	–	–	–	14,594	14,594
	<u>–</u>	<u>–</u>	<u>–</u>	<u>14,594</u>	<u>14,594</u>

For the year ended 31 December 2014

	Comprehensive mining exploitation <i>RMB'000</i>	Excavation works <i>RMB'000</i>	Mine construction services for mining supporting works <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Total <i>RMB'000</i>
<i>Amounts included in the measure of segment profit or loss or segment assets:</i>					
Additions to non-current assets	–	4,014	–	–	4,014
Written off of property, plant and equipment	–	488	–	–	488
Impairment loss recognised in respect of trade and other receivables	–	–	35,862	–	35,862
Depreciation of property, plant and equipment	–	3,536	–	–	3,536
	<u>–</u>	<u>3,536</u>	<u>–</u>	<u>–</u>	<u>3,536</u>
<i>Amounts regularly provided to the chief executive officer but not included in the measure of segment profit or loss or segment assets:</i>					
Interest income	–	–	–	37	37
Finance costs	–	–	–	147	147
Income tax expenses	–	–	–	12,034	12,034
	<u>–</u>	<u>–</u>	<u>–</u>	<u>12,034</u>	<u>12,034</u>

Revenue from major services

The following are analyses of the Target Group's revenue from continuing operations from its major services by:

Analysis by type of services

	For the year ended 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Comprehensive mining exploitation	123,213	171,518	208,931
Excavation works	65,486	84,592	71,184
Mining supporting works	44,337	43,499	38,401
Mine construction services for mining supporting works	51,940	36,250	13,218
Total	<u>284,976</u>	<u>335,859</u>	<u>331,734</u>

Geographical information

The Target Group's operations are located in the PRC (country of domicile). The Target Group's customers are located in the PRC.

The Target Group's revenue from external customers are from the PRC only and the amounts for the three year ended 31 December 2012, 2013 and 2014 are approximately RMB284,976,000, RMB335,859,000, RMB331,734,000 respectively.

The Target Group's non-current assets are all located in the PRC and the carrying amount of the non-current assets for the three year ended 31 December 2012, 2013 and 2014 are approximately RMB18,191,000, RMB16,382,000, and RMB16,372,000 respectively.

Information about major customers

Details of the customers accounting for 10% or more of aggregate revenue of the Target Group during the Relevant Periods are as follows:

	Year ended 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Customer A*	118,820	155,994	155,778

* Revenue from Comprehensive Mining Exploitation.

9. FINANCE COSTS

	Year ended 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest expenses on:			
– bank borrowings wholly repayable within one year	–	–	147
– finance lease wholly repayable within five years	68	5	–
	68	5	147

10. INCOME TAX EXPENSE

	Year ended 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
The charge comprises			
– PRC Enterprise Income Tax (“EIT”)	7,172	14,520	20,874
(Over)/under provision in respect of prior year	(23)	74	126
Deferred taxation (<i>note 27</i>)	–	–	(8,966)
	<u>7,149</u>	<u>14,594</u>	<u>12,034</u>

- (i) Pursuant to the rules and regulations of the British Virgin Islands (“BVI”), the Target Group is not subject to any income tax in the BVI.
- (ii) No provision for Hong Kong Profits Tax has been made for the subsidiary established in Hong Kong as the subsidiary did not have any assessable profits subject to Hong Kong Profits Tax during the Relevant Periods.
- (iii) Under the Law of the PRC on EIT and implementation regulation of the EIT Law, the tax rate of all subsidiaries established in the PRC is 25% during the Relevant Periods.

The income tax expense for the year can be reconciled to the profit before taxation per the consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit before taxation	<u>28,385</u>	<u>57,822</u>	<u>47,236</u>
Tax at domestic income tax rate of 25%	7,096	14,456	11,809
Tax effect of expense not deductible for tax purposes	76	64	99
(Over)/under provision in respect of prior year	<u>(23)</u>	<u>74</u>	<u>126</u>
Income tax expense for the year	<u>7,149</u>	<u>14,594</u>	<u>12,034</u>

11. PROFIT FOR THE YEAR

	Year ended 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year has been arrived at after charging:			
Salaries and allowances (excluding directors' emoluments)	5,529	6,077	6,203
Retirement benefit scheme contributions (excluding directors)	<u>2,058</u>	<u>2,209</u>	<u>2,174</u>
Total staff costs	<u>7,587</u>	<u>8,286</u>	<u>8,377</u>
Auditor's remuneration	4	4	4
Written off of property, plant and equipment	–	–	488
Depreciation of property, plant and equipment	8,751	7,507	3,536
Impairment loss recognised in respect of trade and other receivables	<u>–</u>	<u>–</u>	<u>35,862</u>

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

(a) Directors' and chief executive's emoluments

Details of emoluments paid and payable to the directors and the chief executive of the Target Group for the Relevant Periods are as follows:

	Year ended 31 December 2012			
	Fees	Salaries	Retirement	Total
		and other	benefit scheme	
	<i>RMB'000</i>	allowances	contributions	<i>RMB'000</i>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
Executive directors:				
Mr. Hu Zhixiong	–	180	–	180
Ms. Fan Aixian	–	–	–	–
	<u>–</u>	<u>180</u>	<u>–</u>	<u>180</u>

	Year ended 31 December 2013			
	Fees	Salaries	Retirement	Total
		and other	benefit scheme	
	<i>RMB'000</i>	allowances	contributions	<i>RMB'000</i>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
Executive directors:				
Mr. Hu Zhixiong	–	180	–	180
Ms. Fan Aixian	–	–	–	–
	<u>–</u>	<u>180</u>	<u>–</u>	<u>180</u>

	Year ended 31 December 2014			
		Salaries and other allowances	Retirement benefit scheme contributions	Total
	Fees			
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Executive directors:				
Mr. Hu Zhixiong	–	180	–	180
Ms. Fan Aixian	–	–	–	–
	<u>–</u>	<u>180</u>	<u>–</u>	<u>180</u>

Mr. Hu Zhixiong is also the chief executive of the Target Company and his emoluments disclosed above include those for services rendered by him as the chief executive.

None of the directors waived or agreed to waive any emoluments during the Relevant Periods.

There were no performance related incentive payments to the directors and chief executive during the Relevant Periods.

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Target Group, 1 was director or chief executive of the Target Company for the years ended 31 December 2012, 2013 and 2014. The emoluments of the director are included in the disclosures in note 12(a) above. The emoluments of the remaining 4 individuals for the years ended 31 December 2012, 2013 and 2014 were as follows:

	Year ended 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Salaries and other allowances	1,350	1,160	804
Retirement benefit scheme contributions	<u>–</u>	<u>–</u>	<u>–</u>
	<u>1,350</u>	<u>1,160</u>	<u>804</u>

There were no performance related incentive payments during the Relevant Periods.

Their emoluments were within the following bands:

	Year ended 31 December		
	2012	2013	2014
Nil to HK\$1,000,000	<u>4</u>	<u>4</u>	<u>4</u>

During the Relevant Periods, no emoluments were paid or payable by the Target Group to the director, chief executive or the five highest paid individuals as inducements to join or upon joining the Target Group or as a compensation for loss of office.

13. DIVIDEND

Dividends recognised as distribution during the Relevant Periods represents dividend declared by Tai Pu, a subsidiary of the Target Group.

	Year ended 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
2014 Final	<u>-</u>	<u>-</u>	<u>106,881</u>

14. PROPERTY, PLANT AND EQUIPMENT

	Building <i>RMB'000</i>	Computer equipment <i>RMB'000</i>	Machinery and equipment <i>RMB'000</i>	Total <i>RMB'000</i>
COST				
At 1 January 2012	1,861	165	38,823	40,849
Additions	–	43	4,504	4,547
At 31 December 2012 and 1 January 2013	1,861	208	43,327	45,396
Additions	–	101	5,597	5,698
At 31 December 2013 and 1 January 2014	1,861	309	48,924	51,094
Additions	–	68	3,946	4,014
Written off	–	(86)	(16,184)	(16,270)
At 31 December 2014	1,861	291	36,686	38,838

	Building <i>RMB'000</i>	Computer equipment <i>RMB'000</i>	Machinery and equipment <i>RMB'000</i>	Total <i>RMB'000</i>
ACCUMULATED DEPRECIATION				
At 1 January 2012	244	73	18,137	18,454
Provided for the year	<u>175</u>	<u>58</u>	<u>8,518</u>	<u>8,751</u>
At 31 December 2012 and 1 January 2013	419	131	26,655	27,205
Provided for the year	<u>175</u>	<u>64</u>	<u>7,268</u>	<u>7,507</u>
At 31 December 2013 and 1 January 2014	594	195	33,923	34,712
Provided for the year	96	67	3,373	3,536
Eliminated on written off	<u>–</u>	<u>(86)</u>	<u>(15,696)</u>	<u>(15,782)</u>
At 31 December 2014	<u>690</u>	<u>176</u>	<u>21,600</u>	<u>22,466</u>
CARRYING VALUES				
At 31 December 2012	<u>1,442</u>	<u>77</u>	<u>16,672</u>	<u>18,191</u>
At 31 December 2013	<u>1,267</u>	<u>114</u>	<u>15,001</u>	<u>16,382</u>
At 31 December 2014	<u>1,171</u>	<u>115</u>	<u>15,086</u>	<u>16,372</u>

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

Building	10%
Computer equipment	20% – 33.3%
Machinery and equipment	10% – 33.3%

The net book value of machinery and equipment of approximately RMB16,672,000, RMB15,001,000 and RMB15,086,000 for the years ended 31 December 2012, 2013 and 2014, includes amounts of approximately RMB4,779,000, nil and nil in respect of assets held under finance leases.

The building of the Target Group is located on a land in the PRC owned by a customer which grants the Target Group the right to use the land.

15. INVENTORIES

	At 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Machinery parts	—	119	—
	<u>—</u>	<u>119</u>	<u>—</u>
	<u>—</u>	<u>119</u>	<u>—</u>

16. TRADE AND BILLS RECEIVABLES

	At 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	97,729	87,828	82,922
Less: Impairment	—	—	(35,862)
	<u>97,729</u>	<u>87,828</u>	<u>47,060</u>
Bills receivables	2,500	—	—
	<u>2,500</u>	<u>—</u>	<u>—</u>
	<u>100,229</u>	<u>87,828</u>	<u>47,060</u>

The Target Group generally allows an average credit period of 30 days to its trade customers. The Target Group does not hold any collateral over these balances.

The following is an aged analysis of trade receivables net of accumulated impairment losses presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

	At 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
0 to 30 days	97,564	72,129	33,666
31 to 60 days	165	15,699	11,899
61 to 90 days	–	–	744
91 to 180 days	–	–	751
	<u>97,729</u>	<u>87,828</u>	<u>47,060</u>

All the bills receivables are aged within 180 days.

The movement in the allowance for impairment of trade receivables is set out below:

	At 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
1 January	–	–	–
Impairment losses recognised on trade receivables	–	–	35,862
	<u>–</u>	<u>–</u>	<u>35,862</u>
31 December	<u>–</u>	<u>–</u>	<u>35,862</u>

The Target Group has individually assessed all receivables and provided in full for all receivables that are considered not recoverable which have been in severe financial difficulties. No impairment losses were recognised during each of the two years ended 31 December 2012 and 2013.

At 31 December 2012, 31 December 2013 and 31 December 2014, the analysis of trade receivables that was neither past due nor impaired and past due but not impaired are as follows:

	Total <i>RMB'000</i>	Neither past	Less than	Past due but not impaired		
		due nor impaired <i>RMB'000</i>	30 days <i>RMB'000</i>	31 to 60 days <i>RMB'000</i>	61 to 90 days <i>RMB'000</i>	Over 90 days <i>RMB'000</i>
At 31 December 2012	97,729	97,564	165	–	–	–
At 31 December 2013	87,828	72,129	15,699	–	–	–
At 31 December 2014	47,060	33,666	11,899	744	751	–

The Target Group's neither past due nor impaired trade receivables mainly represented sales made to creditworthy customers for whom there was no recent history of default.

In determining the recoverability of a trade receivable, the Target Group considers any change in credit quality of the trade receivable from the date credit was initially granted up to the reporting date. In view of the good settlement history from those receivables of the Target Group which are past due but not impaired for the Relevant Periods, the directors of the Target Company consider that no allowance is necessary in respect of these balances.

17. DEPOSITS AND OTHER RECEIVABLES

	At 31 December		
	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
Deposits to mining projects	5,600	14,194	25,785
Advance to staff	211	2,765	4,935
Other receivables	–	2,835	–
	<u>5,811</u>	<u>19,794</u>	<u>30,720</u>

The Target Group has individually assessed all other receivables and provided in full for those receivables that are considered not recoverable. The Target Group does not hold any collateral over these balances.

18. AMOUNT DUE FROM A SHAREHOLDER

Details of the amount due from a shareholder disclosed pursuant to section 161B of the Hong Kong Companies Ordinance is as follows:

	At 31 December			Maximum amount outstanding during the year ended 31 December		
	2012	2013	2014	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amounts due from a shareholder						
鄂爾多斯市匯家寶投資 有限責任公司	-	14,599	-	-	14,599	-

Mr. Hu Zhixiong, one of the Controlling Shareholders has direct interests in the company. The amount is unsecured, non-interest bearing and repayable on demand.

19. BANK BALANCES AND CASH

The bank balances and cash comprised of cash held by the Target Group. The Target Group's bank balances and cash denominated in RMB amounted to approximately RMB988,000, RMB8,535,000 and RMB5,424,000 at 31 December 2012, 31 December 2013 and 31 December 2014 respectively. Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations.

20. TRADE AND OTHER PAYABLES

	At 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables (<i>Note</i>)	892	2,222	1,971
Accrued salaries expenses	2,082	5,877	9,868
Deposit received	2,048	2,619	3,347
Payables for acquisition of plant and equipment	1,676	3,553	1,205
Other payables	54,099	27,623	22,620
Other tax payables	8,487	6,094	27,873
	<u>68,392</u>	<u>45,766</u>	<u>64,913</u>
	<u><u>69,284</u></u>	<u><u>47,988</u></u>	<u><u>66,884</u></u>

Note:

An aged analysis of trade payables presented based on the invoice date at the end of the reporting period is as follows:

	At 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
0 to 90 days	568	1,816	494
91 to 180 days	275	36	458
181 to 365 days	10	136	651
Over 365 days	39	234	368
	<u>892</u>	<u>2,222</u>	<u>1,971</u>

The average credit period on purchase of goods is from 90 days to 365 days. The Target Group has financial risk management policies or plans for its payables with respect to the credit timeframe.

21. AMOUNT DUE TO A SHAREHOLDER

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

22. BANK BORROWING

	At 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Unsecured:			
Other bank loan (<i>Note i, ii and iii</i>)	—	—	1,266
	<u>—</u>	<u>—</u>	<u>1,266</u>
	<u>—</u>	<u>—</u>	<u>1,266</u>
Bank borrowing repayable:			
On demand or within one year	—	—	1,266
	<u>—</u>	<u>—</u>	<u>1,266</u>

Notes:

- (i) As at 31 December 2014, other bank loan with carrying amount of approximately RMB1,266,000, bore interest at floating rate and due within 1 year. The floating rate borrowing carried interest at 130% of the rate offered by the People's Bank of China per annum as at 31 December 2014.
- (ii) The effective interest rate of the other bank loan was 11.56% for the year ended 31 December 2014.
- (iii) The Target Group's other bank loan at the end of each reporting period was guaranteed by Mr. Hu Zhixiong, one of the Controlling Shareholders.

23. OBLIGATIONS UNDER FINANCE LEASES

It is the Target Group's policy to lease certain of its machineries and equipment under finance leases. The average lease term of these leases are five years throughout the Relevant Periods.

At the end of each reporting period, the total future minimum lease payments under finance leases and their present values were as follows:

	Present value of minimum lease payments					
	At 31 December			At 31 December		
	2012	2013	2014	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amounts payable under finance leases:						
Within one year	<u>215</u>	<u>-</u>	<u>-</u>	<u>210</u>	<u>-</u>	<u>-</u>
	215	-	-	210	-	-
Less: Future finance charges	<u>(5)</u>	<u>-</u>	<u>-</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Present value of lease obligations	<u><u>210</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	210	-	-
Less: Amounts due within one year shown under current liabilities				<u>(210)</u>	<u>-</u>	<u>-</u>
Amounts due after one year				<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

All obligations under finance leases of the Target Group bore fixed interest rates. The underlying interest rates of these obligations under finance leases were ranged from 5.94% to 7.94% per annum during year ended 31 December 2012. The Target Group's obligation under finance leases were secured by the lessor's charge over the leased assets. The Target Group can acquire the leased assets at a purchase option of RMB100 at the end of the lease period.

24. SHARE CAPITAL

The Share capital of the Target Group at 31 December 2012 and 2013 represented the aggregate of share capital of the Target Company and the share capital of Tai Pu held by the controlling shareholders.

The share capital of the Target Group as at 31 December 2014 represented the share capital of the Target Company.

	Number of shares	Share capital <i>RMB'000</i>
Authorised:		
Ordinary share of USD1 each as at date of incorporation 31 December 2012, 2013 and 2014 (<i>note a</i>)	50,000	312
Issued and totally paid:		
Ordinary share of USD1 each as at date of incorporation (<i>note a</i>) 31 December 2012, 2013	1	–
Issued during the year (<i>note b</i>)	9	–
At 31 December 2014	10	–

Notes:

- (a) On 3 July 2012, the Target Company was incorporated in the British Virgin Islands with limited liabilities under the Companies Law of the British Virgin Islands with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1 each. At the date of incorporation; 1 fully paid share of US\$1 was issued for initial working capital.
- (b) During the year ended 31 December 2014, 9 ordinary shares of US\$1 each was issued.

25. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2014, the Target Company entered into a acquisition arrangement with Shenzhen Jinqun for the total cash consideration of RMB20,000,000 paid by the controlling shareholders on behalf of the Target Company which was settled as contribution from a shareholder.

During the year ended 31 December 2014, the Target Group has declared dividends of approximately RMB106,881,000, and was settled by setting off with the amounts due from the shareholders of approximately RMB74,701,000, and the remaining balances were settled through amount payable to a shareholder. Other withholding tax payables arisen from the dividend of approximately RMB21,376,000 were accrued as at 31 December 2014.

26. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in the Financial Information, the Target Group has entered into the following significant transactions with related parties during the Relevant Periods.

(a) Compensation of key management personnel

Other than the remuneration paid to the directors and employees of the Target Group as set out in note 12, who are considered as the key management personnel of the Target Group, the Target Group did not have any other significant compensations to key management personnel.

The remuneration of the directors and key management personnel is determined by the board of directors of the Target Company having regard to the performance of individuals and market trends.

(b) Other guarantees

During the Relevant Periods, the Target Company's obligations under a finance lease as disclosed in note 23 was guaranteed by Mr. Hu Zhixiong.

27. DEFERRED TAXATION

The movements in deferred tax assets of the Target Group during the Relevant Periods are as follow:

	Impairment and allowances	Total
	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2012, 31 December 2012 and 2013	–	–
Credited to profit or loss (<i>Note 10</i>)	8,966	8,966
	<u>8,966</u>	<u>8,966</u>
At 31 December 2014	<u><u>8,966</u></u>	<u><u>8,966</u></u>

At 31 December 2012, 2013 and 2014, the Target Group had aggregate deferred tax assets of approximately nil, nil and RMB8,966,000 respectively. Other than the impairment and allowances, there is no other significant unrecognised temporary difference.

28. RETIREMENT BENEFIT SCHEMES

The employees of the Target Company's subsidiary established in the PRC are members of state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiary is required to contribute certain percentage of its payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Target Group with respect to the retirement benefit schemes is to make the required contributions under the scheme.

The Target Group made contributions to the retirement benefits schemes of approximately RMB2,058,000, RMB2,209,000 and RMB2,174,000, for the year ended 31 December 2012, 2013 and 2014 respectively.

B. SUBSEQUENT EVENTS

The following significant events took place subsequent to 31 December 2014.

On 23 September 2014, Tai Pu filed a claim against 內蒙古泰升實業集團有限責任公司鄂托克旗泰源煤礦 (Inner Mongolia Tai Sheng Industries Group Limited*) (“Tai Sheng”) in the 內蒙古自治區鄂爾多斯市中級人民法院 (Inner Mongolia Ordos Intermediate People’s Court*) (the “Ordos Intermediate People’s Court”) for the breach of contracts executed on 1 January 2012 and 1 May 2012 with respect to the provision of coal mining services and mine construction engineering services respectively (collectively, the “Tai Sheng Contracts”). Tai Pu alleged that pursuant to the Tai Sheng Contracts, Tai Sheng has failed to pay its outstanding service fees and claimed for, inter alia, the sum of RMB51 million being the outstanding service fees.

The claim was heard on 13 January 2015 and on 20 January 2015. The Ordos Intermediate People’s Court rendered its decision pursuant to which, inter alia, Tai Sheng shall pay Tai Pu i) approximately RMB41.6 million as damages for the failure to pay the Tai Sheng Contracts service fee and ii) RMB1 million as damages for termination of the Tai Sheng Contracts. As the Latest Practicable Date, Tai Pu has not received the said judgement sum. During the year ended 31 December 2014, the Target Group recognised impairment loss on trade receivables of approximately RMB35,862,000 which represents the full amount due from Tai Sheng.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Group, the Target Company nor any of its subsidiaries in respect of any period subsequent to 31 December 2014.

Yours faithfully,

SHINEWING (HK) CPA Limited

Certified Public Accountants

Wong Hon Kei, Anthony

Practising Certificate Number: P05591

Hong Kong

** The English names are for identification purpose only.*

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

The unaudited pro forma financial information of China Natural Investment Company Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”), Everbest Return Limited (“Target Company”) and its subsidiaries (hereinafter collectively referred to as the “Target Group”) (together with the Group, hereinafter referred to as the “Enlarged Group”) (the “Unaudited Pro Forma Financial Information”) has been prepared to illustrate the effect of the proposed acquisition of 100% of the registered capital (the “Sale Equity”) of the Target Group (the “Acquisition”).

Pursuant to the agreement dated 2 April 2015 and the supplemental agreements dated 22 April 2015 and 5 June 2015 respectively (the “Agreements”), Million Nature Holdings Limited (the “Purchaser”), a wholly-owned subsidiary of the Company, has conditionally agreed to acquire the Sale Equity of the Target Company at a consideration of HK\$760 million (subject to adjustment as set out in section headed “Adjustments to Consideration” in the “Letter from the Board” to this circular).

The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company in accordance with Rule 7.31 of the Rules Governing the Listing of Securities on Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The Unaudited Pro Forma Financial Information have been prepared by the directors of the Company for illustrative purposes only and because of their hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group as at 31 December 2014 or at any future date had the Acquisition been completed on 31 December 2014 or the results and cash flows of the Enlarged Group for the year ended 30 June 2014 or for any future period had the Acquisition been completed on 31 December 2014.

Introduction (Continued)

The Unaudited Pro Forma Financial Information of the Enlarged Group is prepared based on the unaudited condensed consolidated statement of financial position of the Group as at 31 December 2014 which has been extracted from the published interim report of the Group for the six months ended 31 December 2014, the audited consolidated statement of profit or loss and other comprehensive income and audited consolidated statement of cash flows of the Group for the year ended 30 June 2014 which has been extracted from the published annual report of the Company for the year ended 30 June 2014 and the audited consolidated statement of financial position of Target Group as at 31 December 2014, the audited consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows of Target Group for the year ended 31 December 2014 as extracted from the accountants' report set out in Appendix II of this circular, after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the Acquisition; and (ii) factually supportable as if the Acquisition had been completed on 31 December 2014.

The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the historical financial information of the Group as set out in Appendix I of this circular, historical financial information of Target Group as set out in Appendix II to this circular and other financial information included elsewhere in this circular.

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Unaudited Pro Forma Consolidated Statement of Financial Position

	The Group As at 31 December 2014 <i>HK\$'000</i> <i>(Note 1)</i>	Target Group As at 31 December 2014 <i>RMB'000</i> <i>(Note 2)</i>	<i>HK\$'000</i> <i>(Note 2)</i>	Sub-total <i>HK\$'000</i>	Pro forma adjustments <i>HK\$'000</i> <i>(Note 3)</i>	<i>Notes</i>	The Enlarged Group <i>HK\$'000</i>
Non-current assets							
Property, plant and equipment	50,967	16,372	20,465	71,432	7,885	4	79,317
Goodwill	45,813	-	-	45,813	260,486	4	306,299
Intangible assets	-	-	-	-	400,000	4	400,000
Exploration and evaluation assets	1,261	-	-	1,261			1,261
Available-for-sale investments	23,600	-	-	23,600			23,600
Interest in an associate	283,319	-	-	283,319			283,319
Deferred tax assets	-	8,966	11,208	11,208			11,208
	<u>404,960</u>	<u>25,338</u>	<u>31,673</u>	<u>436,633</u>			<u>1,105,004</u>
Current assets							
Inventories	6,885	-	-	6,885			6,885
Trade and other receivables	66,259	77,780	97,225	163,484	(8,000)	4	155,484
Loan receivables	51,748	-	-	51,748			51,748
Held-for-trading investments	9,750	-	-	9,750			9,750
Cash and cash equivalents	125,295	5,424	6,780	132,075	(68,000)	4	64,075
	<u>259,937</u>	<u>83,204</u>	<u>104,005</u>	<u>363,942</u>			<u>287,942</u>
Current liabilities							
Trade and other payables	9,734	66,884	83,606	93,340	3,516	5	96,856
Amount due to a shareholder	-	10,804	13,504	13,504			13,504
Income tax payables	1,272	9,108	11,385	12,657			12,657
Bank borrowing	-	1,266	1,583	1,583			1,583
	<u>11,006</u>	<u>88,062</u>	<u>110,078</u>	<u>121,084</u>			<u>124,600</u>
Net current assets (liabilities)	<u>248,931</u>	<u>(4,858)</u>	<u>(6,073)</u>	<u>242,858</u>			<u>163,342</u>
	<u><u>653,891</u></u>	<u><u>20,480</u></u>	<u><u>25,600</u></u>	<u><u>679,491</u></u>			<u><u>1,268,346</u></u>

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

	The Group	Target Group	Sub-total	Pro forma	Notes	The
	As at 31	As at 31		adjustments		Enlarged
	December	December				Group
	2014	2014				
	<i>HK\$'000</i>	<i>RMB'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>		<i>HK\$'000</i>
	<i>(Note 1)</i>	<i>(Note 2)</i>	<i>(Note 2)</i>	<i>(Note 3)</i>		
Capital and reserves						
Share capital / paid-in capital	273,625	-	-	273,625		273,625
Reserves	375,253	20,480	25,600	400,853	(25,600) 7	375,253
				(3,516) 5		(3,516)
Equity attributable to owners of the Company	<u>648,878</u>	<u>20,480</u>	<u>25,600</u>	<u>674,478</u>		<u>645,362</u>
Non-current liabilities						
Promissory notes payable	-	-	-	-	516,000 4	516,000
Deferred tax liabilities	5,013	-	-	5,013	101,971 4	106,984
	<u>5,013</u>	<u>-</u>	<u>-</u>	<u>5,013</u>		<u>622,984</u>
	<u>653,891</u>	<u>20,480</u>	<u>25,600</u>	<u>679,491</u>		<u>1,268,346</u>

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Unaudited Pro Forma Consolidated Statement of Profit or Loss and Other Comprehensive Income

	The Group	Target Group	Sub-total	Pro forma adjustments	Notes	The Enlarged Group
	For the year ended 30 June 2014	For the year ended 31 December 2014				
	HK\$'000 (Note 1)	RMB'000 (Note 2)	HK\$'000 (Note 2)	HK\$'000	HK\$'000 (Note 3)	HK\$'000
Revenue	272,200	331,734	414,668	686,868		686,868
Cost of sales	(250,802)	(231,546)	(289,432)	(540,234)		(540,234)
Gross profit	21,398	100,188	125,236	146,634		146,634
Other income	4,411	37	46	4,457		4,457
Selling and distribution expenses	(1,542)	-	-	(1,542)		(1,542)
Administrative expenses	(46,171)	(52,842)	(66,052)	(112,223)	(3,516)	(115,739)
				(34,858)	4	(34,858)
Other operating expenses	(19,931)	-	-	(19,931)		(19,931)
Finance costs	-	(147)	(184)	(184)	(36,120)	(36,304)
Loss arising on change in fair value of held-for-trading investments	(731)	-	-	(731)		(731)
Net gain on disposal of subsidiaries	521	-	-	521		521
Gain on further investment in associates	35,710	-	-	35,710		35,710
Share of profit of associates	3,571	-	-	3,571		3,571
(Loss) profit before tax	(2,764)	47,236	59,046	56,282		(18,212)
Income tax (expense) credit	(792)	(12,034)	(15,043)	(15,835)	8,714	(7,121)
(Loss) profit for the year attributable to the owners of the Company	<u>(3,556)</u>	<u>35,202</u>	<u>44,003</u>	<u>40,447</u>		<u>(25,333)</u>
Other comprehensive income for the year, net of tax:						
Items that may be reclassified subsequently to profit or loss:						
Exchange differences on translating foreign operations	7,351	-	-	7,351		7,351
Other comprehensive income for the year, net of tax	<u>7,351</u>	<u>-</u>	<u>-</u>	<u>7,351</u>		<u>7,351</u>
Total comprehensive income (loss) for the year attributable to the owners of the Company	<u>3,795</u>	<u>35,202</u>	<u>44,003</u>	<u>47,798</u>		<u>(17,982)</u>

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Unaudited Pro Forma Consolidated Statement of Cash Flows

	The Group	Target Group	Sub-total	Pro forma adjustments	Notes	The Enlarged Group
	For the year ended 30 June 2014	For the year ended 31 December 2014				
	HK\$'000	RMB'000	HK\$'000	HK\$'000		HK\$'000
	(Note 1)	(Note 2)	(Note 2)	(Note 3)		
Cash flow from operating activities						
(Loss) profit before tax	(2,764)	47,236	59,046	56,282	(3,516)	52,766
					(34,858)	(34,858)
					(36,120)	(36,120)
Adjustment for:						
Interest income	(2,892)	(37)	(46)	(2,938)		(2,938)
Depreciation of property, plant and equipment	4,112	3,536	4,420	8,532	789	9,321
Amortisation of intangible asset	-	-	-	-	34,069	34,069
Finance costs	-	147	184	184	36,120	36,304
Gain on disposal of subsidiaries	(521)	-	-	(521)		(521)
Share of results of associates	(3,571)	-	-	(3,571)		(3,571)
Loss on disposal of property, plant and equipment	1,860	-	-	1,860		1,860
Impairment losses recognised in respect of trade and other receivables	-	35,862	44,827	44,827		44,827
Gain on further investments in associate	(35,710)	-	-	(35,710)		(35,710)
Exchange difference	-	508	635	635		635
Write-off of property, plant and equipment	-	488	610	610		610
Write-off of inventories	17	-	-	17		17
Operating cash flows before movements in working capital	(39,469)	87,740	109,676	70,207		66,691
Decrease in inventories	5,003	119	149	5,152		5,152
Increase in trade, bills and other receivables	(18,484)	(6,020)	(7,524)	(26,008)		(26,008)
Decrease in held-for-trading investments	577	-	-	577		577
Decrease in trade and other payables	(1,581)	(2,480)	(3,100)	(4,681)		(4,681)
Cash (used in) generated from operations	(53,954)	79,359	99,201	45,247		41,731
Hong Kong Profits Tax refunded	78	-	-	78		78
PRC Tax paid	-	(19,490)	(24,363)	(24,363)		(24,363)
Net cash (used in) generated from operating activities	(53,876)	59,869	74,838	20,962		17,446

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

	The Group	Target Group	Sub-total	Pro forma adjustments	Notes	The Enlarged Group
	For the year ended 30 June 2014	For the year ended 31 December 2014				
	HK\$'000	RMB'000	HK\$'000	HK\$'000		HK\$'000
	(Note 1)	(Note 2)	(Note 2)	(Note 3)		
Cash flow from investing activities						
Subscription of First Right Shares in associates	(83,000)	-	-	(83,000)		(83,000)
Net cash outflow from acquisition of subsidiaries	(65,936)	-	-	(65,936)		(65,936)
Advances of loan receivables	(30,291)	-	-	(30,291)		(30,291)
Acquisition of available-for-sale investments	(23,600)	-	-	(23,600)		(23,600)
Acquisition of property, plant and equipment	(5,662)	(4,014)	(5,018)	(10,680)		(10,680)
Proceeds from disposal of property, plant and equipment	109			109		109
Interest received	2,892	37	46	2,938		2,938
Net cash inflow on disposal of subsidiaries	3,152	-	-	3,152		3,152
Repayment of loan receivables	17,960	-	-	17,960		17,960
Dividends received from associates	83,000	-	-	83,000		83,000
Advance to a shareholder	-	(60,102)	(75,128)	(75,128)		(75,128)
Net cash used in investing activities	(101,376)	(64,079)	(80,100)	(181,476)		(181,476)
Cash flow from financing activities						
Proceeds from issue of new shares by way of placing	98,940	-	-	98,940		98,940
Share issue expenses	(2,473)	-	-	(2,473)		(2,473)
Finance costs	-	(147)	(184)	(184)	(6,840)	6
New bank borrowing raised	-	2,384	2,980	2,980		2,980
Repayment of bank borrowing	-	(1,118)	(1,398)	(1,398)		(1,398)
Repayment to a shareholder	-	(20)	(25)	(25)		(25)
Net cash generated from financing activities	96,467	1,099	1,373	97,840		91,000
Net decrease in cash and cash equivalents	(58,785)	(3,111)	(3,889)	(62,674)		(73,030)
Cash and cash equivalents at beginning of year	120,984	8,535	10,669	131,653		131,653
Effect of foreign exchange rate changes	(174)	-	-	(174)		(174)
Cash and cash equivalents at the end of the year	62,025	5,424	6,780	68,805		58,449
Analysis of cash and cash equivalents						
Bank balances and cash	62,025	5,424	6,780	68,805		58,449

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Notes:

1. The financial position of the Group is extracted from unaudited condensed consolidated financial statements of the Group for the six months ended 31 December 2014. The statement of profit or loss and other comprehensive income and statement of cash flows for the year ended 30 June 2014 were extracted from the 2014 annual report of the Group.
2. The financial information of the Target Group is extracted from the accountants' report of the Target Group as set out in Appendix II of this circular and translate from RMB to HK\$ at the exchange rate of RMB1.00=HK\$1.25.
3. The adjustments represent the consolidation of assets, liabilities, income, expenses and other comprehensive income of the Target Group, assuming the Acquisition had taken place and completed on 31 December 2014 for the Unaudited Pro Forma Consolidated Statement of Financial Position and taken place and completed at the commencement of the reporting period for the Unaudited Pro Forma Consolidated Statement of Profit or Loss and Other Comprehensive Income and Unaudited Pro Forma Consolidated Statement of Cash Flow, such that the Target Company had become a wholly-owned subsidiary of the company. The assets and liabilities of the Target Group as at 31 December 2014, the income, expenses and other comprehensive income, and the cash flows of the Target Group for the year ended 31 December 2014 are extracted from the accountants' report of the Target Group, as set out in Appendix II of this circular.
4. The Acquisition will be accounted for under the acquisition method of accounting in accordance with Hong Kong Financial Reporting Standard 3 (Revised) "Business Combinations" issued by Hong Kong Institute of Certified Public Accountants.

