THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

罕王
HANKING

CHINA HANKING HOLDINGS LIMITED
中國罕王控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 03788)

DISCLOSEABLE AND CONNECTED TRANSACTION ACQUISITION OF 100% EQUITY INTEREST IN FUSHUN SHANGMA

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

招銀国际
CMB INTERNATIONAL

A letter from the Board is set out on pages 4 to 23 of this circular.

A letter from the Independent Board Committee is set out on pages 24 to 25 of this circular.

A letter from the Independent Financial Adviser is set out on pages 26 to 52 of this circular.

A notice convening the EGM of the Company to be held at 22nd Floor Conference Room, Hanking Tower, No. 227 Qingnian Avenue, Shenhe District, Shenyang City, Liaoning Province, PRC on Friday, 21 September 2012 at 9:00 a.m. is set out on pages 78 to 79 of this circular. A form of proxy for use at the EGM is also enclosed. Such form of proxy is also published on the website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk).

Whether or not you proposed to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instruction printed therein and return it to the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude the Shareholders from attending and voting in person at the EGM or any adjournment thereof if they so wish.

5 September 2012

CONTENTS

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

"Aoniu Mining"	撫順罕王傲牛礦業股份有限公司 (Fushun Hanking Aoniu Mining Limited*), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of directors of the Company
"CMBI" or "Independent Financial Adviser"	CMB International Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Company for the purpose of advising the Independent Board Committee and the Independent Shareholders in respect of the Fushun Shangma Acquisition
"Company"	China Hanking Holdings Limited (中國罕王控股有限公司), a company incorporated in the Cayman Islands with limited liability on 2 August 2010 and whose shares are listed on the Stock Exchange under the stock code 03788
"Completion"	the completion of the Fushun Shangma Acquisition in accordance with the terms and conditions of the Equity Transfer Agreement
"Completion Date"	the date upon which the Completion takes place in accordance with the terms and conditions of the Equity Transfer Agreement
"connected persons"	has the meaning ascribed to it under the Listing Rules
"Controlling Shareholders"	the controlling shareholders of the Company, namely Mr. Yang, Ms. Yang, China Hanking (BVI) Limited, Bisney Success Limited and Best Excellence Limited
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be convened and held to approve the Equity Transfer Agreement and the transactions contemplated thereunder
"Equity Transfer Agreement"	the Equity Transfer Agreement dated 3 July 2012 entered into among Shenyang Toyo (as vendor), Aoniu Mining (as purchaser) and Fushun Shangma (as the target company) in relation to the Fushun Shangma Acquisition

"Fushun Shangma"	撫順罕王上馬礦業有限公司 (Fushun Hanking Shangma Mining Company Limited*), a company established in the PRC with limited liability
"Fushun Shangma Acquisition"	the acquisition of 100% of the equity interest in Fushun Shangma from Shenyang Toyo by Aoniu Mining pursuant to the Equity Transfer Agreement
"Group"	the Company and its subsidiaries
"Hanking Group"	罕王實業集團有限公司 (Hanking Group Co., Limited*), a company established in the PRC on 4 April 1996, which is controlled by Ms. Yang and Mr. Yang
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	a committee of the Board comprising Mr. Chen Yuchuan, Mr. Wang Ping, Mr. Johnson Chi-King Fu and Mr. Wang Anjian, being the independent non-executive Directors, which was formed to advise the Independent Shareholders in relation to the Equity Transfer Agreement
"Independent Shareholders"	the shareholders of the Company other than the Controlling Shareholders and their associates
"Latest Practicable Date"	30 August 2012, being the latest practicable date for ascertaining certain information prior to printing of this circular
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Mr. Yang"	Mr. Yang Jiye (楊繼野), a non-executive Director and one of the Controlling Shareholders
"Ms. Yang"	Ms. Yang Min (楊敏), the chairlady of the Board, a non-executive Director and one of the Controlling Shareholders
"PRC"	the People's Republic of China, which for the purposes of this circular excludes Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"PRC GAAP"	generally accepted accounting principles in the PRC
"PRC legal adviser" or "Jingtian"	Jingtian & Gongcheng, the Company's PRC legal adviser
"Prospectus"	the prospectus of the Company dated 20 September 2011
"RMB"	Renminbi, the lawful currency of the PRC

"Savills" or "Valuer"	Savills Valuation and Professional Services Limited, an independent valuer
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shangma Iron Mine"	撫順罕王上馬鐵礦 (Fushun Hanking Shangma Iron Mine*), a company established in the PRC on 23 October 2000 and wholly-owned by Mr. Yang
"Shangma Mine"	the iron ore mine in Shangma owned by Fushun Shangma, which was previously owned by Shangma Iron Mine
"Shangma Mining Land"	the land on which the Shangma Mine is located comprises an area of appropriately 416,000 sq.m.
"Shareholder(s)"	the shareholder(s) of the Company
"Shenyang Toyo"	瀋陽東洋製鋼有限公司 (Shenyang Toyo Steel Company Limited*), a company established in the PRC on 3 December 1993 and a subsidiary of Hanking Group
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary" or "subsidiaries"	has the meaning ascribed to it under the Listing Rules
"%"	per cent.

Unless otherwise specified, amounts denominated in Renminbi have been translated, for illustration purposes only, into Hong Kong dollars in this circular at the rate of HK$1.00:RMB0.8179.

* *For identification purposes only*

罕王
HANKING

CHINA HANKING HOLDINGS LIMITED

中國罕王控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 03788)

Executive Directors:
Mr. Pan Guocheng
Mr. Zheng Xuezhi
Mr. Xia Zhuo
Mr. Qiu Yumin

Non-executive Directors:
Ms. Yang Min
Mr. Yang Jiye
Mr. Lan Fusheng
Mr. Kenneth Jue Lee

Independent Non-executive Directors:
Mr. Chen Yuchuan
Mr. Wang Ping
Mr. Johnson Chi-King Fu
Mr. Wang Anjian

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Headquarters in the PRC:
No. 227, Qingnian Street
Shenhe District
Shenyang 110015
Liaoning Province
PRC

Principal place of business in Hong Kong:
8th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

5 September 2012

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION ACQUISITION OF 100% EQUITY INTEREST IN FUSHUN SHANGMA

INTRODUCTION

Reference is made to the announcement of the Company dated 3 July 2012 regarding the acquisition of 100% of the equity interest in Fushun Shangma pursuant to the Equity Transfer Agreement.

The purpose of this circular is to provide, among other things, (i) further information in relation to the Equity Transfer Agreement; (ii) a letter from the Independent Board Committee with its recommendation to the Independent Shareholders; (iii) a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders; and (iv) the notice of the EGM.