For the purpose of the Unaudited Pro Forma Financial Information, the allocation of the purchase price is determined based on the directors' estimates of the fair value of the identifiable assets and liabilities of Target Group as at 31 December 2014.

	<i>HK\$'000</i>
Consideration of Purchaser acquired 100% equity interest of Target Company	
Cash (note c)	68,000
Deposit paid	8,000
Fair value of promissory notes (note a)	<u>516,000</u>
Total consideration	592,000
Less: Fair value of net identifiable assets and liabilities of the Target Group (note b)	<u>(331,514)</u>
Goodwill	<u><u>260,486</u></u>

Notes:

- (a) Fair value of promissory notes

The promissory notes are in the principal amount of HK\$684,000,000 assuming the profit guarantee were met. It carries coupon rate of 1% which is payable at the end of each year since date of issuance. The promissory notes are repayable on the fifth anniversary of the date of issue.

The promissory notes has been measured at the fair value as at 31 December 2014. The fair value of the liability component is determined by discounting the nominal amount of HK\$684,000,000 and the accrued interest at the discount rate of 7% as determined by the Directors with reference to valuation carried out by LCH (Asia-Pacific) Surveyors Limited ("Valuer"), an independent professional valuer not connected to the Enlarged Group. The discount rate is based on the credit rating of the Company and bond yield of comparable companies with similar credit rating.

(b) Fair value adjustment on identifiable assets and liabilities

The fair values of property, plant and equipment and intangible assets of the Target Group are based on directors' estimation with reference to the valuation report date 30 June 2015 issued by Valuer (the "Valuation Report"). As set out in the Valuation Report, the fair values of property, plant and equipment and intangible assets on the measurement date of 31 December 2014 are approximately HK\$28,350,000 and HK\$400,000,000. The corresponding deferred tax liability of approximately HK\$1,971,000 and HK\$100,000,000 respectively are recognised based on the People's Republic of China Enterprise Income Tax rate of 25%.

According to the Valuation Report, the fair value of property, plant and equipment is determined by replacement cost approach and market approach. The replacement cost of non-current asset was determined taking into consideration current equipment prices, transportation cost, installation cost, design and engineering costs and other indirect costs. This was then depreciated using useful life data from reliable sources and adjusted to account for the actual physical condition and obsolescence. In using the market approach, used prices of motor vehicles which was then adjusted to reflect the difference in condition and utility of the motor vehicle being valued with its market comparable. The valuation of intangible asset is based on income approach, multi-period excess earnings method. The multi-period excess earnings method was based on discounted cash flow of the expected future benefits (after deducting the return from other assets) generated from the intangible assets with the discount rate of 21% derived using the capital asset pricing model.

An amount of approximately HK\$7,885,000, being the difference between the fair values of property, plant and equipment of approximately HK\$28,350,000 and the carrying amount of the property, plant and equipment of approximately HK\$20,465,000 equivalent to RMB16,372,000 shown in the consolidated statement of financial position as at 31 December 2014 included in the accountants' report of the Target Group as set out in Appendix II to this circular is adjusted as an increase in fair value in property, plant and equipment. An amount of approximately HK\$789,000 and HK\$197,000 represented the additional depreciation and related deferred tax credit respectively for the year as if the Acquisition had been completed at the commencement of the year.

An amount of approximately HK\$400,000,000, which represents the fair value of customer contracts possessed by the Target Group as determined by the Directors with reference to valuation carried out by the Valuer. The customer contracts are classified as intangible assets which carried at costs less accumulated amortisation and any accumulated impairment losses. Such intangible assets are amortised on a straight-line basis over 8 to 18 years.

An amount of approximately HK\$34,069,000 and HK\$8,517,000 represented the additional amortisation of intangible assets and related deferred tax credit respectively for the year as if the Acquisition had been completed at the commencement of the year.

The fair values of the identifiable assets and liabilities (including but not limited to property, plant and equipment and intangible assets) of the Target Group and the amount of goodwill are subject to change upon the finalisation of the valuation for the Completion Date (the "Final Valuation"), which may be substantially different from their estimated amounts used in the preparation of this Unaudited Pro Forma Financial Information.

For the purpose of the preparation of the Unaudited Pro Forma Financial Information, the directors of the Company have assessed whether the goodwill may be impaired as at 31 December 2014 on a pro forma basis in accordance with Hong Kong Accounting Standard 36 ("HKAS 36") "Impairment

of Assets” and concluded that there is no impairment on the goodwill arising from the Acquisition as at 31 December 2014 based on the management’s assessment on the business plan to be executed and the recoverable amount of the cash generating unit comprising the goodwill with reference to valuation carried out by Valuer. The actual amount of impairment of goodwill arising from the Acquisition at the date of completion may be different from that presented above and the difference may be significant.

The directors of the Company, after concurrence with its auditor, confirm they will apply consistent accounting policies and principal assumptions to assess impairment of goodwill and other intangible assets in subsequent reporting periods in accordance with the requirements under HKAS 36.

(c) Cash consideration

The cash consideration of approximately HK\$68,000,000 was not adjusted to the pro forma statement of cash flows assuming such consideration is paid after the period end.

5. The adjustment represented the estimated outstanding acquisition-related costs of approximately HK\$3,516,000 which would be expensed in profit or loss upon completion of the Acquisition.
6. The adjustment represents the additional finance cost arising from the promissory note issued as if the acquisition has been completed at the beginning of the year.

The additional finance cost, imputed interest of approximately HK\$36,120,000 is calculated by multiplying the promissory note’s fair value HK\$516,000,000 by the effective interest rate of 7%, which is the same as the discount rate as determined per note 4.

The interest paid of approximately HK\$6,840,000 is the 1% coupon payable as if the promissory notes have been issued at the beginning of the year,

7. The adjustment represents elimination of the pre-acquisition reserves of the Target Group of HK\$25,600,000.
8. Apart from the above, no adjustments have been made to the unaudited pro forma consolidated statement of financial position of the Enlarged Group to reflect any trading results or other transactions of the Enlarged Group entered into subsequent to 31 December 2014 where applicable and unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows to reflect any trading results or other transactions of the Enlarged Group entered into subsequent to 31 December 2014 where applicable. Except for the pro forma adjustment 4 relating to the adjustment on depreciation, amortisation and deferred tax and adjustment 6 relating to the adjustment on finance costs which are expected to have continuing impact on the financial performance of the Enlarged Group, other pro forma adjustments to profit or loss and other comprehensive income and statement of cash flows are not expected to have continuing impact on the Enlarged Group’s consolidated financial statements in subsequent years.

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



30 June 2015

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 have completed our assurance engagement to report on the compilation of pro forma financial information of China Natural Investment Company Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) by the directors of the Company for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated statement of financial position as at 31 December 2014, the pro forma consolidated statement of profit or loss and other comprehensive income and pro forma consolidated statement of cash flows and related notes as set out on pages III-1 to III-10 of the investment circular in connection with the proposed acquisition (the “Acquisition”) of the 100% equity interest of Everbest Return Limited (the “Target Company”) (together with the Group hereinafter referred to as the “Enlarged Group”) issued by the Company dated 30 June 2015 (the “Circular”). The applicable criteria on the basis of which the directors of the Company have compiled the pro forma financial information are described on Appendix III of the Circular.

The pro forma financial information has been compiled by the directors of the Company to illustrate the impact of the Acquisition on the Group’s financial information presented. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in Section A above.

Directors' Responsibility for the Pro Forma Financial Information

The directors of the Company are responsible for compiling the pro forma financial information in accordance with paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 31(7) of Chapter 7 of the GEM Rules, on the 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 pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountant comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the directors of the Company have compiled the pro forma financial information in accordance with paragraph 31 of Chapter 7 of the GEM Rules and with reference to AG7.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of the Acquisition on unadjusted financial information of the Group as if the Acquisition had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Acquisition at 31 December 2014 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the pro forma financial information has been properly compiled 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 pro forma financial information as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Rules.

Yours faithfully,

SHINEWING (HK) CPA LIMITED

Certified Public Accountants

Wong Hon Kei, Anthony

Practising Certificate Number: P05591

Hong Kong

The following is the text of a valuation report, prepared for the purpose of inclusion in this circular received from LCH (Asia-Pacific) Surveyors Limited, an independent valuer, in connection with its valuation as at 31 May 2015 of the market value of 100% equity interest in Tai Pu.



利駿行測量師有限公司
LCH (Asia-Pacific) Surveyors Limited
PROFESSIONAL SURVEYOR
PLANT AND MACHINERY VALUER
BUSINESS & FINANCIAL ASSETS VALUER

The readers are reminded that the report which follows has been prepared in accordance with the reporting guidelines set by the International Valuation Standards 2013 and published by the International Valuation Standards Council which entitles the valuer to make assumptions which may on further investigation, for instance by the readers' legal representative, prove to be inaccurate. Any exception is clearly stated below. Headings are inserted for convenient reference only and have no effect in limiting or extending the language of the paragraphs to which they refer. This report is prepared and signed off in English format, translation of this report in language other than English shall only be used as reference and should not be regarded as a substitute for this report. Piecemeal reference to this report is considered to be inappropriate and no responsibility is assumed from our part for such piecemeal reference. Translation of terms in English or in Chinese are for readers' identification purpose only and have no legal status or implication on the report. It is emphasised that the findings and conclusions presented below are based on the documents and facts known to the valuer at the date of this report. If additional documents and facts are made available, the valuer reserves the right to amend this report and its conclusion.

17th Floor
Champion Building
287-291 Des Voeux Road Central
Hong Kong

30 June 2015

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,

In accordance with the instructions given by the present management of China Natural Investment Company Limited (hereinafter referred to as the “Instructing Party”), we have investigated and conducted an agreed-upon procedures valuation of the possible market value of the entire equity interest of 鄂爾多斯市泰普礦業工程有限責任公司 (translated as Ordos City Tai Pu Mining Engineering Company Limited and hereinafter referred to as “Tai Pu”) as at 31 May 2015 (hereinafter referred to as the “Valuation Date”) for the Instructing Party’s internal management reference. Our findings and conclusion in this agreed-upon procedures valuation are documented as follows:

INTRODUCTION

In this appraisal (the word appraisal has the same meaning of valuation in this report), we were instructed to analyse and to express an independent opinion of the possible market value of the entire equity interest of Tai Pu (hereinafter referred to as the “Appraised Asset”) as at the Valuation Date on a going concern basis, and based on documents and information provided by the Instructing Party.

The term “Market Value” is defined by the International Valuation Standards 2013 (hereinafter referred to as the “IVS”) and published by the International Valuation Standards Councils as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

We understand that the Instructing Party will refer our work product (in any form of presentation) as part of its business due diligence, and we have not been engaged to make specific purchase or sales recommendations. We further understand that the Instructing Party will not rely solely on our work, and that the use of our work product will not supplant other due diligence which the Instructing Party should conduct in reaching its decision with regard to the Appraised Asset. It is agreed that our work is designed solely to provide information that will give a reference to the Instructing Party as part of its due diligence process, and our work should not be the only factor to be referenced by the Instructing Party.

At the request of the Instructing Party, we prepared this summary report to summarise our findings and conclusion of value as documented in the valuation report for the purpose of inclusion in this circular at today’s date for the Company’s shareholders’ reference. Terms herein used without definition shall have the same meanings as in the valuation report, and the assumptions and caveats adopted in the valuation report also applied to this summary report.

TAI PU'S PROFILE

Tai Pu is established under the laws of the People's Republic of China (hereinafter referred to as "China" or the "PRC") with limited liability and has a registered capital of RMB 20,000,000. The registered address of Tai Pu is known as at 伊旗納林陶亥鎮 (no English translation). According to a 營業執照 Business License No. 152700000002740 dated 8 April 2014, Tai Pu was established on 7 February 2007, for an operation duration of 20 years. The business scope of Tai Pu is restricted to "礦山建設工程、機電設備安裝、煤炭生產技術服務。(依法須經批准的項目，經相關部門批准後方可開展經營活動。)" (no English translation).

On 18 October 2013, China Natural Investment Company Limited (hereinafter referred to as the "Company") entered into a memorandum of understanding (hereinafter referred to as the "MOU") with Mr. Hu Zhixiong (hereinafter referred to as the "Vendor") in relation to the sale and purchase of not less than 51% of the issued share capital of Tai Pu. The Vendor owns 55% of the issued share capital of Tai Pu and is also a substantial shareholder of the Company.

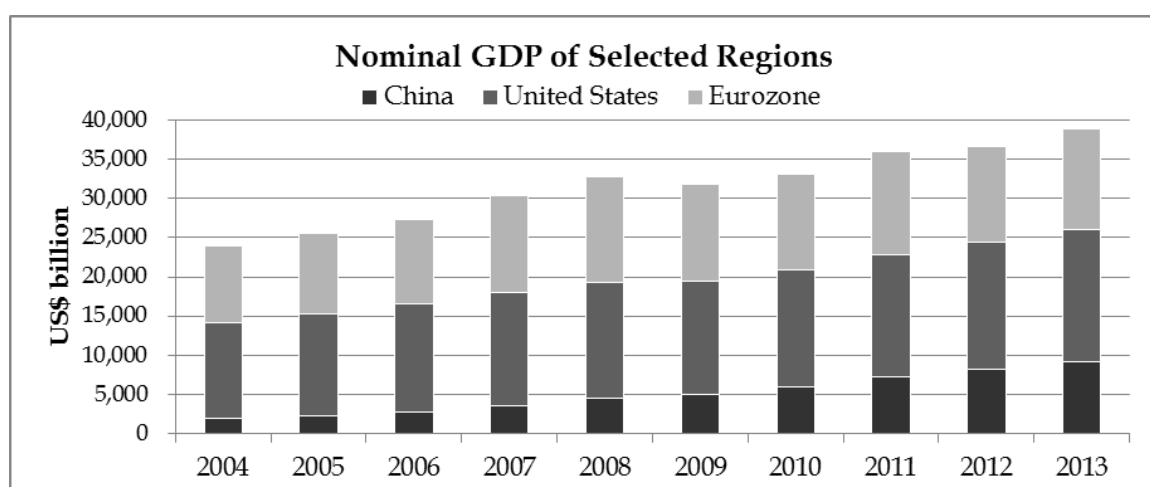
According to the Company's announcements dated 18 October 2013, 17 April 2014, 30 May 2014, 29 September 2014, and 28 November 2014, the Company has expressed an intention to purchase not less than 51% shareholding in Tai Pu from the Vendor and has agreed to enter into the MOU with the intention of further negotiation for a formal sales and purchase agreement for the acquisition of shares of Tai Pu on 18 October 2013.

As advised, Tai Pu is principally engaged in mine construction engineering, exploitation engineering, ground construction and electrical and mechanical equipment installation, etc. Tai Pu is one of the five second-tier mine construction and engineering main contractors in the Inner Mongolia Autonomous Region of the PRC and is the second-tier mine construction and engineering main contractors in the Ordos area. Tai Pu helps its clients to construct the coal mine, manage the production of the coal mine and provide engineering services on client's coal mine, in return, Tai Pu receives management fees from the clients as a contractor to provide the abovementioned services. In other words, Tai Pu is a service company.

INDUSTRY OVERVIEW (SEE NOTE)

Global Economic Overview

In the past decade, the world's Nominal Gross Domestic Product ("Nominal GDP") has risen from approximately US\$42,938 billion in 2004 to approximately US\$74,900 billion in 2013, representing a compound annual growth rate ("CAGR") of over 6%. The aggregate Nominal GDP of China, the Eurozone and the United States ("US") totaled US\$38,790 billion in 2013, accounting for almost 52% of the world's total Nominal GDP. The following chart illustrates the trend of the Nominal GDP of these three regions from 2004 to 2013 while the table below shows their relative weights out of the world total.



Source: Bloomberg

Note:

The information provided in this section relating to the energy and coal industry and market is derived in part or extracted or referred to from various official and unofficial sources. The official sources include various quasi-governmental or world organisation websites (such as World Bank, Hong Kong Trade Development Council). The unofficial sources include information provided by the Instructing Party and its appointed personnel, various websites, newspapers, research reports and journals from various industry practitioners or analysts. We need to state that such official and unofficial information have not been prepared or independently verified by us, and may not be consistent with other information compiled within or outside the industry. Readers are reminded that although the information presented is based on documents and facts known to us when preparing this report, such official and unofficial information may be subject to further updates or amendments by their authors. We reserve the right to revise the report herein if additional information is available. None of our staff involved in preparing this report make any representation as to the correctness or accuracy of such information and accordingly such information should not be unduly relied upon. Readers should conduct his/her due diligence with regard to the correctness and accuracy of such information for his/her own use. Unless otherwise stated, the copyright of the quoted information belongs to the relevant owner.