EQUITY TRANSFER AGREEMENT

Date	3 July 2012
Parties	(i) Aoniu Mining, as the purchaser of 100% equity interest in Fushun Shangma (ii) Shenyang Toyo, as the vendor of 100% equity interest in Fushun Shangma, which is a subsidiary of Hanking Group (iii) Fushun Shangma, the target company under the Equity Transfer Agreement
Subject of the Fushun Shangma Acquisition	100% equity interest in Fushun Shangma
Consideration for the Fushun Shangma Acquisition	RMB100 million The consideration will be settled entirely by cash, with approximately HK$36.4 million (equivalent to approximately RMB29.44 million) of which will be funded by the proceeds raised from the Company's initial public offering and the remaining balance will be settled by internal resources of the Group.
Payment Schedule	The consideration for the Fushun Shangma Acquisition will be paid in the following manner: (i) the first installment of RMB50 million, representing 50% of the consideration, to be paid within five working days after the Completion Date; (ii) the second installment of RMB30 million, representing 30% of the consideration, to be paid within twenty working days after the Completion Date; and (iii) the balance of the consideration of RMB20 million, representing 20% of the consideration, to be paid within sixty working days after the Completion Date.

Conditions Precedent

The completion of the Fushun Shangma Acquisition is conditional upon, among others, the following conditions being fulfilled:

(i) the Equity Transfer Agreement and the transactions contemplated thereunder being approved by the Independent Shareholders;

(ii) Aoniu Mining being satisfied with the results of due diligence review on Fushun Shangma;

(iii) the acquisition of all the assets of Shangma Iron Mine by Fushun Shangma being completed and all necessary consents, approvals and filings acceptable to Aoniu Mining as provided under the Equity Transfer Agreement being obtained and completed (as the case may be);

(iv) the quantity of the iron ore reserves in Shangma Mine, of which Fushun Shangma has obtained mining rights, being verified by the Ministry of Land and Resources of the PRC and such filing documents being obtained; and

(v) no material adverse change to the assets and operation conditions of Fushun Shangma as set out in the Equity Transfer Agreement.

Aoniu Mining may waive in writing any of the above conditions precedent (save for item (i)). As at the Latest Practicable Date, none of the above conditions precedent had been waived, and currently Aoniu Mining did not have any intention to waive any of the conditions precedent.

As at the Latest Practicable Date, items (ii) and (iv) of the conditions precedent have been fulfilled.

The conditions precedent of the Equity Transfer Agreement are not subject to a long stop date. The Directors are of the view that a long stop date is not a standard requirement in transactions similar to that under the Equity Transfer Agreement and is unnecessary due to the Company's experience and familiarity with the relevant market. The Directors are confident that the conditions precedent will be satisfied in the near future. Furthermore, pursuant to the Equity Transfer Agreement, the consideration payable thereunder only becomes payable after the Completion Date.

Completion

The Completion shall take place on the day when all of the conditions precedents have been satisfied or when Aoniu Mining has waived in writing the conditions precedent (as the case may be).

Shenyang Toyo and Fushun Shangma should assist Aoniu Mining to complete the business registration procedures in respect of the transfer of the 100% equity interest in Fushun Shangma to Aoniu Mining within five working days after the Completion Date.

Basis of Consideration

The consideration of the Fushun Shangma Acquisition was arrived at after arm's length negotiation between the parties to the Equity Transfer Agreement, after taking into account, among others, (i) the prospect of the iron ore industry; (ii) the existing size and quality of Fushun Shangma's assets; and (iii) the historical output and cost of the Shangma Mine.

In considering the prospects of the iron ore industry, reference was made to the government policies as disclosed in the section headed "Reasons for entering into the Equity Transfer Agreement" below, the development of the market, and the trend of the iron ore concentrate selling price of the Group. Although the selling price of the iron ore concentrate has experienced a slight decline during last year, in light of stabling market conditions, the Company expects the overall trend of iron ore concentrate selling price in China to stabilize in the near future. In assessing the size and quality of Fushun Shangma's assets, reference was made to transactions of selected companies listed on the Shanghai Stock Exchange in order to assess the fair value of the mining rights of Fushun Shangma, as well as the book value of the other assets and liabilities of Fushun Shangma. The transactions of companies listed on the Shanghai Stock Exchange are acquisitions of mines which are similar in size, maturity and within a similar geographic region as the Shangma Mine as well as having similar iron ore processing capabilities. Reference was mainly made to the fair value per ton of iron ore concentrates of the respective mining rights in these transactions. With regards to the historical output and cost of the Shangma Mine, reference was made to the sales, cost and profits of the Shangma Mine for the past three years, and also taking into consideration the fact that the Shangma Mine is a relatively mature mine which has had increasing production levels for the past three years. Accordingly, the overall trend of sales, cost and profits of the Shangma Mine have increased over the past three years and the Company expects this trend to stabilize in the future.

INFORMATION REGARDING FUSHUN SHANGMA

The Business of Fushun Shangma

As disclosed in the Prospectus, Shangma Iron Mine was treated as excluded business because the timing of obtaining the land use right certificates and the building ownership certificates for the Shangma Mine (which was previously operated by Shangma Iron Mine and has already been transferred to Fushun Shangma in May 2012) and its mine processing plants was uncertain and the Controlling Shareholders have granted to the Company a pre-emptive right to purchase the interest in Shangma Iron Mine pursuant to a non-competition undertaking dated 16 June 2011. For the reasons of the Company having decided to acquire Fushun Shangma before obtaining the land use right certificates for the Shangma Mine, please refer to the section headed "Reasons for entering into the Equity Transfer Agreement" below.

Shangma Iron Mine is a sole-proprietorship enterprise wholly owned and controlled by Mr. Yang primarily engaging in the business of iron ore mining and the processing and sales of iron ore concentrates. However, the Company was advised by its PRC legal adviser that the interest in Shangma Iron Mine cannot be directly transferred to the Company as Shangma Iron Mine is a sole proprietorship enterprise.

In light of the abovementioned technical deficiency and to facilitate the transfer of the interest in Shangma Iron Mine to the Company, Fushun Shangma has acted as a platform for the restructuring of Shangma Iron Mine's assets and completed the acquisition of all the assets of Shangma Iron Mine in May 2012. Furthermore, Shangma Iron Mine has also obtained the land use right certificates and the building ownership certificates for both of the mine processing plants of the Shangma Mine. As at the Latest Practicable Date, all the assets of Shangma Iron Mine have been acquired by Fushun Shangma. The land use right certificates and the building ownership certificates for both of the mine processing plants of the Shangma Mine are in process of transferring to Fushun Shangma. The PRC legal adviser has confirmed that the transfer of land use right certificates and the building ownership certificates for both of the mine processing plants of the Shangma Mine is a procedural matter where Fushun Shangma will only need to fulfill the registration procedures to change the license holder's name. Based on the due diligence undertaken for this transaction, the PRC legal adviser is not aware of any fact that may cause such certificates to not be transferred to Fushun Shangma and therefore the Directors do not believe there would be any potential adverse legal nor financial consequence as a result of failure of transfer of such certificates. Fushun Shangma is now applying for (or renewal of) the following licenses and/or approvals required by Fushun Shangma for conducting its business activities: (i) the temporary land use rights for the Shangma Mining Land; (ii) the land use rights certificate for the new tailing pond; (iii) the water catchment permits; (iv) the safety production permits; and (v) consents for the forest land use.