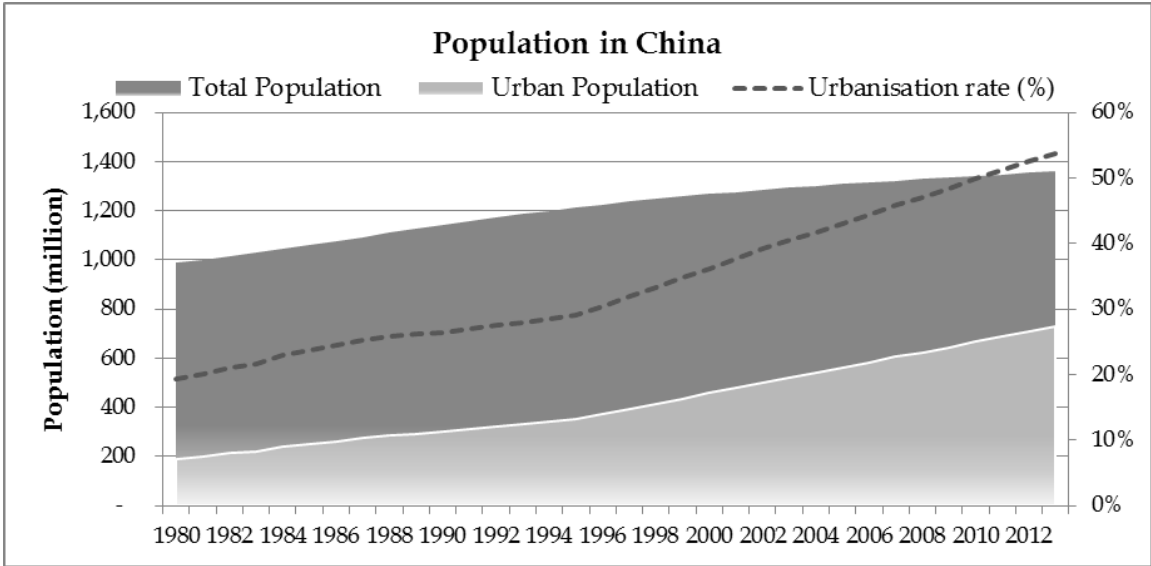
Relative Weights out of World Total Nominal GDP

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Eurozone	23%	22%	21%	22%	22%	21%	19%	18%	17%	17%
US	29%	28%	28%	26%	24%	24%	23%	22%	22%	22%
China	4%	5%	5%	6%	7%	8%	9%	10%	11%	12%

Source: Bloomberg

The Nominal GDP of the Eurozone was recorded at US\$12,750 billion in 2013, and has risen at a CAGR of around 3%, compared to US\$9,785 billion in 2004. The US has exhibited a similar growth pace to the Eurozone in the previous decade. The Nominal GDP of the US has increased by a CAGR of about 3.5%, from US\$12,277 billion in 2004 to US\$16,800 billion in 2013. Nevertheless, with an expansion lagging behind the globe as a whole, both the Eurozone and the US were making up descending weights out of the world Nominal GDP. The Eurozone relative weight has declined from 23% in 2004 to 17% in 2013, while the US portion has dropped from 29% to 22% during the decade. In contrast, China has been gaining importance among the global economies. Despite a mere 4% share at the beginning of the decade, China has experienced an almost threefold increase during the period and accounted for 12% of the world Nominal GDP in 2013. A thriving momentum in its economic growth has been observed. The Nominal GDP of China has expanded significantly from US\$1,932 billion to US\$9,240 billion, implying a CAGR of 19% approximately.

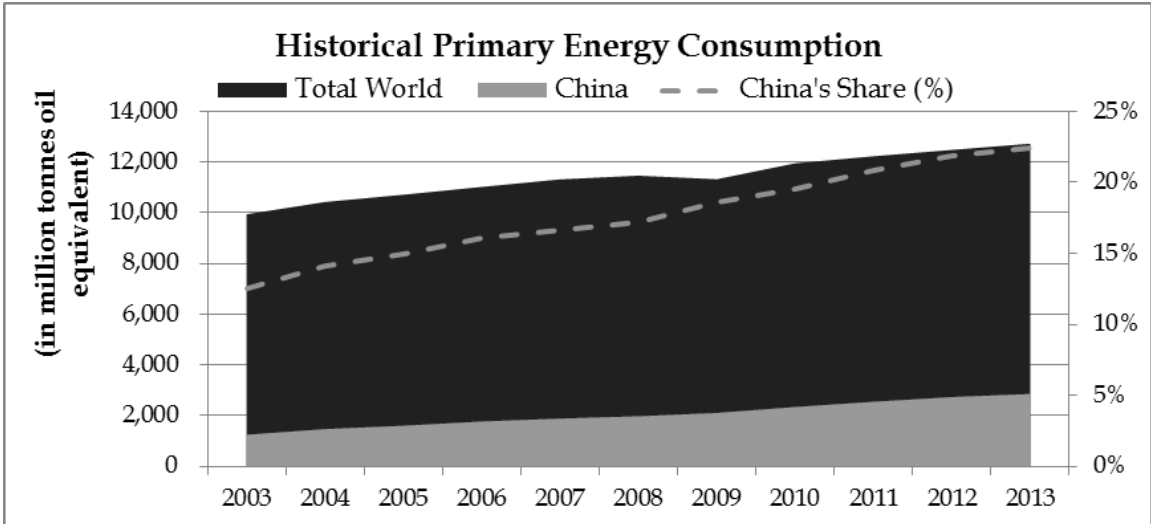
According to the paper “Urbanisation and Green Growth in China” published in 2013 by the Organisation for Economic Co-operation and Development (“OECD”), urbanisation on a massive scale is both cause and consequence of China’s economic dynamism. The following chart depicting the population growth since 1980 reveals that China is in the midst of a period of rapid urbanisation. The urban population has more than tripled, from around 200 million in 1980 to above 700 million in 2013. In the meantime, urbanisation rate has exceeded 53% in 2013, symbolising a remarkable enhancement in contrast with only 19% in 1980. The OECD also expects that the rising urbanisation trend is likely to continue through 2030 and beyond. The urbanisation rate is projected to reach 65% by 2030, which would imply an urban population of 950 million.



Source: National Bureau of Statistics, the PRC

Energy and Coal Market

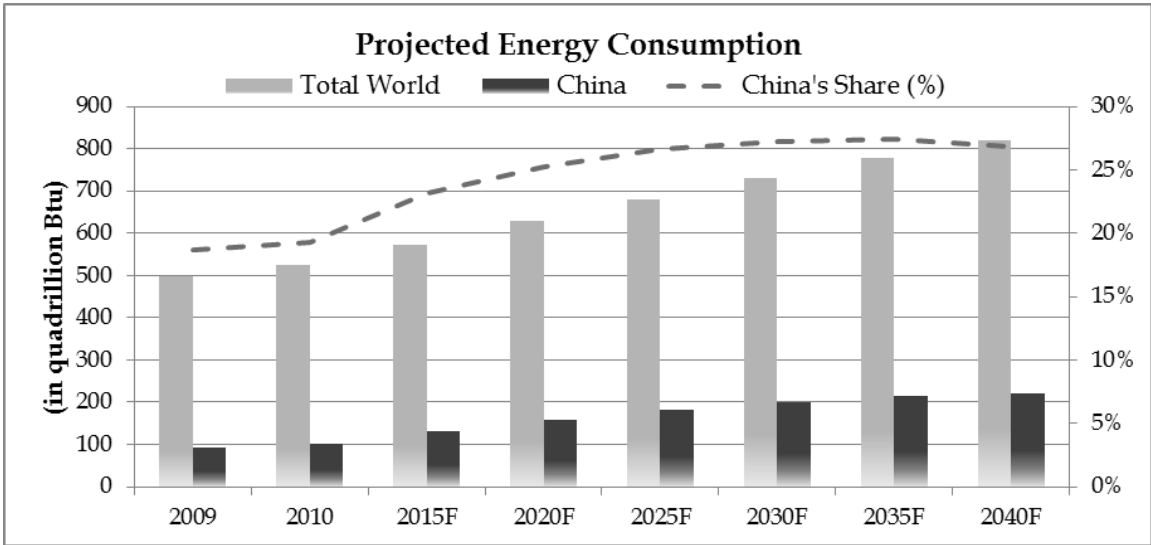
Global energy consumption has increased significantly over the past decades. Economic growth is among the most primary factors which drive the changes in world energy consumption. Starting in 2008, the world experienced its worst recession during the past decades and as a result, global energy consumption decreased in 2009 for the first time since 1982. Since the second half of 2009, the global economy started to recover and global energy consumption began its rebound in 2010. The following chart sets forth the historical primary energy consumption of the world and China in the previous decade. As defined in BP Statistical Review of World Energy June 2014, primary energy comprises commercially traded fuels, including modern renewables used to generate electricity. Global primary energy consumption has grown from 9,944 million tonnes oil equivalent (“toe”) in 2003 to 12,730 toe in 2013, representing a CAGR of roughly 2.5%. In contrast, China’s giant population and its rapidly expanding economy have driven the country’s high overall energy demand and the quest for securing energy resources. Total primary energy consumption in China reached 2,852 million toe in 2013 from 1,245 million toe in 2003, with a CAGR of almost 8.6%.



Source: BP Statistical Review of World Energy June 2014

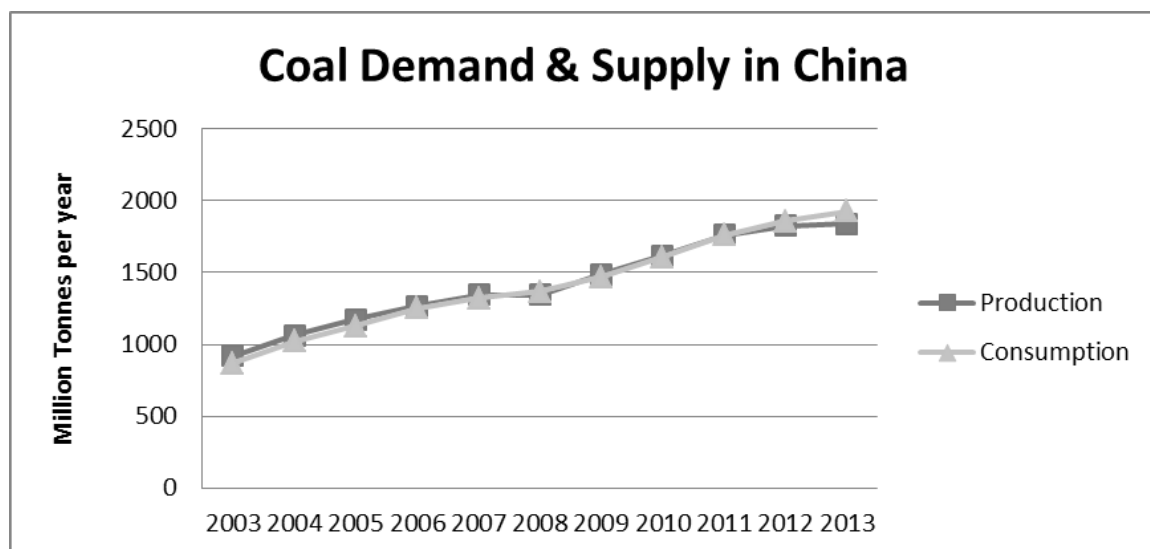
The centre of gravity for world energy consumption continues to shift from the OECD to emerging countries, especially those in Asia, with China alone accounting for nearly a half global energy consumption net growth. According to the US Energy Information Administration (“EIA”), China has quickly risen to the top ranks in global energy demand over the past few years. China is the world’s largest coal consumer and the largest global energy consumer in 2013. In 2003, China only accounted for about 12.5% of the world’s total primary energy consumption, while this figure has soared to over 22% in 2013.

Energy consumption is expected to continue to increase. According to International Energy Outlook 2013 released by EIA, world total primary energy consumption will grow by 56% from 524 quadrillion British thermal units (“Btu”) in 2010 to 820 quadrillion Btu in 2040. In the meantime, China’s total primary energy consumption is expected to rise from 101 quadrillion Btu in 2010 to 220 quadrillion Btu in 2040. The chart at the next page illustrates the projected energy consumption of the world and China.



Source: EIA, International Energy Outlook 2013 – Reference Case

Among all types of fuels, oil continues to be the most important source of energy, representing about 33% of global energy consumption in 2013, followed by coal, natural gas, hydroelectricity, nuclear and renewable energies. According to BP Statistical Review of World Energy June 2014, Coal consumption is the fastest-growing fossil fuel, although it grew by 3% in 2013 and well below the 10-year average of 3.9%. The portion of coal among global primary energy consumption reached 30.1%, the highest since 1970. Worldwide proved coal reserves totalled 891,531 million tonnes at the end of 2013, up 3.55% from the previous year. Such reserves were equal to global production of 113 years of at current production rate of approximately 7889 million tonnes per year. China’s proved coal reserves totalled 114,500 million tonnes at the end of 2013, representing a production phase of 31 years at the current production rates of approximately 3,693 million tonnes per year. Accounting for about 12.8% of the world total proven coal reserves, China has the most significant share in the Asia Pacific context. In terms of coal production, China ranks the first in the world, representing over 47% of worldwide coal production. However, the production growth has not in line with demand growth during past few years. The chart at the next page depicts the coal demand and supply balance in China between 2003 and 2013.



Source: BP Statistical Review of World Energy June 2014

In 2013, China has consumed over 1900 million tonnes oil equivalent, up from about 850 million tonnes oil equivalent in 2003, at a roughly 8% CAGR. China's historical coal consumption growth rate has outpaced that of the world total, which stands at around 4%, spanning this period. Consequently, portion consumed by China out of the world total has experienced a remarkable growth, from about 33% in 2003 to about 50% in 2013.

VALUATION PROCEDURES ADOPTED

In performing the appraisal, we have adopted the following procedures which were agreed with the Instructing Party before the engagement. They were:

- to read the supplied materials and based on the content of the materials such as product information, market condition, financial information and the scale of the going concern of business of Tai Pu to arrive at our opinion. In the course of valuation, we will assume the information that contained in the materials is correct and we will not verify or ascertain the correctness of the information contained in the materials;
- to prepare and submit a list(s) of required document and information regarding to the operation of business of Tai Pu during the course of valuation. The completeness of the valuation depends on the availability of the required information being supplied by the Instructing Party;
- to hold discussions with relevant personnel and to review various accounting and financial documents in order to understand the scope of their assets and their operations;

- to conduct appropriate study in order to obtain necessary industry and market information to support our opinion of value. The extent of research is at our discretion;
- to value the Appraised Asset using the respective standards of value that is most appropriate; and
- to document our findings and conclusion in our appraisal report.

THE BASIS OF VALUATION AND ASSUMPTIONS

The Appraised Asset is valued on the basis of “Market Value” in continued use or as a going concern. The continued use premise assumes that the Appraised Asset will be used for the purpose for which the Appraised Asset was conceived or is currently used. Implicit in this definition is the fact that a hypothetical willing and able buyer would not pay more to acquire the Appraised Asset than he could reasonably expect to earn in the future from an investment in the Appraised Asset.

Our valuation has been made on the assumptions that, as at the Valuation Date,

1. the legally interested party in the Appraised Asset has free and uninterrupted rights to assign the Appraised Asset (a part of or the whole of) for the whole of the unexpired terms as granted under the relevant approvals and any premiums /administrative costs payable have already been fully paid;
2. all the required licenses, certificates, consents, or other legislative or administrative authority from any local, provincial, or national government or private entity or organisation have been or can readily be obtained or renewed on which the valuation contained in our report is based;
3. the legally interested party in the Appraised Asset has adequate working capital to operate the business of Tai Pu (through its operating subsidiaries) in China from time to time;
4. the Appraised Asset can be sold in the market in its existing state without the benefit of a deferred terms contract, joint venture, management agreement or any other similar arrangement which would serve to increase the value of the Appraised Asset;
5. the management of Tai Pu has adopted reasonable and necessary security measures and has considered several contingency plans against any disruption (such as change of government policy and labour dispute) to the normal business of Tai Pu; and

6. the Appraised Asset can be freely disposed and transferred free of all encumbrances for its existing uses in the market to both local and overseas purchasers without payment of any premium to the government.

Should any of the above not be the case, it will have adverse impact to the reported findings and conclusion herein.

FACTORS CONSIDERED IN THE VALUATION

For the purpose of the valuation, the valuation of the Appraised Asset required consideration of a number of pertinent factors affecting Tai Pu's ability to generate future investment returns through its operating subsidiaries. The factors considered in the valuation included, but were not limited to, the following:

- the nature of the Appraised Asset such as the remaining life and its characteristics;
- the nature and the going concern business of Tai Pu;
- the quality of Tai Pu's assets;
- the capability and determination of the management of Tai Pu to renew all the necessary licences, permits and approvals from time to time to make the business of Tai Pu be on-going;
- the capability and determination of the management of Tai Pu to maintain its existing clientele and its favourable working relationship with its suppliers;
- the capability and determination of the management of Tai Pu to continue the existing marketing strategy to maintain and attract customers or potential customers;
- the capability and determination of the management of Tai Pu to continue develop and construct its business;
- the capability and determination of the management of Tai Pu to maintain its existing qualification and management standards and to review/up-lift its standards to catch the market needs from time to time;
- the capability and determination of the management of Tai Pu to trade up-to-date products to catch the market needs;
- the commitment of the management of Tai Pu to protect the Appraised Asset against any disruption of the normal business of Tai Pu;

- the commitment of the management of Tai Pu to maintain a cost effective and stable supply chain of the products to distribute to the customers;
- the economic and industry data affecting Tai Pu and the related in the relevant locality;
- market-derived investment returns in similar nature of entities; and
- the risks facing Tai Pu and the Appraised Asset.

FINANCIAL RATIO ANALYSIS OF TAI PU

Financial statements outline the financial activities of a business, an individual or any other entity. Financial statements are meant to present the financial information of the entity in question as clearly and concisely as possible for both the entity and for readers. The three basic financial statements are (i) balance sheet, which summaries what a firm owns and owes at a point in time; (ii) income statement, which reports on how much a firm earned in a particular period; and (iii) statement of cash flows, which reports on cash inflows and outflows to the firm in a particular period.

Financial ratios express relationships between financial statement items. Although they provide historical data, management can use ratios to identify internal strengths and weaknesses, and estimate future financial performance. There are four basic types of ratios to measure a company's performance, (i) liquidity; (ii) solvency; (iii) profitability; and (iv) efficiency.

Liquidity

The liquidity ratio is aimed to analyse a company's ability to pay off its short-terms obligations. Common liquidity ratios include current ratio and quick ratio. Generally, the higher the ratio is, the larger the margin of safety that a company possesses to cover short-term debts.

	2012	2013	2014
Current Ratio [*]	1.39	2.35	0.94
Quick Ratio [*]	1.39	2.35	0.94

* current ratio is calculated as total current assets/total current liabilities

quick ratio is calculated as (total current assets minus inventories)/total current liabilities

Solvency

Solvency ratios indicate financial stability as they measure a company's debt relative to its assets and equity. The common solvency ratios are debt-to-asset and debt-to-equity.

	2012	2013	2014
debt-to-asset*	–	–	0.01
debt-to-equity*	–	–	0.06

* debt-to-asset is calculated as debts/total assets
debt-to-equity is calculated as debts/total equity

Profitability

Profitability ratios indicate management's ability to convert sales dollars into profits and cash flows. The common ratios are gross margin, operating margin and net income margin.

	2012	2013	2014
Gross margin*	21.10%	24.16%	30.20%
Operating margin*	9.98%	17.22%	14.28%
Net margin*	7.45%	12.87%	10.61%

* gross margin is calculated as (revenue minus cost of goods sold)/revenue
operating margin is calculated as earnings before interest and tax/revenue
net margin is calculated as net income/revenue

Efficiency

Efficiency ratios are typically used to analyse how well a company uses its assets internally. Common ratios include receivable turnover, asset turnover and inventory turnover. The higher the ratio, the more efficient a firm is operating.

	2013	2014
Asset turnover*	2.47	2.59
Receivable turnover*	3.62	4.92
Inventory Turnover*	4,281	3,892

- * asset turnover is calculated as revenue/average total assets
 receivables turnover is calculated as revenue/average accounts receivables
 inventory turnover is calculated as cost of goods sold/average inventory

ESTABLISHMENT OF TITLES

For the purpose of this valuation, the Instructing Party was requested to provide us the necessary documents to support that the legally interested party in the Appraised Asset has free and uninterrupted rights to assign the Appraised Asset (in this instance, an absolute title) free of all encumbrances and any premiums payable have already been paid in full or outstanding procedures have been completed. However, our procedures to value as agreed with the Instructing Party did not require us to conduct legal due diligence on the legality and formality on the way that the legally interested party obtained the Appraised Asset. We agreed with the Instructing Party that this should be the responsibility of the legal advisor to the Instructing Party. Thus, no responsibility or liability is assumed from our part to the origin and continuity of the titles and the rights to the Appraised Asset.

We have been provided with the PRC legal opinion dated 30 June 2015 (the “Legal Opinion”) issued by Commerce & Finance Law Offices, the Company’s legal adviser in the PRC, regarding the operation of Tai Pu in the PRC. We have been provided with various copies of title documents regarding the Appraised Asset. However, we have not inspected the original documents to verify ownership or to verify any amendment which may not appear on the copies handed to us. We are not legal professionals, thus we are unable to ascertain the titles and to report any encumbrances that may be registered against the Appraised Asset. No responsibility and liability is assumed in relation to those opinions or copies of documents.

In our valuation, we have assumed that the legally interested party in the Appraised Asset has obtained all the approval and/or endorsement from the relevant authorities, and that there would have no legal impediment (especially from the regulators) for the legally interested party to continue the ownership in the Appraised Asset. Should this not be the case, it will affect our conclusion in this report significantly. The readers are reminded to have their own legal due diligence work on such issues. No responsibility or liability is assumed.

APPROACH TO VALUE

In the process of valuation, we have considered the three generally accepted business enterprise appraisal approaches to value, namely, the Asset-based Approach, the Income Approach, and the Market Approach.

The Asset-based Approach

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 enterprise and equals to the value of its invested capital (equity and long-term debt). In other words, the value of the business enterprise is represented by the money that has been collected to purchase the business assets needed. This money comes from investors who buy stocks of the business enterprise (equity) and investors who lend money to the business enterprise (debt). After collected the total amount of money from equity and debt, and converted into various types of assets of the business enterprise for its operation, their sum equals to the value of the business enterprise.

From a valuation perspective, the valuer will restate the value of all types of assets of a business enterprise from book value i.e. historical cost minus depreciation to appropriate standards of value. After the restatement, the valuer can identify the indicated value of the business enterprise, or, by applying the accounting principle “assets minus liabilities” to arrive at the value of the equity interests of the business enterprise. The former is known as Asset Accumulation Method and the latter known as Adjusted Net Asset Method though they are identically the same. There is another method known as Excess Earning Method which is a collective valuation of all intangible assets as a group by capitalised returns over and above a reasonable rate of return on tangible assets and adding the capitalised value of intangibles plus the estimated value of tangible assets to become the value of a business enterprise. However, some practitioners prefer to classify this method as a hybrid method for it combines asset value with a capitalised earnings component.

Due to the fact that Tai Pu is not asset rich, this approach is considered not appropriate in this assessment.

The Income Approach

The Income Approach focuses on the economic benefits generated by the income-producing capability of a business enterprise. The underlying theory of this approach is that the value of a business enterprise can be measured by the present worth of the economic benefits to be received over the useful life of the business enterprise. Based on this valuation principle, the Income Approach estimates the future economic benefits and discounts these benefits to its present value using a discount rate suitable for the risks associated with realising those benefits. Alternatively, this can be calculated by capitalising the economic benefits to be received in the next period at an appropriate capitalisation rate. This is subject to the assumption that the business enterprise has been maintaining stable economic benefits and growth rate. The core idea under this approach is that a rational buyer normally will purchase an asset only if the present value of the expected economic benefits is at least equal to the purchase price. Likewise, a rational seller normally will not sell if the present value of the expected economic benefits is more than the selling price. Thus, a sale generally will occur at an amount equal to the economic benefits of the asset being valued.

Due to the fact that the mining service contracts of Tai Pu are short term in nature and subject to renewal for every one to two years, the application of the Income Approach requires more judgment and assumptions on projection of future financial results, this approach is considered not appropriate in this assessment.

The Market Approach

The Market Approach is basically a comparison method to value a business enterprise by comparison to the prices at which other similar business nature companies or interests changed hands in arm's-length transactions. The underlying theory of this approach is one would not pay more than one would have to pay for an equally desirable alternative. Therefore, the valuer will seek valuation guidance for valuation indication from the prices of other similar companies or equity interests in companies that were sold recently. The right transactions used in analysing for valuation indication need to be sales on 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. Then, multiples (i.e. financial ratios) are derived based on those transactions to apply to the fundamental financial variables of the subject business enterprise and further arrive at an indicated value of the subject business enterprise.

There are two methods of the Market Approach known as the Guideline Publicly Traded Company Method (by using similar company daily stock transaction prices) and the Guideline Merged and Acquired Company Method. Both methods need to rely on analysing available similar transacted comparables, and the big difference is on the structure of transactions - daily stock transaction prices in public market or mergers and acquisitions as occurred. In most cases, finding good market comparables is often difficult (particularly for those mergers and acquisitions) for there is no single marketplace where similar assets change hands between buyers and sellers, who are well informed and have no special motivations or compulsions to buy or to sell, are recorded.

To the best of our knowledge, we are not aware that there were any of transactions of similar companies in China around the Valuation Date. Under such circumstances, we have not relied on the Guideline Merged and Acquired Company Method in our estimate of the market value of the Appraised Asset due to insufficient supporting data (market-based transactional information in this instance).

We then moved to the Guideline Publicly Traded Company Method. The use of this method is considered by the market as final arbiter of value for the prices of guideline publicly traded companies are easily available and observed, disregard direct or proxy, from the public domains or mass media or the local stock exchange as of the relevant date. There will have sufficient data for each guideline company to analysis for the statutory requirement of filings of accounting books and records to the regulators. Because of that, it is a method widely used by financial analysts, fund managers and investors to value a company in a developed economy.

As such, the Guideline Publicly Traded Company Method under the Market Approach is considered as the most appropriate method to arrive at the value of the Appraised Asset.

We noticed that there are several listed companies with business similar to Tai Pu in Asian developing countries, such as China, India and Indonesia. The comparable companies provide equipment support services, technical and consultation services related to mining activities, including general surveying, exploration, exploitation, production, transportation, and marketing. Since Tai Pu is a mine construction and engineering contractor, the comparable companies were considered comparable to Tai Pu in terms of business operation.

Company (Stock code)	P/E	EV/ EBITDA
Tian Di Science and Technology Co., Ltd (600582 CH)	32.2	22.9
Linzhou Heavy Machinery Group Co., Ltd (002535 CH)	349.5	50.6
MOIL Ltd (MOIL IN)	17.9	3.0
Coal India Limited (COAL IN)	24.8	10.7
PT Tambang Batubara Bukit Asam Tbk (PTBA IJ)	11.9	7.5

Source: Bloomberg

After removing the outliers, market ratios adopted are as follows,

P/E	25
EV/EBITDA	11

Based on Tai Pu's consolidated financial statements as at 31 December 2014 provided by the Instructing Party, there was an impairment on accounts receivables of approximately RMB35.9 million. We were further advised that among which about RMB25.1 million was attributable to accounts receivables in 2013. In our valuation, impairment on accounts receivables of about RMB10.8 million has been taken into account in the valuation, and the annual realised profit in 2014 has been adopted in applying the comparable valuation method.

In the valuation, the latest audited financial results for the year ended 31 December 2014 were adopted. As the historical financial multiples were used, the future unrealised profits potentially generated from the new mining construction contracts were not taken into account.

Based on the above, the equity value (before adjustment for liquidity discount), by using equal weighting of these ratios, can be derived as follow,

RMB'000

Ratios	Financial**		Enterprise Value	Equity Value*
	Data	Ratios		
P/ E	49,097	25	-	1,227,433
EV/EBITDA	69,564	11	765,209	769,367
			Average:	998,400

* The figures may not add to total due to rounding

** 2014 annual income adjusted for other income and gains and impairment of accounts receivables

VALUATION COMMENTS

By definition, ownership interests in closely held companies are typically not readily marketable, and, by definition not as liquid and as easily converted to cash compared to similar interests in the public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company. Since the Appraised Asset is a privately held company, thus, a lack of liquidity discount (25%) has been considered in our valuation. (SEE NOTE)

MATTERS THAT MIGHT AFFECT THE VALUE REPORTED

No allowance has been made in our valuation for any charges, mortgages, outstanding premium or amounts owing on the Appraised Asset. Also, no allowance has been made in our valuation for any expenses or depreciation or taxation, which may be incurred in effecting a sale of the Appraised Asset. Unless otherwise stated, it is assumed that the Appraised Asset is free from all encumbrances, restrictions, and outgoings of an onerous nature which could affect its value.

In our valuation, we have assumed that the Appraised Asset is able to sell and purchase in the market without any legal impediment (especially from the regulators). Should this not be the case, it will affect the reported value significantly. The readers are reminded to have their own legal due diligence work on such issues. No responsibility or liability is assumed.

Note: The discount rate for lack of liquidity was based on the difference in consideration between historical merger and acquisitions of publicly traded and private companies, published in Mergerstat Review 2014 by Factset Mergerstat.

As at the date of this report, we are unable to identify any adverse news against the Appraised Asset or each of the operating unit of Tai Pu which may affect the reported value in our report. Thus, we are not in the position to report and comment on its impact (if any) to the Appraised Asset. However, should it be established subsequently that such news did exist as at the Valuation Date, we reserve the right to adjust the value reported herein.

INSPECTIONS AND INVESTIGATIONS

At the representation of the appointed personnel of the Instructing Party, we have conducted a limited scope inspection to the business operating unit of Tai Pu. The purpose of our inspection is not to do any audit work or to create an inventory list, rather to have better understanding of the business operation of Tai Pu. We have not inspected those parts of the premises which were covered, unexposed, not being arranged or inaccessible and such parts have been assumed to be in reasonable condition. No structural survey, investigation, test or examination has been made, but in the course of our inspections we did not note any serious defects in the premises. No tests were carried out to the services (if any) and we are unable to identify those services covered, unexposed or inaccessible.

If there is a third party other than the legally interested party in the Appraised Asset proposing to acquire the Appraised Asset and wants to satisfy them as to its condition and status, then the third party should obtain a relevant detailed due diligence work and report of their own before deciding whether or not to enter into an agreement for sale and purchase.

We have not carried out on-site measurements to verify the correctness of the areas or specifications of the premises. No responsibility is assumed.

Our engagement and the agreed procedures to value did not include an independent land survey to verify the legal boundaries of the premises occupied by Tai Pu. We need to state that we are not in the land survey profession, therefore, we are not in the position to verify or ascertain the correctness of the legal boundaries of the areas that appeared on the documents handed to us. No responsibility from our part is assumed. The Instructing Party or interested party in the premises should conduct their own legal boundaries due diligence work.

We are not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on the premises and which may draw attention to any contamination or the possibility of any such contamination.

SOURCES OF INFORMATION AND ITS VERIFICATION

For the purpose of valuing the Appraised Asset, we were furnished with various latest financial documents, projections and other documents related to Tai Pu. These data have been utilised without further verification like an auditor. We have had no reason to doubt the truth and accuracy of the information that we have been furnished. No responsibility or liability is assumed for the accuracy of the provided information.

We have relied solely on the information provided by the Instructing Party or the appointed personnel of the Company without further verification and have fully accepted advice given to us on such matters as planning approvals or statutory notices, titles, easements, financial data, corporation status, business scope, assets and all other relevant matters.

Unless otherwise stated, the study of possible alternative business development options and the related economics do not come within the scope of our report.

We are not contracted to conduct a due diligence to review the mining industry in China. In the course of appraisal, we have solely depended on the advice given by the Instructing Party or its appointed personnel. We are unable to accept any responsibility or liability for the reliability of the advice.

Our procedures to value did not include preparing an error free asset list for the purpose of our valuation. In our valuation, we were instructed to rely on the information as contained in the balance sheet provided by the Instructing Party or its appointed personnel, thus, we expressed no comment to the existence and the functional ability of the assets. No responsibility or liability is assumed from our part.

Information furnished by others, upon which all or portions of our report are based, is believed to be reliable but has not been verified in all cases. Our procedures to value or work do not constitute an audit, review, or compilation of the information provided. Thus, no warranty is made nor liability assumed for the accuracy of any data, advice, opinions, or estimates identified as being furnished by others which have been used in formulating our report.

When we adopted the work products from other named or unnamed professions, external data providers and/or the Instructing Party in our valuation, the assumptions and caveats adopted by them in arriving at their opinions also applied in our valuation. The procedures we have taken do not require us to examine all the evidences, like an auditor, in reaching at our opinion. As we have not performed an audit, we are not expressing an audit opinion in our valuation.

We are unable to accept any responsibility for the information that has not been supplied to us by the Instructing Party. We have sought and received confirmation from the Instructing Party that no material factors have been omitted from the information supplied. Our analysis and valuation are based upon full disclosure between us and the Instructing Party of material and latent facts that may affect the appraisal.

Unless otherwise stated, all monetary amounts are in Renminbi Yuan (“RMB”).

LIMITING CONDITIONS

Our opinion of value in this report is valid only for the stated purpose and only for the Valuation Date, and for the sole use of the Instructing Party. We or our personnel shall not be required to give testimony or attendance in court or to any government agency by reason of this report, and we accept no responsibility whatsoever to any other person.

No responsibility is taken for changes in market conditions and no obligation is assumed to revise this report to reflect events or change of government policy or financial condition or other conditions, which occur subsequent to the date hereof.

Neither the whole nor any part of this report or any reference made hereto may be included in any published documents, circular or statement, or published in any way, without our written approval of the form and context in which it may appear. Nonetheless, we consent to the publication of this summary report in this circular for the Company’s shareholders’ reference.

No action or proceedings for any breach of this engagement shall be commenced against us after the expiry of three years from completion of our services.

Our liability for loss or damage shall be limited to sum as we ought reasonably to pay having regard to our responsibility for the same on the basis that all other consultants and specialists, shall where appointed, be deemed to have provided to the Instructing Party contractual undertakings in respect of their services and shall be deemed to have paid to the Instructing Party such contribution as may be appropriate having regard to the extent of their responsibility for such loss or damage.