The equity interest in Fushun Shangma will be transferred to Aoniu Mining upon registration of the transfer with the relevant Administration for Industry and Commerce after the conditions precedent to the Fushun Shangma Acquisition are satisfied (or waived by Aoniu Mining). The legal representative and sole director of Fushun Shangma is Mr. Yang, a non-executive Director and one of the Controlling Shareholders. According to the current plans of the Company, Mr. Yang would remain the legal representative and sole director of Fushun Shangma after completion of the Fushun Shangma Acquisition.

Fushun Shangma was established in the PRC in March 2009. It is primarily engaged in the business of iron ore mining and the processing and sales of iron ore concentrates and currently owns the Shangma Mine, which was previously operated by Shangma Iron Mine, with a filed amount of iron ore reserves of approximately 15.98 million tons as at 18 April 2009 and the reserves were verified by 遼寧省撫順縣上馬礦區鐵礦IV，V區祥查報告評審備案證明 — 遼國土資儲備字[2010] 183號 (Examination and filing of the detailed report for Area V of Iron Mine IV in Shangma mining district, Fushun Town, Liaoning Province — Liao Guo Tu Zi Chu Bei Zi [2009] No. 183*) and 撫順罕王上馬鐵礦擴界儲量核實報告評審備案證明 — 遼國土資儲備字[2009] 102號 (Examination and filing of the verified report of the expanded reserves of Shangma iron mine of Fushun Hanking — Liao Guo Tu Zi Chu Bei Zi [2009] No. 102*) (together the "**Reserve Reports**"), which was prepared by 遼寧溪源礦產資源評估有限公司 (Liaoning Xiyuan Mineral Resources Appraisal Company Limited*) reported in accordance with 《鐵、錳、鉻礦地質勘查規範》(DZ/T0200-2002) (Specifications for iron, manganese and chromium mineral exploration (DZ/T0200-2002)) under 中華人民共和國地質礦產行業標準 (Geology and Mineral Resources Industry Standard of the PRC) issued by Ministry of Land and Resources of the PRC (together the "**new Chinese Code**")[1]. As at 31 May 2012, 3.7 million tons of the iron ore reserves therein had been mined. For details of Liaoning Xiyuan Mineral Resources Appraisal Company Limited's relevant experience and the assumptions and reporting standard underlying the Reserve Reports, please refer to the section headed "Principal Factors considered — 2. Consideration of the Fushun Shangma Acquisition — C. Valuation — (iii) Principle assumptions considered in the Equity Valuation — Mining right" of the "Letter from the Independent Financial Adviser" set out on pages 47 to 49 of this circular and the Valuation Report set out in Appendix I to this Circular.

1 The Reserve Reports adopted a new Chinese Code, which is a blend of the old Chinese code and the codes in current use today, including JORC and the current United Nations (UN) standard, with some additional local components added.

JORC is a non-prescriptive code, which does not lay out specific limits for resource classification in terms of such things as borehole spacing. Instead it emphasizes the principles of transparency, materiality and the role of the Competent Person. Whilst some guidelines do exist (e.g. the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves) they are not mandatory and classification is left in the hands of the Competent Person. When combined with its Professional Standards (which are effectively mandatory), the Chinese Code is much more prescriptive but does not include the role of the Competent Person.

In terms of broad categorization, the levels of geological confidence ascribed to Measured and Indicated resources are quite similar in both codes. The ranges of borehole spacings, thickness cut-offs and quality limitations that are enforced by the Chinese system would generally result in the same resource classification under the JORC Code. In general, people are of the view that the Chinese Code is more prescriptive and conservative as compared with JORC.

Temporary land use rights for the Shangma Mine

As confirmed by Fushun County Bureau of Land and Resources, Fushun Shangma, being one of the experimenting enterprises in Fushun County, is in the process of applying to undertake mining activities at the Shangma Mine on a temporary land use basis.

As advised by the PRC legal advisers, the steps to be taken by Fushun Shangma for applying to undertake mining activities at the Shangma Mine on a temporary land use basis are as follows:

(i) Fushun Shangma shall submit an application to the Fushun County Bureau of Land and Resources;

(ii) after examination and approval of the application, the Fushun County Bureau of Land and Resources shall arrange for formulation of the "Proposal for Experiment on the Reform of Mining Land use Right" and submit it to the Fushun City Bureau of Land and Resources;

(iii) after examination, the Fushun City Bureau of Land and Resources shall submit such proposal to the Liaoning Department of Land and Resources;

(iv) after examination and approval of the "Proposal for Experiment on the Reform of Mining Land use Right", the Liaoning Department of Land and Resources shall submit such proposal to the State Administration of Land and Resources for approval;

(v) obtaining the approval of the "Proposal for Experiment on the Reform of Mining Land Use Right" by the Liaoning Department of Land and Resources and by the State Administration for Land and Resources;

(vi) after the "Proposal for Experiment on the Reform of Mining Land Use Right" is approved, the filing of the land reclamation proposal to the relevant Land and Resources Bureau;

(vii) signing of compensation agreements with the legal title holder or user of the land;

(viii) signing of contract for mining on temporary land use basis and the land reclamation contract and the payment of relevant fees; and

(ix) after approving the temporary land use rights application, the publication of the announcement on temporary land use rights for mining by the relevant Land and Resources Bureau.

As at the Latest Practicable Date, Fushun Shangma has already completed step (i) and is in the process of undertaking step (ii) above. The "Proposal for Experiment on the Reform of Mining Land use Right" has been revised based on the comments received from Liaoning Department of Land and Resources and will be submitted by Fushun County Bureau of Land and Resources to Liaoning Department of Land and Resources for approval.

The terms of the temporary land use rights for the Shangma Mining Land, including the period, renewal terms and conditions, are subject to the determination of the relevant Land and Resources Bureau.

As advised by the PRC legal adviser, according to the 遼寧省採礦用地管理辦法 (Liaoning Province Mining Land Use Management Measures) issued by the Liaoning Department of Land and Resources on 25 May 2012, the temporary land use right will have a duration of three years; for any special circumstances that require an extension, the extension shall not be longer than two years.

The PRC legal adviser has advised that no exact time frame for the formulation of the planned area which can satisfy the conditions for the exploration preparation work and for obtaining the approval is stipulated under the "Proposal for Experiment on the Reform of Mining Land Use Right". The expected timing required for the above will be very much dependent on the internal approval process of the relevant government authorities, which is beyond the control of Fushun Shangma. Fushun Shangma is already in the process of applying to undertake mining activities at the Shangma Mining Land on a temporary basis. Based on the current progress of the application and confirmation from the Fushun County Bureau of Land and Resources on 20 August 2012, the Company estimates that the approval for the temporary land use rights will be obtained within six months after the "Proposal for Experiment on the Reform of Mining Land Use Right" is approved by the State Administration for Land and Resources.