Our liability for any loss or damage arising out of the action or proceedings aforesaid shall, notwithstanding the preceding provisions, in any event be limited to such sum not exceeding the charges paid to us for the portion of services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, loss of profits, opportunity cost etc.), even if it has been advised of their possible existence.

For the avoidance of doubt our liability shall never exceed the lower of the sum calculated in accordance with the preceding provisions and the sum provided for in this clause.

It is agreed that the Instructing Party and the Company are required to indemnify and hold us and our personnel harmless from any claims, liabilities, costs and expenses (including, without limitation, attorney's fees and the time of our personnel involved) brought against, paid or incurred by us at a time and in any way based on the information made available in connection with our engagement except to the extent any such losses, expenses, damages or liabilities are ultimately determined to be the result of gross negligence, misconduct, willful default or fraud of our engagement team in conducting its work. This provision shall survive even after the termination of this engagement for any reason.

OPINION OF VALUE

Based on the above, and on the appraisal method employed, it is our opinion that as of the Valuation Date, the possible market value of the entire equity interest of Tai Pu (before taking into consideration any transaction cost) was reasonably stated by the amount of **RENMINBI SEVEN HUNDRED AND FIFTY MILLION YUAN ONLY (RMB 750,000,000)**.

STATEMENTS

Our opinion of value is based on generally accepted appraisal procedures and practices that rely extensively on assumptions and considerations, not all of which can be easily quantified or ascertained exactly. While we have exercised our professional judgement in arriving at the appraisal, the readers are urged to consider carefully the nature of such assumptions which are disclosed in our report and should exercise caution in interpreting our report.

Our valuation is prepared in line with the reporting guidelines as contained in the IVS. The valuation has been undertaken by valuer, acting as external valuer, qualified for the purpose of the valuation.

We retain a copy of our report together with the data provided by the Instructing Party for the purpose of this assignment, and these data and documents will, according to the Laws of Hong Kong, be kept for a period of 6 years from the date of our report and to be destroyed thereafter. We considered these records confidential, and we do not permit access to them by anyone, with the exception for law enforcement authorities or court order, without the Instructing Party's authorisation and prior arrangement made with us. Moreover, we will add the Company's information into our client list for our future reference.

We hereby certify that the fee for this service is not contingent upon our conclusion of value and we have no present or prospective interest in the Appraised Asset, the Company or the value reported.

Yours faithfully,

For and on behalf of

LCH (Asia-Pacific) Surveyors Limited

Elsa Ng Hung Mui *BSc MSc RPS(GP)*

Director

Contributing Valuers:

Ivan Chan Chun Ting *BSc*

Thomas Tse Hung Kit *BBA*

A. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Set out below is the management discussion and analysis of the Group extracted from the annual reports of the Company for each of the three years ended 30 June 2012, 2013 and 2014 and the interim report of the Company for the six months ended 31 December 2014. Terms used below shall have the same meanings as defined in the aforesaid reports.

For the year ended 30 June 2012***Financial Review***

For the Year, the Group recorded revenue of approximately HK\$57,245,000, representing an increase of 36.6% compared with the previous year.

Gross profit for the Year was approximately HK\$25,160,000, representing an increase of 31.5% compared with the previous year.

Basic loss per share for the Year was HK1.3 cents (2011: HK0.3 cents).

Loss attributable to owners of the Company for the Year was approximately HK\$16,181,000 (2011: HK\$1,907,000). Such loss was mainly due to losses arising on (i) change in fair value of held-fortrading investments; and (ii) increases in administrative and operating expenses of the Group.

The Board does not recommend the payment of final dividend for the Year.

Review of Operations

The Group's revenue represents revenue arising on three main segments of business, namely (i) provision of diagnostic testing and healthcare services, manufacturing and sale of pharmaceutical products; (ii) provision of advertising and public relations services; and (iii) property investment.

During the Year, revenue from provision of diagnostic testing and healthcare services, manufacturing and sale of pharmaceutical products and provision of advertising and public relations services were approximately HK\$25,223,000 and HK\$26,030,000 respectively.

For the Year, the property and asset investments markets enjoyed strong growth. The Group recorded rental income generated by its investment properties of approximately HK\$5,993,000 and enjoyed valuation gains from the investment properties of approximately HK\$21,866,000.

Due to the economic uncertainties over the global market during the Year, the Group recorded a loss from change in fair value of held-fortrade investments of approximately HK\$13,361,000.

Liquidity and Financial Resources

As at 30 June 2012, the Group held cash and bank balances of approximately HK\$32,847,000 (2011: HK\$68,900,000). Net current assets amounted to approximately HK\$103,314,000 (2011: HK\$109,698,000).

As at 30 June 2012, current ratio (defined as total current assets divided by total current liabilities) was approximately 12.54 times (2011: 8.37 times). Gearing ratio (expressed as the ratio of total liabilities over total assets) was approximately 0.03 (2011: 0.05).

The Group did not have any bank or other borrowings as at 30 June 2012 (2011: Nil).

Capital Structure

As at 30 June 2012, total equity attributable to owners of the Company was approximately HK\$313,138,000 (2011: HK\$291,965,000).

Pursuant to an underwriting agreement entered into between the Company and Kingston Securities Limited on 28 February 2012, the Company has raised approximately HK\$38,800,000 before expenses by way of an open offer of 554,167,446 offer shares of the Company (the “Offer Share(s)”) at a price of HK\$0.07 per Offer Share on the basis of one Offer Share for every two existing shares of the Company held on the record date, being 21 March 2012 (the “Open Offer”). The Open Offer was completed in April 2012.

On 9 May 2012, the Company entered into a share placing agreement with Kingston Securities Limited (the “Placing Agent”), pursuant to which the Company has conditionally agreed to place through the Placing Agent on a best effort basis, a maximum of 1,000,000,000 placing shares (the “Placing Share(s)”) to not less than six independent placees at the placing price of HK\$0.05 per Placing Share (“Share Placing”). The net proceeds from the Share Placing will, if fully placed, be approximately HK\$48,200,000.

On 9 May 2012, the Company also entered into a convertible notes placing agreement with the Placing Agent, pursuant to which the Placing Agent has conditionally agreed to place the convertible notes (“Convertible Notes”) in the maximum aggregate principal amount of HK\$100,000,000 to independent placee(s) on a best effort basis (“CN Placing”). The Convertible Notes will carry a right

to convert into conversion shares of the Company (the “Conversion Share(s)”) at the conversion price of, subject to adjustment, HK\$0.05 (“Conversion Price”) per Conversion Share. Upon full conversion of the Convertible Notes at the Conversion Price, a total of 2,000,000,000 Conversion Shares will be issued. The net proceeds from the CN Placing will, if fully placed, be approximately HK\$96,500,000.

The ordinary resolutions for the Share Placing and the CN Placing were duly passed by the Company’s shareholders at an extraordinary general meeting held on 30 July 2012. The Share Placing and the CN Placing are subject to, among others, the granting of the listing of and permission to deal in the Placing Shares and the Conversion Shares, by the Stock Exchange.

Details of both the Share Placing and the CN Placing were disclosed in the announcement of the Company dated 15 May 2012.

Exchange Exposure

Most of the trading transactions, assets and liabilities of the Group were denominated in Hong Kong dollars. It is the Group’s policy for its operating entities to operate in their corresponding local currencies to minimise currency risks. The Group had an insignificant exchange risk exposure since the principal businesses were conducted and recorded in Hong Kong dollars during the Year.

Significant Investments, Acquisitions and Disposal

- (i) A sale and purchase agreement dated 23 April 2012 was entered into between an independent third party and Fairy Empire Investment Limited, a wholly-owned subsidiary of the Company, in relation to the sale and purchase of 1 ordinary share of US\$1.00 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. Details of the transaction were disclosed in the announcement of the Company dated 23 April 2012. The completion took place on 24 April 2012.
- (ii) On 7 May 2012, the Group, as the purchaser, entered into an acquisition agreement with independent third parties, as the vendors, to acquire the entire issued share capital of Sino-Mongolia Fluorspar Mining Co. Ltd, which is principally engaged in the exploration, exploitation, processing and trading of fluorites, at a total consideration of HK\$148,000,000 (subject to adjustments) (the “Acquisition”). The Acquisition constituted a major transaction for the Company under the GEM Listing Rules and is subject to, among others, reporting,

announcement and shareholders' approval in an extraordinary general meeting of the Company. Details of the Acquisition were disclosed in the announcement of the Company dated 15 May 2012. As at the date of this report, the Acquisition has not been completed.

Capital Commitment

As at 30 June 2012, the Group had no significant capital commitment.

Pledge of Assets

As at 30 June 2012, none of the assets of the Group were pledged as security for any banking facilities.

Employee Information

As at 30 June 2012, there were 109 staff members (2011: 129) employed by the Group.

The Group remunerates its employees mainly based on industry practices and their respective educational background, experience and performance. On top of the regular remuneration and discretionary bonus, share options may be granted to selected employees by reference to the Group's performance as well as individual's performance. In addition, each employee enjoys mandatory provident fund, medical allowance and other fringe benefits.

Contingent Liabilities

As at 30 June 2012, the Group had no significant contingent liabilities.

For the year ended 30 June 2013***Financial Review***

For the Year, the Group recorded revenue from continuing operations of approximately HK\$44,203,000 (2012: HK\$51,252,000), representing a decrease of 13.75% compared with the previous year. The gross profit from continuing operations for the Year was approximately HK\$14,322,000 (2012: HK\$19,540,000), representing a decrease of 26.70% compared with the previous year.

Basic earnings per share attributable to owners of the Company for the Year was HK0.4 cent (2012: basic loss per share of HK1.3 cents).

Profit attributable to owners of the Company for the Year was approximately HK\$11,683,000 (2012: loss of approximately HK\$16,181,000). The significant improvement was mainly due to gains arising from (i) change in fair value of held-for-trading investments; (ii) share of profits of associates; and (iii) disposal of discontinued operation.

The Board does not recommend the payment of final dividend for the Year.

Review of Operations

The Group's revenue represents revenue arising from two major segments of business, namely (i) provision of diagnostic testing and healthcare services, manufacturing and sale of pharmaceutical products; and (ii) provision of advertising and public relations services.

During the Year, revenue from provision of diagnostic testing and healthcare services, manufacturing and sale of pharmaceutical products and provision of advertising and public relations services were approximately HK\$22,351,000 and HK\$21,852,000 respectively.

Liquidity and Financial Resources

As at 30 June 2013, the Group held cash and cash equivalents of approximately HK\$120,984,000 (2012: HK\$32,847,000). Net current assets amounted to approximately HK\$206,629,000 (2012: HK\$103,314,000).

As at 30 June 2013, current ratio (defined as total current assets divided by total current liabilities) was approximately 34.72 times (2012: 12.54 times). Gearing ratio (expressed as the ratio of total liabilities over total assets) was approximately 0.01 (2012: 0.03).

The Group did not have any bank or other borrowings as at 30 June 2013 (2012: Nil).

Capital Structure

As at 30 June 2013, total equity attributable to owners of the Company was approximately HK\$472,611,000 (2012: HK\$313,138,000).

On 30 November 2012, a total of 1,000,000,000 new shares of HK\$0.05 each was issued at the issue price of HK\$0.05 per share, pursuant to the share placing agreement entered into between the Company and the placing agent on 9 May 2012.

On 18 March 2013, principal amount of HK\$40,000,000 owed to the holder of the convertible note was converted to shares of the Company, resulting in the issue of 800,000,000 new shares of the Company of HK\$0.05 each, at the conversion price of HK\$0.05 per conversion share, pursuant to the convertible note placing agreement entered into between the Company and the placing agent on 9 May 2012.

On 2 May 2013, the remaining outstanding principle amount of HK\$60,000,000 owed to the holder of the convertible note was fully converted to shares of the Company, resulting in the issue of 1,200,000,000 new shares of HK\$0.05 each, at the conversion price of HK\$0.05 per conversion share, pursuant to the convertible note placing agreement dated 9 May 2012.

Exchange Exposure

Most of the trading transactions, assets and liabilities of the Group were denominated in Hong Kong dollars. It is the Group's policy for its operating entities to operate in their corresponding local currencies to minimise currency risks. The Group had an insignificant exchange risk exposure since the principal businesses were conducted and recorded in Hong Kong dollars during the Year.

Significant Investments and Acquisitions

(a) Disposal of a Subsidiary

In July 2012, the Group disposed of its entire equity interest in Core Medical Technology Limited to an independent third party at a cash consideration of HK\$360,000.

(b) Acquisition of an Investment Property

In August 2012, the Group acquired an investment property situated in Hong Kong from an independent third party at a cash consideration of HK\$6,600,000.

(c) Very Substantial Disposal and Very Substantial Acquisition (“Transactions”)

On 9 September 2012, the Company announced that a sale and purchase agreement (the “SP Agreement”) dated 7 September 2012 was entered into between Chemosino International Limited (“CN BVI”) (a directly wholly-owned subsidiary of the Company), as vendor, and Town Health Asset Management Limited (“TH Property Holding”), as purchaser. Pursuant to the SP 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. The Transactions constitute a very substantial disposal and a very substantial acquisition on the part of the Company under the GEM Listing Rules, and was completed on 10 December 2012.

Pursuant to the SP Agreement, TH Property Holding had granted the first right (“First Right”) in favour of the Group to subscribe for new shares of TH Property Holding if TH Property Holding proposed to raise fund by issue of new shares of TH Property Holding within a period of two years commencing from the completion date of the transactions at the aggregate consideration of a maximum of HK\$100,000,000, which shall be effected by the giving of a funding notice by TH Property Holding to the Group.

On 15 May 2013, the Group received a funding notice from TH Property Holding indicating its intention to raise fund in the amount of HK\$17,000,000 (“Subscription Consideration”) by way of issue of 17 ordinary shares (“First Right Shares”) of HK\$1.00 each. On 16 May 2013, the Group issued an exercise notice to TH Property Holding to notify that it would exercise the First Right to subscribe for the First Right Shares at the Subscription Consideration stated in the funding notice and the completion of subscription took place on 16 May 2013. Immediately following the completion of the subscription, the Group’s shareholdings in TH Property Holding was increased to approximately 26.39% by the Group.

Capital Commitment

As at 30 June 2013, the Group had no significant capital commitment.

Pledge of Assets

As at 30 June 2013, none of the assets of the Group were pledged as security for any banking facilities.

Employee Information

As at 30 June 2013, there were 86 staff members (2012: 109) employed by the Group.

The Group remunerates its employees mainly based on industry practices and their respective educational background, experience and performance. On top of the regular remuneration and discretionary bonus, share options may be granted to selected employees by reference to the Group's performance as well as individual's performance. In addition, each employee enjoys mandatory provident fund, medical allowance and other fringe benefits.

Contingent Liabilities

As at 30 June 2013, the Group had no significant contingent liabilities.

For the year ended 30 June 2014

Financial Review

For the Year, the Group recorded revenue from continuing operations of approximately HK\$272,200,000 (2013: HK\$44,203,000), representing an increase of 516% compared with the previous year. The substantial increase in revenue was mainly contributable to the new business commenced during the Year, which includes (i) processing and trading of fluorite products and (ii) trading of other mineral products. The gross profit from continuing operations for the Year was approximately HK\$21,398,000 (2013: HK\$14,322,000), representing an increase of 49.4% compared with the previous year.

Basic loss per share attributable to owners of the Company for the Year was HK0.07 cent (2013: basic earnings per share HK0.4 cent).

Loss attributable to owners of the Company for the Year was approximately HK\$3,556,000 (2013: Profit of HK\$11,683,000). The significant decrease was mainly due to the fact that no more profit was recognised from the discontinued operation for the Year.

The Board does not recommend the payment of final dividend for the Year.

Review of Operations

The Group's revenue represents revenue arising from four major segments of business, namely (i) processing and trading of fluorite products; (ii) trading of other mineral products; (iii) provision of advertising and public relations services and (iv) manufacturing and sale of pharmaceutical products.

During the Year, revenue from (i) processing and trading of fluorite products; (ii) trading of other mineral products; (iii) provision of advertising and public relations services and (iv) manufacturing and sale of pharmaceutical products were approximately HK\$23,286,000, HK\$213,156,000, HK\$30,366,000 and HK\$5,392,000 respectively.

Liquidity and Financial Resources

As at 30 June 2014, the Group held cash and cash equivalents of approximately HK\$62,025,000 (2013: HK\$120,984,000). Net current assets amounted to approximately HK\$169,214,000 (2013: HK\$206,628,000).

As at 30 June 2014, current ratio (defined as total current assets divided by total current liabilities) was approximately 17.37 times (2013: 34.72 times). Gearing ratio (expressed as the ratio of total liabilities over total assets) was approximately 0.03 (2013: 0.01).

The Group did not have any bank or other borrowings as at 30 June 2014 (2013: Nil).

Capital Structure

As at 30 June 2014, total equity attributable to owners of the Company was approximately HK\$572,872,000 (2013: HK\$472,610,000) and there were 5,192,502,338 shares in issue.

On 27 September 2013, the Company entered into the placing agreement with Get Nice Securities Limited (the “Placing Agent”) to place an aggregate of 300,000,000 shares of HK\$0.05 each at a price of HK\$0.178 per placing share. The aggregate net proceeds were approximately HK\$52,065,000. The issuance of the placing shares completed on 31 October 2013.

On 5 November 2013, the Company entered into another placing agreement with the Placing Agent to place an aggregate of 230,000,000 shares of HK\$0.05 each at a price of HK\$0.198 per placing share. The aggregate net proceeds were approximately HK\$44,402,000. The issuance of the placing shares completed on 20 November 2013.