Land use rights certificates for tailing pond

The procedures for Fushun Shangma to obtain land use rights certificate for its new tailing pond are as follows:

(i) conduct a study and prepare a report on the feasibility of the construction project; submit a land application to the relevant Construction Department and upon approval receive a "Permission Note for Location";

(ii) apply for a "Pre-approval Report on the Use of Land for Construction Project" from the relevant Land and Resources Bureau;

(iii) prepare for registration of the construction project, obtain planning and environment permits from the relevant Construction Department and Environmental Protection Bureau;

(iv) apply for a formal approval on the land use rights for the construction project from the relevant Land and Resources Bureau;

(v) the relevant Land and Resources Bureau will then develop plans for agricultural land conversion, farmland restoration, land acquisition and land supply based on the overall land use planning, overall urban construction planning and annual land use plans, and these schemes will be reviewed and approved by different levels of the PRC government according to their categories;

(vi) the relevant Land and Resources Bureau will be responsible for the land acquisition from the owner and use of the agricultural land, and sign the compensation and resettlement plan with them for implementing land acquisition procedures;

(vii) after the completion of compensation and resettlement work regarding the land acquisition in accordance with the approved land supply plan, the relevant Land and Resources Bureau will issue documentations for the land use rights and the "Land-use Permit for Construction" to the party applying for the land use rights;

(viii) the relevant Land and Resources Bureau and the party applying for the land use rights will then enter into an "Agreement Regarding the Transfer of the Right to the Use of the State-owned Land", and the party applying for the land use rights shall pay the transfer fees as agreed;

(ix) obtain the Construction Land Planning Permit from the relevant authorities on urban and rural planning of the municipal and county government with the authorization, approval and filing documents of the construction project along with the "Agreement Regarding the Transfer of the Right to the Use of the State-owned Land"; and

(x) obtain the land use rights certificate.

The Directors estimates the outstanding costs payable by Fushun Shangma for applying for the relevant land use rights certificates is approximately RMB5 million and the Directors took this into account when determining the consideration of the Equity Transfer Agreement.

The construction of the new tailing pond is basically complete. Fushun Shangma has negotiated with the local villagers and entered into a land compensation agreement with regards to the land for the new tailing pond. Fushun Shangma is in the process of applying for the land use rights certificate for use of the land. The timetable for obtaining the approval of a land use rights certificate will be very much dependent on the internal approval process of the relevant government authorities which is beyond the control of Fushun Shangma and cannot be determined. However, the PRC legal advisers is of the opinion that there is no legal impediment to Fushun Shangma obtaining the relevant land use rights certificate for the new tailing pond.

Fushun Shangma has also obtained approval in respect of preliminary safety evaluation and environmental evaluation as of the Latest Practicable Date, and is in the process of obtaining the final evaluation as trial operations have commenced in early August 2012.

In accordance with the confirmation from the Company, the current experimenting policy for mining land in Liaoning Province has considered including the land of the tailing pond into the boundary of experimentation, but detailed standards for examination and approval is to be clarified in the near future. If the Company is unable to obtain the land use rights certificate for the tailing pond, it will consider applying for the temporary land use rights for the use of the land of the tailing pond if possible.

Other approvals and licenses required

Other than the land use rights certificates for the Shangma Mining Land and new tailing pond, Fushun Shangma requires the following approvals and licenses for conducting its business activities: (i) the land use right certificates and the building ownership certificates for both of the mine processing plants of the Shangma Mine; (ii) water catchment permits; (iii) safety production permits; and (iv) consents for the forest land use, all of which Fushun Shangma is in the process of applying or for renewal of or transferring to Fushun Shangma. The Company estimates that these permits and approvals (other than (i) which have already been obtained and are in the process of transferring to Fushun Shangma) will be obtained or renewed by the end of 2012. Based on the due diligence undertaken for this transaction, the PRC legal adviser is not aware of any legal uncertainty that the abovementioned licenses cannot be transferred to Fushun Shangma, obtained or renewed.

When the "Proposal for Experiment on the Reform of Mining Land Use Right" of Fushun County is approved in future, it is expected that Fushun Shangma will be able to undertake mining activities at the Shangma Mining Land on a temporary land use basis in accordance with the relevant laws and regulations.

Financial Information

Fushun Shangma and Shangma Iron Mine

Fushun Shangma had not commenced business since its incorporation until 31 May 2012 and it has not yet generated any revenue or profit as at the Latest Practicable Date. The registered capital of Fushun Shangma is RMB5 million which has been fully paid up. Fushun Shangma has acquired all the assets of Shangma Iron Mine in May 2012 for a consideration of RMB205 million, the sum of which has not yet been paid to Shangma Iron Mine and will be settled in full by Fushun Shangma on or before the end of September 2012.

Based on the unaudited accounts of Shangma Iron Mine prepared in accordance with PRC GAAP, the profits of Shangma Iron Mine for the two financial years ended 31 December 2010 and 31 December 2011 were as follows:

	Financial year ended 31 December 2010 *(approx. RMB million)*	**Financial year ended 31 December 2011** *(approx. RMB million)*
Unaudited profit before taxation and extraordinary items	55.61	125.12
Unaudited profit after taxation and extraordinary items	41.70	93.80

Based on the unaudited combined management account of Fushun Shangma prepared in accordance with PRC GAAP, the total asset value and the net asset value of Fushun Shangma as at 31 May 2012 were approximately RMB214 million and RMB5 million, respectively.

As at 31 May 2012, Fushun Shangma had total liabilities of RMB209 million and total assets of RMB214 million, of which, RMB60 million are current assets, which primarily includes raw materials, spare parts, prepaid equipment and cash, and RMB154 million are non-current assets, which includes, among others, mining rights, land use rights, storage facilities and production equipment. The main assets of Fushun Shangma are in good condition.

After the acquisition of Shangma Iron Mine, Fushun Shangma's major customers are steelmakers and trading companies located in the Liaoning Province. Based on the unaudited accounts of Shangma Iron Mine prepared in accordance with PRC GAAP, its total sales for the three years ended 31 December 2011 were as follows:

	2009	**2010**	**2011**
	(approx. RMB million)	*(approx. RMB million)*	*(approx. RMB million)*
	(unaudited)	*(unaudited)*	*(unaudited)*
Total sales	131.55	148.80	299.87

Business operation

The Shangma Mine is relatively mature and is expected to continue operating for the next 12 years (without considering the iron ore reserves which have been explored but not yet filed with the relevant authority). The average iron grade (TFe) of the iron ore from the Shangma Mine is at 29.56%, all from open-pit mining. However as the reserves for open-pit mining are in decline, it is expected that Fushun Shangma will rely on underground mining in the future.

As at the Latest Practicable Date, Fushun Shangma has a total workforce of approximately 400 employees, which includes professional miners, minerals processers, geologists, surveyors, engineers, technical personnel and managers. A typical business transaction for Fushun Shangma to sell its iron ore concentrates for cash takes approximately seven days from delivery to payment.

As at the Latest Practicable Date, the main capital commitment of Fushun Shangma are the fees payable on the construction of the new tailing pond, which the Directors expect will cost approximately RMB25 million.

For the year ended 31 December 2011, the cost of mining was approximately RMB196 per ton with depreciation and amortization of approximately RMB13.75 per ton and stripping rock cost sharing of approximately RMB109 per ton for a total cost of approximately RMB318.75 per ton. The mining costs mainly represents materials costs, direct labour costs, depreciation, mining equipment leasing fees and transportation costs.

For the year ended 31 December 2011 the cost of iron ore processing was approximately RMB101 per ton with depreciation and amortization of approximately RMB18.7 per ton for a total cost of approximately RMB119.70 per ton. The iron ore processing costs mainly represents iron ore crushing, ball milling and magnetic separation.

The increasing cost for mining is mainly due to the increase in strip mining ratio and changes in iron ore selection. In 2011, in order to meet the great demands for iron ore concentrate, new mining sites had to be added, geotechnical stripping increased and strip mining doubled compared to 2010. Due to the increase of large scale mining activities, the iron ore mined was diluted with rocks and more iron ore is needed in order to produce the same amount of iron ore concentrates. As a result of the reasons above the overall cost of mining increased.

Historical output

After the acquisition of Shangma Iron Mine, Fushun Shangma's major suppliers are diesel fuel and explosives supplying companies located in the Liaoning Province. Based on the unaudited accounts of Shangma Iron Mine prepared in accordance with PRC GAAP, the historical outputs of the Shangma Mine for the three years ended 31 December 2011 were as follows:

	2009	**2010**	**2011**
	(unaudited)	*(unaudited)*	*(unaudited)*
Output (Ton)	219,913.77	146,892.98	286,100.00
Cost of Mining (RMB/Ton)	250.74	210.14	318.75
Cost of Processing (RMB/Ton)	133.40	143.50	119.70
Total Cost (RMB/Ton)	384.14	353.64	438.45

REASONS FOR ENTERING INTO THE EQUITY TRANSFER AGREEMENT

1. Changes in circumstances since the issue of the Prospectus

As disclosed in the Prospectus, Shangma Iron Mine was treated as excluded business because the timing of obtaining the land use right certificates and the building ownership certificates for the Shangma Mine (which was previously operated by Shangma Iron Mine and has already been transferred to Fushun Shangma in May 2012) and its mine processing plants was uncertain. Subsequent to the listing of the Company on the Stock Exchange, the following progress has been made in this regard:

(i) *Title certificates for the mine processing plants*

Shangma Iron Mine has obtained the land use right certificates and the building ownership certificates for both of the mine processing plants of the Shangma Mine.

(ii) *Availability of temporary land use rights for the Shangma Mining Land*

Since the issue of the Prospectus, the problems associated with the lack of land use rights certificates for the Shangma Mining Land has been further mitigated as a result of new measures introduced by the PRC government. As advised by the PRC legal adviser, on 21 November 2011, the Liaoning Department of Land and Resources promulgated a new notice on the experimentation on the reform of land use in mining activities, which allows certain mining enterprises to occupy land on a temporary land use basis. Fushun Shangma, being designated as one of the experimenting enterprises in Fushun County, is in the process of applying to undertake mining activities at the Shangma Mining Land on a temporary land use basis, and it is expected that when the "Proposal for Experiment on the Reform of Mining Land Use Right" of Fushun County is approved in future, Fushun Shangma will be able to undertake mining activities at the Shangma Mining Land on a temporary land use basis in accordance with the relevant laws and regulations.

As advised by the PRC legal adviser, so far as the PRC legal adviser is aware, there are no legal consequences or legal impediment to Fushun Shangma undertaking mining activities at the Shangma Mining Land on a temporary land use basis in accordance with the relevant laws and regulations of the PRC if the "Proposal for Experiment on the Reform of Mining Land Use Right" is approved and the temporary land use right is granted to Fushun Shangma accordingly.

The Directors are of the view that, and as advised by the PRC legal adviser, in light of the new measures introduced by the PRC government above, and the Shangma Mine has been in operations for over 10 years, the risk that Fushun Shangma will be subject to penalties as a result of conducting mining activities at the current site of the Shangma Mine in the absence of land use rights certificates is much lower than that at the time prior to the listing of the Company.

Furthermore, pursuant to the Equity Transfer Agreement, if Aoniu Mining suffers any penalties imposed by any government authorities in relation to any legal defects with regard to the assets of Shangma Iron Mine acquired by Fushun Shangma ("**Shangma Iron Mine Assets**") including the failure to obtain the land use right certificates, Shenyang Toyo has undertaken to indemnify Aoniu Mining and Fushun Shangma for any losses incurred.

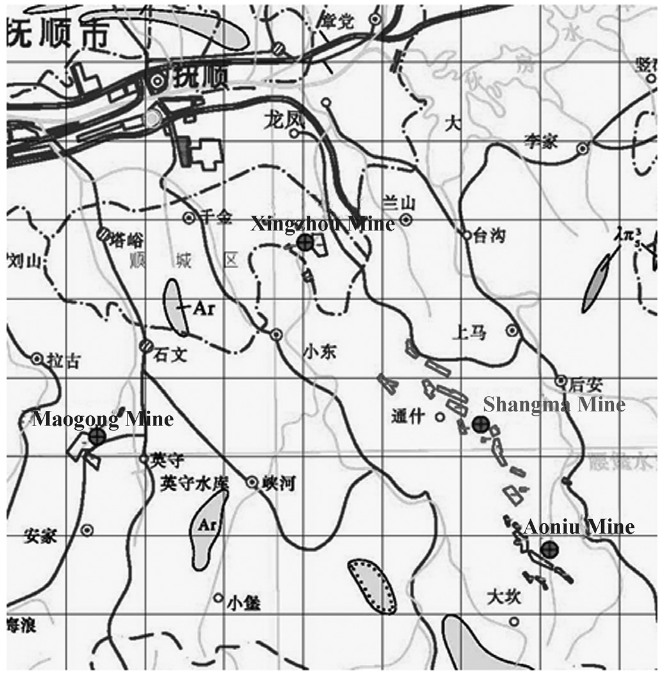
The Directors and the PRC legal adviser have confirmed that according to the undertaking in the Equity Transfer Agreement given by Shenyang Toyo to indemnify Aoniu Mining, the compensation of liabilities suffered by Aoniu Mining that Shenyang Toyo shall bear will not be limited to the governmental penalties for the legal defects with regard to the Shangma Iron Mine Assets but will include other damages and losses suffered by Aoniu Mining and Fushun Shangma, provided that any such legal defects or non-compliance with regards to the Shangma Iron Mine Assets had occur prior to the Completion Date.