Exchange Exposure

Most of the transactions, assets and liabilities of the Group were denominated in Hong Kong dollars, Renmibi or U.S. dollars. It is the Group’s policy for its operating entities to operate in their corresponding local currencies to minimise currency risks. The impact of foreign exchange exposure of the Group is minimal. In accordance with the Group’s conservative treasure policy, the Group did

not enter any derivative product for hedging during the Year. But, the Group will keep monitoring the foreign currency risk and consider any tool for the hedging if necessary.

Significant Investments and Acquisitions

(a) Acquisition of Sino-Mongolia Fluorspar Mining Co., Ltd.

On 15 May 2012, the Company announced that Huge Discovery Limited (an indirect wholly-owned subsidiary of the Company), as purchaser, and Ms. Chen Yejun and Mr. Huang Tianhua, collectively as vendors, entered into an acquisition agreement dated 7 May 2012 to acquire the entire equity interest in Sino-Mongolia Group and the related shareholders' loan, at a cash consideration of HK\$148,000,000 (subject to adjustments). Pursuant to a supplemental deed entered into between the purchaser and the vendors on 23 September 2014, (i) the purchaser was released from the obligation and liabilities of the first post completion payment and the second post completion payment (as detailed in the circular of the Company dated 28 June 2013) amounting to a total of HK\$74,000,000 and (ii) HK\$5,000,000 retained by the purchaser at completion of the acquisition was agreed by the vendors to settle the liabilities of Sino-Mongolia Group. As a result, the total consideration for the acquisition amounted to HK\$69,000,000, which was final and conclusive. The aforesaid acquisition constituted a major transaction on the part of the Company under the GEM Listing Rules, and completion took place on 31 July 2013.

(b) Memorandum of Understanding Relating to Possible Connected Acquisition

On 18 October 2013, the Company announced that a memorandum of understanding (the "MOU") was entered into between the Company and Mr. Hu Zhixiong ("Mr. Hu") who is the substantial shareholder of Ordos City Tai Pu Mining Engineering Company Limited ("Tai Pu"), in relation to the possible connected acquisition of not less than 51% of the issued share capital of Tai Pu (the "Possible Connected Acquisition"). Mr. Hu is a substantial shareholder of Tai Pu and is also a substantial shareholder of the Company. Therefore, Mr. Hu is regarded as a connected person of the Company, and the Possible Connected Acquisition constitutes a connected transaction under the GEM Listing Rules.

Reference is made to the announcements dated 17 April 2014 and 30 May 2014 regarding the supplemental MOUs to extend the due diligence period to on or before 30 June 2014. No formal sale and purchase agreement has been entered as of the date of this report.

(c) Disposal of Kingston Group Holdings Limited

On 8 November 2013, the Group disposed the entire issued share capital of Kingston Group Holdings Limited (“Kingston”) (together with its subsidiaries, the “Kingston Group”), a company directly wholly-owned by Island Kingdom Company Limited (an indirect wholly-owned subsidiary of the Company), at a cash consideration of HK\$3,000,000, to an independent third party, as purchaser. The Kingston Group is principally engaged in marketing and sale of health supplements, traditional Chinese medicines, slimming pills and beauty products. The disposal of Kingston constituted a discloseable transaction of the Company under the GEM Listing Rules.

(d) Acquisition of World Sheen International Group Limited

On 21 November 2013, Top Icon Enterprises Limited (an indirect wholly-owned subsidiary of the Company), as purchaser, acquired 8% issued share capital of World Sheen International Group Limited (“World Sheen”), at a consideration of HK\$23,600,000, from an independent third party, as vendor. World Sheen is a company incorporated in Hong Kong and is principally engaged in trading of solar energy panel and energy saving lighting products, and the design and installation of solar energy generating and energy saving lighting system.

(e) Further Investment in the Interest of an Associate

On 27 June 2014, the Group received a funding notice from Town Health Asset Management Limited (“TH Property Holding”), an associate of the Group with the shareholding interest of 26.39%, which was indicating its intention to raise fund in the amount of HK\$83,000,000 (the “Subscription Consideration”) of allotment and issue of 208 ordinary shares (the “First Right Shares”) of HK\$1.00 each. On 30 June 2014, the Group issued an exercise notice to TH Property Holding to notify that it would exercise the first right to subscribe for the First Right Shares at the Subscription Consideration stated in the funding notice and the completion of subscription took place on 30 June 2014. Immediately following the completion of the subscription, the Group’s shareholding in TH Property Holding was increased to 40%.

Capital Commitment

As at 30 June 2014, the Group had capital expenditure commitments contracted for acquiring property, plant and equipment of approximately HK\$1,436,000 (2013: Nil).

Pledge of Assets

As at 30 June 2014, none of the assets of the Group were pledged as security for any banking facilities.

Employee Information

As at 30 June 2014, there were 102 staff members (2013: 86) employed by the Group.

The Group remunerates its employees mainly based on industry practices and their respective educational background, experience and performance. On top of the regular remuneration and discretionary bonus, share options may be granted to selected employees by reference to the Group's performance as well as individual's performance. In addition, each employee enjoys mandatory provident fund, medical allowance and other fringe benefits.

Contingent Liabilities

As at 30 June 2014, the Group had no significant contingent liabilities.

For the period ended 31 December 2014*Business and Financial Review*

For the six months ended 31 December 2014 (the "Period"), the Group recorded revenue from continuing operations of approximately HK\$307,837,000 (2013: HK\$25,857,000), representing an increase of 1,090.5% as compared with that of the corresponding period in 2013. The substantial increase in revenue was mainly attributable to the natural resources related business in trading of other mineral products commenced only from the first quarter of 2014. The gross profit from continuing operations for the Period was approximately HK\$15,984,000 (2013: HK\$11,431,000), representing an increase of 39.8% as compared with that of the corresponding period last year.

Loss and total comprehensive income attributable to owners of the Company for the Period was approximately HK\$3,694,000 (2013: HK\$6,036,000). Notwithstanding a gain of approximately HK\$13,447,000 was recognized from the disposal of the manufacturing and sales of medicine business during the Period, loss was still incurred for the Period as compared to that of the same period last year, which was attributable mainly to (i) the increase of approximately HK\$8,874,000 in administrative and other operating expenses as compared to that of the same period last year; (ii) the share of loss of associates of approximately HK\$977,000 recorded during the Period as

compared to a share of profits of approximately HK\$9,064,000 for the same period last year; and (iii) the loss of approximately HK\$2,405,000 arising on change in fair value of held-for-trading investments recorded during the Period as compared to a gain of approximately HK\$4,695,000 for the same period last year.

Fluorite Processing and Trading Business

The Group had diversified into natural resources related business from last period. The Group completed the acquisition of a fluorite processing and trading business located in Outer Mongolia, namely Sino-Mongolia Fluorspar Mining Co., Ltd (together with its subsidiary, the “Sino-Mongolia Group”) on 31 July 2013, and the consolidated results of Sino-Mongolia Group have been consolidated to the Group’s accounts with effect from 1 August 2013.

On 23 September 2014, a supplemental deed was entered between the Group and the Vendors (as defined below) that, amongst others, (i) the Group were released from the obligation and liabilities of the contingent considerations as specified in the sales and purchase agreement entered into between the Group and Ms. Chen Yejun and Mr. Huang Tianhua (collectively, the “Vendors”) on 7 May 2012 as detailed in the circular of the Group dated 28 June 2013, in relation to the acquisition of Sino-Mongolia Group and (ii) HK\$5,000,000 retained by the Group upon completion of the acquisition was agreed by the Vendors to settle the liabilities of Sino-Mongolia Group towards the third parties as at the date of completion.

Due to the continuing low market prices for fluorite products during the calendar year 2014, the processing factory had been temporarily suspended in its operation during the Period.

For the Period, the Group’s fluorite processing and trading business recorded a revenue of approximately HK\$7,650,000, which accounted for 2.5% of the Group’s total revenue.

Trading of Other Mineral Products

During the first quarter of 2014, the Group had set-up a business in the trading of mineral products other than fluorites in PRC, mainly zinc and aluminum ingots. The establishment of the trading of other mineral products would assist the Group to expand the sales network in the trading of fluorite products. The Group’s trading of other mineral products recorded a revenue of approximately HK\$283,315,000, which accounted for 92.0% of the Group's total revenue for the Period.

Advertising and Public Relations Business

The Group provided advertising and public relations business through PR Asia Consultants Limited (“PR Asia”). For the Period, the Group’s provision of advertising and public relations services recorded revenue of approximately HK\$16,872,000, which accounted for 5.5% of the Group’s total revenue.

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. PR Asia has continued to contribute stable source of income to the Group.

Investment in Held-for-trading Securities

The Company had held-for-trading investment in certain listed securities in Hong Kong, the market value amounted to approximately HK\$9,750,000 as at 31 December 2014. During the Period, a loss arising on change in fair value of these securities of approximately HK\$2,405,000 was recorded. The investment in the listed securities is one of the treasury policy of the Group to make use of certain surplus funds retained by the Group.

Outlook

With effect from the second half of 2013, the Group has diversified into natural resources related business upon the completion of the acquisition of the Sino-Mongolia Group. The diversification of the Group’s business into new areas of natural resources related business assists the Group broadening its revenue base. The current prospects for the natural resources related business remains positive although the expected economic growth in the PRC may slow down in the near future.

The advertising and public relation business is expected to be stable in the near future. It will continue a steady growth and contribute stable sources of income to the Group. However, due to the increasing operating costs and fierce competition, the pharmaceutical business has incurred losses for the past few years. As it was not expected any turnaround of the operational results of pharmaceutical business in the near future, the Company decided to dispose of this business in October 2014 and completion of the disposal took place in November 2014. The disposal would provide the Group with a good opportunity to divest its investment in a loss recurring business and facilitate the Group to focus its effort on development of its natural resources related business.

Looking ahead, the Company will continue to look for good opportunities in the natural resources related business, which is expected to become a major revenue growth driver of the Group in the future.

Liquidity and Financial Resources

As at 31 December 2014, the Group held cash and cash equivalents of approximately HK\$125,295,000 (30 June 2014: HK\$62,025,000). Net current assets amounted to approximately HK\$248,931,000 (30 June 2014: HK\$169,214,000).

As at 31 December 2014, the current ratio (defined as total current assets divided by total current liabilities) was approximately 23.62 times (30 June 2014: 17.37 times). The gearing ratio, being the ratio of total liabilities to total assets, was approximately 0.02 (30 June 2014: 0.03).

The Group had no any bank borrowing as at 31 December 2014 (30 June 2014: Nil).

Share Capital

As at 1 July 2014 and 31 December 2014, the authorized share capital of the Company was HK\$500,000,000 divided into 10,000,000,000 shares of HK\$0.05 each. As at 1 July 2014, the issued share capital of the Company was approximately HK\$259,625,000 divided into 5,192,502,338 shares of HK\$0.05 each. During the Period, 280,000,000 new shares had been issued upon the exercise of the subscription rights attaching to the unlisted warrants (as detailed below). As at 31 December 2014, the issued share capital of the Company was approximately HK\$273,625,000 divided into 5,472,502,338 shares of HK\$0.05 each.

Unlisted Warrants

On 5 September 2014, an aggregate of 1,000,000,000 unlisted warrants was fully placed and issued to not fewer than six places at the issue price of HK\$0.01 per warrant in accordance with the terms and conditions of the placing agreement entered between the Company and Kingston Securities Limited. The holders of the warrants shall have the rights to subscribe for up to 1,000,000,000 shares in aggregate at an initial subscription price of HK\$0.25 per share, within one year from the date of issue. Upon the exercise in full of the subscription rights attaching to the warrants, 1,000,000,000 new shares of HK\$0.05 each will be allotted and issued by the Company. The details were set out in the Company's announcement dated 18 August 2014.

As at the date of this report, there were a total of 500,000,000 new shares being issued upon the exercise of the subscription rights attaching to the warrants. The proceeds of HK\$125,000,000 from the subscription, which were expected to be used as the Group's general working capital and potential project investments of the Group in the future, have not yet been utilized as at the date of this report.

Exchange Exposure

Most of the trading transactions, assets and liabilities of the Group were denominated either in Hong Kong dollars or U.S. dollars. It is the Group's policy for its operating entities to operate in their corresponding local currencies to minimize currency risks.

Possible Connected Acquisition

On 18 October 2013, the Company announced that a memorandum of understanding (the "MOU") was entered into between the Company and Mr. Hu Zhixiong ("Mr. Hu") who is the substantial shareholder of Ordos City Tai Pu Mining Engineering Company Limited ("Tai Pu"), in relation to the possible connected acquisition of not less than 51% of the issued share capital of Tai Pu (the "Possible Connected Acquisition"). Mr. Hu is a substantial shareholder of Tai Pu and is also a substantial shareholder of the Company. Therefore, Mr. Hu is regarded as a connected person of the Company, and the Possible Connected Acquisition constitutes a connected transaction under Chapter 20 of the GEM Listing Rules.

The supplemental MOUs were entered between the Company and Mr. Hu to extend the due diligence period and exclusive period. The details were set out in the Company's announcements dated 17 April 2014, 30 May 2014, 29 September 2014 and 28 November 2014.

The due diligence for the Possible Connected Acquisition has been completed. According to the latest supplemental MOU dated 28 November 2014, the Company and Mr. Hu extended the exclusivity period from within five months to within nine months after the due diligence Period, which is due on or before 31 March 2015.

No formal sale and purchase agreement has yet been entered as at the date of this report.

Capital Commitment

As at 31 December 2014, the Group had no significant capital commitment.

Pledge of Assets

As at 31 December 2014, none of the assets of the Group were pledged as security for any banking facilities.

Employee Information

As at 31 December 2014, there were 114 staff members employed by the Group.

The Group remunerates its employees mainly based on industry practices and their respective educational background, experience and performance. On top of the regular remuneration and discretionary bonus, share options may be granted to selected employees by reference to the Group's performance as well as individual's performance. In addition, each employee enjoys mandatory provident fund, medical allowance and other fringe benefits.

Contingent Liabilities

As at 31 December 2014, the Group had no significant contingent liabilities.

B. MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP

Set out below is the management discussion and analysis of the Target Group for each of the three years ended 31 December 2012, 2013 and 2014. The following financial information is based on the financial information of the Target Group as set out in Appendix II to this circular.

Business and financial review

The Target Group's revenue mainly represents revenue from the rendering of services in comprehensive mining exploitation, excavation works, mining supporting works and mine construction services for mining supporting works. Turnover of the Target Group was approximately RMB284,976,000, RMB335,859,000 and RMB331,734,000 for the three years ended 31 December 2012, 2013 and 2014 respectively. For the year ended 31 December 2012, the Target Group had been relying on the Major Customer which is mainly engaged in production and sales of coal and coal related chemical in the PRC. In June 2013, a Management Contract had been signed with a new independent third party customer for providing services to its coal mine. The revenue of the Target Group increased from 2012 to 2013. There was no material fluctuation in revenue of the Target Group between 2013 and 2014 and the Target Group's reliance on the Major Customer was decreasing over these two years. For the two years ended 31 December 2014, approximately 85% and 74% respectively of total revenues of Tai Pu was derived from Management Contracts with the Major Customer.

A major part of the revenue of the Target Group was generated from comprehensive mining exploitation and excavation works, which in aggregate accounted for approximately 66.2%, 76.3% and 84.4% of the total revenue for the three years ended 31 December 2012, 2013 and 2014 respectively. Approximately 8.3 million tonnes, 12.9 million tonnes and 17.2 million tonnes of coal were produced, and 36.4 kilometres, 46.2 kilometres and 37.5 kilometres of tunnels were excavated for the three years ended 31 December 2012, 2013 and 2014 respectively.

The gross profit margin of the Target Group was approximately 21.1%, 24.2% and 30.2% for the three years ended 31 December 2012, 2013 and 2014 respectively. The improvement in the gross profit margin during these three years was mainly due to the increase in labor productivity and operations efficiency through technological innovation and optimisation of the production plan, so as to reduce the time of production suspension for installing production equipment. As a result, the unit coal production cost and the unit excavation cost have been reduced from the year ended 31 December 2012 to the year ended 31 December 2014.

Administrative expenses of the Target Group were approximately RMB31.7 million, RMB23.4 million and RMB52.8 million for the three years ended 31 December 2012, 2013 and 2014 respectively. For the year ended 31 December 2013, there was a decrease in the maintenance works

of approximately RMB10,500,000 when compared with the previous year. For the year ended 31 December 2014, the Target Group recorded impairment loss on trade receivables of approximately RMB35.9 million. If such impairment loss was excluded from total administrative expenses, there would be a decreasing trend in the administrative expenses for the three years ended 31 December 2014.

Net profit of the Target Group was approximately RMB21.2 million, RMB43.2 million and RMB35.2 million for the three years ended 31 December 2012, 2013 and 2014 respectively, showing an increase of approximately 103.8% for the year ended 2013 as compared to that of the previous year, which was mainly due to the increase in revenue and gross profit margin as well as decreased maintenance works in 2013; and a decrease of approximately 18.5% for the year ended 2014 as compared to that of the previous year, which was mainly due to the impairment loss on trade receivables of approximately RMB35.9 million made during the year.

Acquisition and disposal of subsidiaries

Save for the Target Group Reorganisation, the Target Company did not have any material acquisition and disposal of subsidiaries during the three years ended 31 December 2014.