(iii) *New mine exploration strategy introduced by the PRC government which enable further expansion of the Group's Iron Exploration Business after the Fushun Shangma Acquisition*

The Ministry of Land and Resources is promoting a new strategy relating to mine exploration based on the geology of the mine, which emphasizes the exploration preparation work. The new strategy promoted by the Ministry of Land and Resources of the PRC is known as 國土資源部關於進一步完善礦業權管理促進整裝勘查的通知(國土資發[2011]55號) (Ministry of Land and Resources Further Improve Mining Rights Management to Promote the Ready Exploration Notice (Issue No. [2011] No. 55)) (the "**New Strategy**"), which was announced on 29 April 2011. A professional institution has been commissioned by the Fushun City Bureau of Land and Resources to formulate the Fushun County Liaoning Province Reinforcement — the allocation scheme on the mining right of the iron ore mine in Aoniu District ("**Fushun County Liaoning Province Reinforcement — Aoniu Scheme**") in June 2012, which is a proposal prepared pursuant to the New Strategy by the local bureau of land and resources in respect of the Aoniu District in which the Shangma Mine, the Aoniu iron ore mine and the Xingzhou iron ore mine of the Group are located. The Fushun authorities are in the process of formulating a planned area which can satisfy the conditions for such exploration preparation work. Prior to the introduction of the New Strategy, the Company could only carry out exploration work in the vicinity of 500 meters of its mining areas. However, such restrictions will be removed under the New Strategy, and the potential exploration area around the mines is expected to be significantly expanded.

The Shangma Mine is situated at the centre of the iron ore metallogenic belt in Fushun and is just located mid-way between the Aoniu iron ore mine and Xingzhou iron ore mine of the Group. It can act as a hub of the Aoniu iron ore mine and Xingzhou iron ore mine. These three iron ore mines should be consolidated and undergo system planning from the perspective of the sustainable development of the Group's iron exploration business. It is expected that after acquisition of the Shangma Mine, the consolidation of the three mines can help the Group to creating a complete exploration area from Aoniu to Xingzhou, which will help the Group to expand its development in iron ore exploration and significantly increase the potential of the reserves.

A map showing the location of the Shangma Mine, the Aoniu iron ore mine and the Xingzhou iron ore mine of the Group is set out below:



In light of the above, the Directors are of the view that Fushun Shangma should be acquired as soon as practicable, since the earlier the acquisition, the earlier the Company will be able to plan the exploration of the three iron ores mines as a whole.

(iv) *Additional resources of the Shangma Mine have been explored*

Additional resources of the Shangma Mine have been explored but the relevant approved filing certificate has not yet been obtained from the Liaoning Department of Land and Resources. It is expected that in case the Group acquires Fushun Shangma after such certificate has been obtained, the consideration payable for such acquisition will be higher than that currently payable under the Equity Transfer Agreement. Thus, the Directors considers that it is in the interest of the Company and its shareholders as a whole to acquire Fushun Shangma as soon as practicable.

The Directors have confirmed that they cannot quantify the extent of which the consideration of the Fushun Shangma Acquisition will be affected once the relevant certificates for the additional resources of the Shangma Mine is obtained, because although the additional resources have been explored, the actual minable resources and the costs involved in mining them cannot be measured accurately at this preliminary stage.

2. The Fushun Shangma Acquisition will Increase the Iron Ore Reserves of the Group

Being the largest independent privately-owned iron ore concentrate producer in Northeastern China, it is always the interest of the Group to explore opportunities to expand its iron ore reserves. The Shangma Mine has considerable iron ore reserves. The approved filing certificates of iron ore reserves in relation to the Shangma Mine issued by the Liaoning Department of Land and Resources have been obtained in 2009 and 2010 and the filed iron ore resource of the Shangma Mine was over 12 million tons as at 31 May 2012, the approved filing certificates of such iron ore reserves have also been obtained. Furthermore, additional resources of the Shangma Mine have been explored. The approved filing certificate of such new iron ore resources is expected to be obtained from the Liaoning Department of Land and Resources in future. The Directors expect that the Fushun Shangma Acquisition, if proceeding to completion, will increase the iron ore reserves of the Group.

3. The Fushun Shangma Acquisition will be Beneficial to the Expansion of the Group's Operation Capacity

The Shangma Mine is relatively mature and has two mine processing plants with a total capacity of processing 1.42 million tons of iron ore and producing 300,000 to 400,000 tons of iron ore concentrates (depending on the grades of the iron ore) per annum. The actual amount of iron ore concentrates produced by Shangma Iron Mine was approximately 286,100 tons in 2011, which was equivalent to approximately 22.8% of the total iron ore concentrates production of the Group in the same year. It is expected that the Fushun Shangma Acquisition, if proceeding to completion, will improve the Group's operation capacity and revenue.

For the reasons set out above, the Group entered into the Equity Transfer Agreement for the acquisition of Fushun Shangma.

Based on the foregoing, the Directors (other than the independent non-executive Directors who have expressed their views in "Letter from the Independent Board Committee" set out on pages 24 to 25 of this circular) are of the view that the transactions contemplated under the Equity Transfer Agreement are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

INFORMATION REGARDING THE PARTIES INVOLVED

The Group is the largest independent privately-owned iron ore concentrate producer in Northeastern China, and its primary business operations include iron ore mining and the processing and sale of iron ore concentrates.

Aoniu Mining is a company established in the PRC and is a wholly-owned subsidiary of the Company principally engaged in the iron ore mining and processing.

Shenyang Toyo is a company established in the PRC and is principally engaged in the business of production and sale of special steel.

LISTING RULES IMPLICATIONS

Shenyang Toyo is a subsidiary of Hanking Group, which is in turn owned as to 60.67% by Ms. Yang and 28.29% by Mr. Yang, each a non-executive Director and one of the Controlling Shareholders. As such, Shenyang Toyo is an associate of both Ms. Yang and Mr. Yang and is therefore a connected person of the Company. Accordingly, the Fushun Shangma Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Fushun Shangma Acquisition exceed 5% but are all less than 25% and Shenyang Toyo is a connected person of the Company, the Fushun Shangma Acquisition constitutes (i) a discloseable transaction for the Company subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules; and (ii) a connected transaction for the Company subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Ms. Yang and Mr. Yang, who are both non-executive Directors, have a material interest in the transactions contemplated under the Equity Transfer Agreement. Both of them have abstained from voting on the board resolutions approving the Equity Transfer Agreement and the transactions contemplated thereunder.

The Controlling Shareholders and their associates will abstain from voting on the resolutions approving the Equity Transfer Agreement at the EGM.

VALUATION OF FUSHUN SHANGMA

A valuation report in respect of the entire equity interests in Fushun Shangma (the "**Valuation Report**") has been prepared by Savills, the texts of which are set out in Appendix I to this circular. Given the valuation of the mining rights of Fushun Shangma in the Valuation Report involves the use of the discounted cash flows approach, it is regarded as a profit forecast under Rule 14.61 of the Listing Rules and the Company is required to, and has, fully complied with Rule 14.62 of the Listing Rules. The Directors have confirmed that they have reviewed and discussed with Savills the bases and assumptions (the "**Assumptions**") upon which the Valuation Report has been made. The auditor of the Company, Deloitte Touche Tohmatsu, has reported on the calculations of the discounted future estimated cash flow (the "**Calculations**") on which the valuation of the mining rights of Fushun Shangma is based.

On the basis of the Assumptions and the Calculations, the Directors have confirmed that the Valuation Report has been made after due and careful enquiry. The Directors have confirmed that they are not aware of any subsequent events that have potential impairment on the valuation of the equity interest in Fushun Shangma on the Group's earning up to the Latest Practicable Date since the valuation date of the Valuation Report.

PRINCIPAL VALUATION ASSUMPTIONS

In preparing the Valuation Report, the Valuer has adopted principal assumptions which are stated in the section headed "Specific Assumptions" in the Valuation Report. The Board considers all the principal assumptions to be fair and reasonable based on their collective experience, professional judgments and careful due diligence on (i) the financial information and other pertinent data concerning Fushun Shangma and Shangma Iron Mine; (ii) the historical operating capacities and current reserves of the Shangma Mine; and (iii) the cash flow forecast of Shangma Iron Mine.

In particular, the assumptions adopted by the Valuer in the Valuation Report regarding:

(i) the approval of Fushun Shangma's application for enhancing mining capacities will be granted, and the assumption that the forecasted annual production in the Valuation Report will not be affected. The Directors consider this to be fair and reasonable based on the actual mining capacity of Shangma Iron Mine of 1.32 million tons in 2011, meaning the annual output of 1.3 million tons of iron ore is a realistic target. Shangma Iron Mine's mining plans and orderly production is currently on target to reach 1.3 million tons of iron ore for 2012 and will not exceed it. Furthermore, Shangma Iron Mine has begun the procedure of applying for enhancing mining capacities, which the Directors based on their experience do not believe will affect the normal operation of Shangma Iron Mine;

(ii) the reserves of Fushun Shangma is based on the Reserve Reports. The Directors consider this to be an accurate source based on the review by the relevant experts on the reserves estimated by the Ministry of Land and Resources which carries significant credibility;

(iii) the stripping ratio and mineral processing rates. The Directors consider this to be fair and reasonable based on the Shangma region's resource reserves and iron ore grades;

(iv) the costs of mining activities will have an annual growth rate of 3%. The Directors consider this to be fair and reasonable based on the Directors' understanding of Shangma Iron Mine's great emphasis on cost control;

(v) the extension of mining permits in the future will not incur substantial increase in expenditure cost. The Directors consider this to be fair and reasonable as the cost of extension of mining permits is low and should not result in any significant expenditure costs. Furthermore the Directors will ensure the application for extension of the mining permits will be prepared well in advance before the expiration, thereby not affecting the mining activities;

(vi) no material difference between forecasted production capacity of the Company and its actual production capacity in the future. The Directors consider this to be fair and reasonable based on Shangma Iron Mine's actual production in 2011 and its 2012 annual production forecast as well as Shangma Iron Mine's capacity and management capabilities, under normal circumstances the forecasted production capacity should not differ materially from its actual production; and

(vii) Fushun Shangma has obtained all necessary operating permits and licenses at the valuation date. The Directors consider this to be fair and reasonable as Shangma Iron Mine has obtained all the necessary operating certificates and licenses which could be extended at minimal costs. Furthermore Shangma Iron Mine is currently in normal operation. Although Shangma Iron Mine is currently applying for some of the land use rights certificates and other licences/approvals, the Directors are of the view that these will not affect its control and operations.

For further details of the principal assumptions adopted by the Valuer, please refer to the section headed "Specific Assumptions" in the Valuation Report, the texts of which are set out in Appendix I to this circular.

GENERAL INFORMATION

The Company has appointed the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the Equity Transfer Agreement is on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and is in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders as to how they should vote in respect of the Equity Transfer Agreement at the EGM. The Independent Board Committee comprising all Independent non-executive Directors, has been established to advise the Independent Shareholders as to whether the Equity Transfer Agreement is on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and is in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders as to how they should vote in respect of the Equity Transfer Agreement at the EGM, after taking into account of the recommendations of the Independent Financial Adviser appointed by the Company.

EGM

A notice of the EGM to be held at 22nd Floor Conference Room, Hanking Tower, No. 227 Qingnian Avenue, Shenhe District, Shenyang City, Liaoning Province, PRC on Friday, 21 September 2012 at 9:00 a.m. at which the relevant resolutions will be proposed to approve the Equity Transfer Agreement and the transactions contemplated thereunder is set out on pages 78 to 79 of this circular.

A proxy form for use at the EGM is enclosed. Whether or not you proposed to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instruction printed therein and return it to the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof.

Completion and return of the form of proxy will not preclude the Shareholders from attending and voting in person at the EGM or any adjournment thereof if they so wish.

RECOMMENDATION

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that the Equity Transfer Agreement is on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and is in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to approve the Equity Transfer Agreement and the transactions contemplated thereunder at the EGM. The text of the letter from the Independent Board Committee is set out on page 24 to 25 of this circular.

ADDITIONAL INFORMATION

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

By order of the Board
China Hanking Holdings Limited
Yang Min
Chairlady and non-executive director

罕王
HANKING

CHINA HANKING HOLDINGS LIMITED
中國罕王控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 03788)

5 September 2012

To the Independent Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION ACQUISITION OF 100% EQUITY INTEREST IN FUSHUN SHANGMA

We refer to the circular issued by the Company to Shareholders dated 5 September 2012 (the "**Circular**") of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board to advise the Independent Shareholders as to whether the Equity Transfer Agreement is on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and is in the interests of the Company and the Shareholders as a whole.

CMBI has been appointed to act as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Equity Transfer Agreement and the transactions contemplated thereunder are in the ordinary and usual course of business of the Group, on normal commercial terms, fair and reasonable and the Fushun Shangma Acquisition is in the interests of the Company and the Shareholders as a whole. The text of the letter of advice from the Independent Financial Adviser containing their recommendation and the principal factors they have taken into account in arriving at their recommendation are set out from pages 26 to 52 of the Circular.

Independent Shareholders are recommended to read the letter of advice from the Independent Financial Adviser, the letter from the Board contained in this circular as well as the additional information set out in the appendices to the Circular.