Liquidity and financial resources

As at 31 December 2012, 31 December 2013 and 31 December 2014, the Target Group held cash and bank balances of approximately RMB988,000, RMB8,535,000 and RMB5,424,000 respectively.

As at 31 December 2012, 31 December 2013 and 31 December 2014, the current ratio (defined as total current assets divided by total current liabilities) of the Target Group was approximately 1.39 times, 2.35 times and 0.94 times respectively, and the gearing ratio, being the ratio of total liabilities to total assets, was approximately 0.61 times, 0.38 times and 0.81 times respectively.

The Target Group had net current liabilities of approximately RMB4.9 million as at 31 December 2014, which was primarily due to the balance of (i) trade and other payables of approximately RMB66.9 million; (ii) bank borrowing of approximately RMB1.3 million; (iii) amount due to a shareholder of approximately RMB10.8 million; (iv) income tax payables of approximately RMB9.1 million; and (v) the comparatively smaller current asset base which consisted of trade and bills receivables of approximately RMB47.1 million, deposits and other receivables of approximately RMB30.7 million and bank balances and cash of approximately RMB5.4 million.

There was no amount due from a shareholder as at 31 December 2012 and 31 December 2014. There was an amount due from a shareholder of approximately RMB14,599,000 as at 31 December 2013 and the said amount was settled in the year 2014. The amount due from a shareholder was unsecured, non-interest bearing and repayable on demand.

There was no amount due to a shareholder as at 31 December 2012. There was an amount due to a shareholder of approximately RMB20,000 and approximately RMB10,804,000 as at 31 December 2013 and 31 December 2014 respectively. The amount due to a shareholder was unsecured, non-interest bearing and repayable on demand.

There was no bank borrowing as at 31 December 2012 and 31 December 2013. There was bank borrowing of approximately RMB1,266,000 as at 31 December 2014. The bank borrowing was guaranteed by one of the controlling shareholders of the Target Company and bore interest at the floating rate and was due within one year.

Capital commitment

The Target Group had no material capital commitments for the three years ended 31 December 2014.

Treasury policy

The Target Group had no formal treasury policy and did not enter into any form of financial arrangement for hedging for the three years ended 31 December 2014.

Exchange exposure

Most for the trading transactions, assets and liabilities of the Target Group were denominated in Renminbi. The Target Group had an insignificant exchange risk exposure since the Target Group's principal businesses were conducted and recorded in Renminbi during the three years ended 31 December 2014.

Employees and remuneration

As at 31 December 2012, 31 December 2013 and 31 December 2014, the Target Group had a total number of employees of approximately 1,479, 1,817 and 1,857 in the PRC respectively. Remuneration packages and benefits were determined in accordance with market terms, industry practice as well as the duties, performance, qualifications and experience of the staff. The Target Group's PRC subsidiaries participated in various statutory employee benefit plans maintained by municipal and provincial governments, including housing, pension, medical and unemployment benefit plans in accordance with relevant PRC regulations, and the Target Group contributed to these plans at specified percentages of the salaries, bonuses and allowances paid to their employees based on applicable local government requirements.

Charge on assets

Save for the outstanding obligation under finance leases of approximately RMB210,000 for the purchase of certain machineries and equipment as at 31 December 2012, there was no pledge of any assets of the Target Group as at 31 December 2013 and 2014 respectively.

Dividend

The directors of the Target Group declared the payment of a final dividend of approximately RMB106,881,000 for the year ended 31 December 2014. No dividend was declared for the year ended 31 December 2012 and 2013 respectively.

Contingent liabilities

The Target Group did not have any material contingent liabilities at the end of each of the three years ended 31 December 2014.

Future plans for significant investments or capital assets

The Target Group aims to maintain its leading position in the mine construction industry in Inner Mongolia and extend its service regions to Ningxia, the PRC in 2015. The Target Group plans to (a) enhance its production capacity by expanding its service teams and acquiring machinery and equipment; and (b) further establish its marketing relationship with mine owners to increase its market share in Inner Mongolia and extend its services to Ningxia, the PRC.

The Target Group estimates that the total capital expenditures for the year ending 31 December 2015 will reach approximately RMB104,670,000 comprising (a) RMB65,210,000 for digging and related machinery; (b) RMB33,600,000 for construction vehicles; and (c) RMB5,860,000 for loaders and rigs. The Target Group has signed a memorandum of understanding with a leasing company in the PRC, which is an Independent Third Party, in January 2015 to obtain proposed finance leases with an amount up to RMB100 million to fund part of its capital expenditures for the year ending 31 December 2015. The Target Group intends to finance the remaining portion of its estimated capital expenditures for the year ending 31 December 2015 of approximately RMB4,670,000 by its internal resources.

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 respect and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein misleading.

2. SHARE CAPITAL OF THE COMPANY

As at the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

Authorised:

	<i>HK\$</i>
<u>10,000,000,000</u> ordinary shares of HK\$0.05 each	<u>500,000,000.00</u>

Issued and fully paid or credited as fully paid:

	<i>HK\$</i>
<u>5,812,502,338</u> ordinary shares of HK\$0.05 each	<u>290,625,116.90</u>

As at the Latest Practicable Date, there were no arrangement under which future dividends are waived or agreed to be waived.

As at the Latest Practicable Date, no part of the capital of any member of the Group is under option, or has been agreed conditionally or unconditionally to be put under option.

3. DISCLOSURE OF INTERESTS

Directors' and chief executives' interests and short positions

As at the Latest Practicable Date, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under

such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

Interest of substantial shareholders

As far as was known to any Director or chief executive of the Company, as at the Latest Practicable Date, the persons or companies (not being a Director or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follows:

Long positions in the Shares

Name	Capacity/nature of interest	Number of Shares	Approximate % of the Company's total issued share capital
Tai Pu Mining International Co., Ltd (Note)	Beneficial owner	1,300,000,000	22.37%
Mr. Hu	Interest of controlled corporation	1,300,000,000	22.37%
	Beneficial owner	38,400,000	0.66%

Note: Tai Pu Mining International Co., Ltd is a company incorporated in BVI, which is wholly and beneficially owned by Mr. Hu.

Save as aforesaid, as at the Latest Practicable Date, the Directors were not aware of any other person who had an interest or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 5% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

4. LITIGATION

As at the Latest Practicable Date, 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.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into any service agreements with any member of the Enlarged Group, excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation).

6. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors or controlling shareholder of the Company or their respective associates had any business or interest which competes or may compete with the business of the Group, or have or may have any other conflicts of interest with the Group.

7. OTHER INTERESTS OF THE DIRECTORS

As at the Latest Practicable Date:

- (a) none of the Directors had any interest, either direct or indirect, in any assets which have, since 30 June 2014 (being the date to which the latest published audited accounts of the Group were made up), been 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; and
- (b) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Enlarged Group which is subsisting as at the date of this circular and is significant in relation to the business of the Enlarged Group.

8. 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 MOU;
- (b) the conditional placing agreement dated 27 September 2013 entered into between the Company and Get Nice Securities Limited in respect of placing of a maximum of 530,000,000 new shares under general mandate to not less than 6 independent placees at the placing price of HK\$0.178 per share;
- (c) a sale and purchase agreement dated 1 November 2013 were entered into between a company incorporated in the BVI with limited liability, as purchaser, which is and whose ultimate beneficial owners are independent third parties of the Company and its connected person, and Island Kingdom Company Limited (“Island Kingdom”), an indirect wholly-owned subsidiary of the Company, as vendor in relation to the sale and purchase the entire issued share capital of Kingston Group Holdings Limited, a company directly wholly-owned by Island Kingdom, at a cash consideration of HK\$3,000,000;
- (d) the conditional placing agreement dated 5 November 2013 entered into between the Company and Get Nice Securities Limited in respect of placing of a maximum of 230,000,000 new shares under general mandate to not less than 6 independent placees at the placing price of HK\$0.198 per share;
- (e) a sale and purchase agreement dated 21 November 2013 entered into between Top Icon Enterprises Limited, an indirect wholly-owned subsidiary of the Company, as purchaser, and an independent third party, as vendor in relation to acquire 8% issued share capital of World Sheen International Group Limited at a consideration of HK\$23,600,000;
- (f) the placing agreement dated 18 August 2014 between the Company and Kingston Securities Limited in respect of placing of unlisted warrants for up to 1,000,000,000 shares in aggregate under general mandate at an issue price of HK\$0.01 per warrant, each entitling the holder thereof to subscribe in cash for one ordinary share of HK\$0.05 each in the capital of the Company at an initial subscription price of HK\$0.25, subject to adjustment, at any time for a period of 1 year commencing from the date of issue of the warrants;

- (g) a supplemental deed dated 23 September 2014 between the Group and the Vendors of Fluorite Business (as defined below) that, amongst others, (i) the Group were released from the obligation and liabilities of the contingent considerations as specified in the sales and purchase agreement entered into between the Group and Ms. Chen Yejun and Mr. Huang Tianhua (collectively, the “Vendors of Fluorite Business”) on 7 May 2012; and (ii) HK\$5,000,000 retained by the Group upon completion of the acquisition was agreed by the Vendors of Fluorite Business to settle the liabilities of Fluorspar Mining and its subsidiary towards the third parties as at the date of completion;
- (h) the sale and purchase agreement dated 6 October 2014 entered into between Ms. Hong Sin Lam and Mr. Cheong Kuok Hung, as purchasers, each of whom is an individual who is a third party independent of the Company and its connected person(s), and Island Kingdom, as vendor in relation to the sale and purchase of the entire issued share capital of Vida Laboratories Limited (“Vida”), a company directly-owned by Island Kingdom, and entire sum of shareholder’s loan owned by Vida to Island Kingdom at a consideration of HK\$16,000,000;
- (i) the SPA;
- (j) the Supplemental Agreements; and
- (k) the sale and purchase agreement dated 3 June 2015 entered into between Chemosino International Limited, a wholly owned subsidiary of the Company, and Mr. Ling Yee Fai in respect of the sale of 40% of the entire issued share capital of PR ASIA Investment Holdings Limited at a consideration of HK\$13,000,000.

9. AUDIT COMMITTEE

As at the Latest Practicable Date, the audit committee comprises three members, Mr. Chi Chi Hung, Kenneth, Mr. Yan Shengxian and Ms. Tang Qing, being all the independent non-executive directors of the Company. The primary duties of the audit committee are to review and supervise the financial reporting process, audit plan and relationship with external auditors, the internal control systems of the Group and to provide advices and recommendations to the Board for review and follow-up.

Mr. Chi Chi Hung, Kenneth, aged 46, joined the Company as an independent non-executive Director on 28 December 2011. He is a member of the audit committee of the Company (the “Audit Committee”), remuneration committee of the Company (the “Remuneration Committee”) and nomination committee of the Company (the “Nomination Committee”). Mr. Chi holds Bachelor of Accountancy Degree from the Hong Kong Polytechnic University and is a fellow member of the Association of

Chartered Certified Accountants in the United Kingdom, an associate member of the Hong Kong Institute of Certified Public Accountants, and associate member of the Hong Kong Institute of Chartered Secretaries and an associate member of the Institute of Chartered Secretaries and Administrators in the United Kingdom. Mr. Chi is an executive director of (i) Guocang Group Limited (stock code: 559), (ii) Ceneric (Holdings) Limited (stock code: 542), and (iii) e-Kong Group Limited (stock code: 524) being companies listed on the Main Board of the Stock Exchange. He was an executive director of China Sandi Holdings Limited (stock code: 910), from 19 May 2010 to 31 January 2015, and he has been re-designated as a non-executive director since 31 January 2015. He is also an independent non-executive director of (i) Hong Kong Life Sciences and Technologies Group Limited (stock code: 8085), (ii) Aurum Pacific (China) Group Limited (stock code: 8148), both companies listed on GEM; (iii) Noble Century Investment Holdings Limited (stock code: 2322), (iv) Perfect Shape (PRC) Holdings Limited (stock code: 1830), and (v) L'sea Resources International Holdings Limited (stock code: 195), being companies listed on the Main Board of the Stock Exchange. He had been an executive director of GET Holdings Limited (formerly known as M Dream Inworld Limited, stock code: 8100) from 8 July 2010 to 4 June 2014 and an independent non-executive director of EverChina Int'l Holdings Company Limited (formerly known as Interchina Holdings Company Limited, stock code: 202) from 4 October 2011 to 15 August 2012. Mr. Chi has accumulated over 20 years of working experience in accounting and financial management.

Mr. Yan Shengxian, aged 60, joined the Company as an independent non-executive Director on 26 November 2012. He is a member of the Audit Committee, Remuneration Committee and Nomination Committee. Mr. Yan graduated from Hangzhou University, PRC. Mr. Yan is a certified senior engineer in PRC who is qualified for carrying out geological survey and exploration. Mr. Yan has accumulated 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.

Ms. Tang Qing, aged 45, joined the Company as an independent non-executive Director, a member of the Audit Committee, Remuneration Committee and Nomination Committee on 18 June 2014. She completed her studies in accountancy and obtained a Bachelor Degree of Economics from Renmin University of China in 1991. Ms. Tang is a member of The Chinese Institute of Certified Public Accountants.

10. EXPERTS AND CONSENTS

The followings are the names and the qualifications of the professional advisers who have given opinions or advice which are contained or referred to in this document:

Name	Qualification
SHINEWING (HK) CPA Limited	Certified Public Accountants
LCH (Asia-Pacific) Surveyors Limited	Independent professional valuer
Vinco Capital	A licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO)

As at the Latest Practicable Date, SHINEWING (HK) CPA Limited, LCH (Asia-Pacific) Surveyors Limited and Vinco Capital had no beneficial interest in the share capital of any member of the Enlarged Group nor any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group or have any interest, either directly or indirectly, in any assets which have been, since 30 June 2014, being the date to which the latest published audited consolidated accounts of the Group were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

SHINEWING (HK) CPA Limited, LCH (Asia-Pacific) Surveyors Limited and Vinco Capital have given and have not withdrawn their written letters of consent to the issue of this circular with the inclusion herein of references to their name in the form and context in which they appear.

11. GENERAL

- (a) The registered office of the Company is situated at PO Box 309, Umland House, Grand Cayman, KY1-1104, Cayman Islands and the principal place of business of the Company in Hong Kong is located at Unit 1903, 19th Floor West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.
- (b) The branch share registrar of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

- (c) The company secretary of the Company is Mr. Luk Chi Shing, an associate member of Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.
- (d) The Company's compliance officer is Mr. Cai Da, an executive Director.
- (e) The English text of this circular shall prevail over the Chinese text in the case of any inconsistency.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours (i.e. from 9:30 a.m. to 6:00 p.m. on Monday to Friday) at the principal place of business of the Company in Hong Kong at Unit 1903, 19th Floor West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong 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) the annual reports of the Company for the years ended 30 June 2012, 2013 and 2014;
- (c) the interim report of the Company for the six months ended 31 December 2014;
- (d) the valuation report of Tai Pu prepared by the Valuer, the text of which is set out in appendix IV of this circular;
- (e) the accountants' report of the Target Group set out in appendix II to this circular;
- (f) the unaudited pro forma financial information of the Enlarged Group set out in appendix III to this circular;
- (g) the letters of consent referred to under the paragraph headed "Experts and Consents" in this appendix; and
- (h) the material contracts disclosed in the paragraph under the heading "Material Contracts" in this appendix.

NOTICE OF EXTRAORDINARY GENERAL MEETING



China Natural Investment Company Limited

中國天然投資有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8250)

NOTICE IS HEREBY GIVEN THAT an 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 Tuesday, 28 July 2015 at 11:00 a.m. (or immediately after the conclusion of the extraordinary general meeting of the Company to be held at 10:30 a.m. on the same date, if later), (the “**Meeting**”), as special business, to consider and, if thought fit, to pass with or without amendments, the following resolution:

ORDINARY RESOLUTION

“THAT

- (A) the sale and purchase agreement dated 2 April 2015 (as supplemented or amended by the supplemental agreements dated 22 April 2015, 5 June 2015 and 24 June 2015, respectively) (collectively the “**Sale and Purchase Agreement**”) entered into between Mr. Hu Zhixiong and Ms. Fan Aixian (collectively, the “**Vendors**”) and Million Nature Holdings Limited (the “**Purchaser**”) in relation to, among other things, the acquisition of 100% equity interest in Everbest Return Limited by the Purchaser from the Vendors (a copy of the Sale and Purchase Agreement is marked “A” and produced to this meeting and signed by the chairman of the meeting for identification purposes) and the transactions contemplated thereunder be and are hereby ratified, confirmed and approved; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

(B) any one or more of the directors be and is/are hereby authorised to do all such acts and things and execute all such documents (in case of execution of documents under seal, to do so by any two directors of the Company or any director of the Company together with the secretary of the Company) and to take such steps which he/they may consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Sale and Purchase Agreement and the transactions contemplated thereunder.”

By order of the Board
China Natural Investment Company Limited
Cai Da
Chairman

Hong Kong, 30 June 2015

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 shareholder of the Company entitled to attend and vote at the 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 shareholder of the Company but must be present in person at the meeting to represent the shareholder. 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) To be valid, the form of proxy together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof) must be deposited at the office of the Company's branch share registrar and transfer office 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 (as the case may be). Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the meeting or any adjournment thereof should he/she so wish.
- (3) Completion and return of an instrument appointing a proxy will not preclude a shareholder of the Company from attending and voting in person at the meeting or any adjournment thereof 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 above resolution will be voted by way of poll.