Having considered the terms of the Equity Transfer Agreement and the advice of the Independent Financial Adviser, we are of the opinion that the Equity Transfer Agreement is on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and is in the interests of the Company and the Shareholders as a whole. We therefore recommend that the Independent Shareholders vote in favour of the relevant resolution to be proposed at the EGM to approve the Equity Transfer Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Independent Board Committee
Mr. Chen Yuchuan Mr. Wang Ping Mr. Johnson Chi-King Fu Mr. Wang Anjian
Independent non-executive Directors

The following is the full text of the letter of advice from CMB International Capital Limited to the Independent Board Committee and the Independent Shareholders for incorporation in this circular.

招銀国际
CMB INTERNATIONAL

CMB International Capital Limited
Units 1803–4, 18/F,
Bank of America Tower
12 Harcourt Road,
Central, Hong Kong

5 September 2012

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION — ACQUISITION OF 100% EQUITY INTEREST IN FUSHUN SHANGMA

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the discloseable and connected transaction regarding Fushun Shangma Acquisition, details of which are set out in the letter from the board (the "**Letter from the Board**") of the circular issued by the Company dated 5 September 2012 (the "**Circular**"), of which this letter forms part. This letter contains our advice to the Independent Board Committee and the Independent Shareholders in respect of the Fushun Shangma Acquisition. Unless otherwise stated, defined terms used herein shall have the same meanings as those defined in the Circular.

The Board announced that on 3 July 2012, Aoniu Mining, a wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement with Shenyang Toyo and Fushun Shangma pursuant to which Aoniu Mining has agreed to acquire, and Shenyang Toyo has agreed to sell, an aggregate of 100% equity interest in Fushun Shangma for a total consideration of RMB100 million. Fushun Shangma will become a wholly-owned subsidiary of the Company upon the Completion.

As at the Latest Practicable Date, Shenyang Toyo is a subsidiary of Hanking Group, which is in turn owned as to 60.67% by Ms. Yang and 28.29% by Mr. Yang, each a non-executive Director and one of the Controlling Shareholders. As such, Shenyang Toyo is an associate of both Ms. Yang and Mr. Yang and is therefore a connected person of the Company.

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Fushun Shangma Acquisition exceed 5% but are less than 25% and Shenyang Toyo is a connected person of the Company, the Fushun Shangma Acquisition constitutes a connected transaction for the Company subject to the reporting, announcement and Independent Shareholders' approval requirements set out in Chapter 14A of the Listing Rules. In this regard, the Independent Board Committee, comprising all independent non-executive directors of the Company, has been established to advise the Independent Shareholders as to whether the Equity Transfer Agreement is on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned , and is in the interests of the Company and the Shareholders as a whole.

We, CMBI, have been appointed as the independent financial adviser to advise the Independent Board Committee, which comprises all the independent non-executive Directors, namely Mr. Chen Yuchuan, Mr. Wang Ping, Mr. Johnson Chi-king Fu, and Mr. Wang Anjian, and Independent Shareholders as to whether the terms of the Equity Transfer Agreement and the transactions contemplated thereunder are in the ordinary and usual course of business of the Group, on normal commercial terms, fair and reasonable and the Fushun Shangma Acquisition is in the interests of the Company and the Shareholders as a whole.

BASES OF OUR OPINION

In formulating our recommendation, we have relied, without assuming any responsibility for independent verification, on the information, opinions and facts supplied and representations made to us by the Directors, who have assumed full responsibility for the accuracy of the information contained in the Circular and that any information and representations made to us are true, accurate and complete in all material respects as at the date hereof and that they may be relied upon. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company. We have discussed with the management of the Company regarding their plans and prospects of the Company. We have not, however, carried out any independent verification of the information provided to us nor have we conducted any form of independent in-depth investigation into the business and affairs of the Company or any of their respective subsidiaries. We have also relied on certain information available to the public and have assumed such information to be accurate and reliable, and we have no independently verified the accuracy of such information. We have also assumed that statements and representations made or referred to in this Circular were accurate at the time they were made and continue to be accurate up to the date of the EGM. We consider that we have reviewed sufficient information to reach an informed view in order to provide a reasonable basis for our advice. As the independent financial adviser to the Independent Board Committee and the Independent Shareholders, we have not been involved in the negotiations in respect of the terms of the Equity Transfer Agreement and the transactions contemplated thereunder.

Our opinion is necessarily based upon the financial, economic, market, regulatory, and other conditions as they exist on, and the facts, information, and opinions made available to us as of the date of this letter. We have no obligation to update this opinion to take into account events occurring after the date on which this opinion is delivered to the Independent Board Committee and the Independent Shareholders. This letter is solely for the information of the Independent Board Committee and the Independent Shareholders, in connection with their consideration of the Fushun Shangma Acquisition and is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose, without our prior written consent.

CMBI is a licensed corporation to carry out regulated activities of dealing in securities and advising on corporate finance under the SFO. CMBI and its affiliates, whose ordinary business involves the trading of, dealing in and the holding of securities, may be involved in the trading of, dealing in, and the holding of the securities of the Company for client accounts.

Information regarding the parties involved

Information of the Group, Aoniu Mining and Shenyang Toyo

According to the Letter from the Board, the Group is the largest independent privately-owned iron ore concentrate producer in Northeastern China, and its primary business operations include iron ore mining and the processing and sale of iron ore concentrates.

Aoniu Mining is a company established in the PRC and is a wholly-owned subsidiary of the Company principally engaged in the iron ore mining and processing.

Shenyang Toyo is a company established in the PRC and is principally engaged in the business of production and sale of special steel and wholly-owned by Mr. Yang.

Set out below is a summary of the Group's financial information for the two years ended 31 December 2010 and 31 December 2011 prepared in accordance with the International Financial Reporting Standards (the "**IFRS**") extracted from the annual report of the Company for the year ended 31 December 2011 (the "**Annual Report**"):

	For the year ended 31 December	
	2010	**2011**
	RMB'000	*RMB'000*
Revenue	1,297,498	1,452,277
Gross profit	831,525	1,026,982
Total comprehensive income for the year	496,301	406,803
Attributable to:		
Owners of the Company	444,007	403,544
Non-controlling interests	52,294	3,259

Information of Fushun Shangma

The business of Fushun Shangma

According to the Letter from the Board, as disclosed in the Prospectus, Shangma Iron Mine was treated as excluded business because the timing of obtaining the land use right certificates and the building ownership certificates for the Shangma Mine (which was previously operated by Shangma Iron Mine and has already been transferred to Fushun Shangma in May 2012) and its mine processing plants was uncertain and the Controlling Shareholders have granted to the Company a pre-emptive right to purchase the interest in Shangma Iron Mine pursuant to a non-competition undertaking dated 16 June 2011.

Shangma Iron Mine is a sole-proprietorship enterprise wholly owned and controlled by Mr. Yang primarily engaging in the business of iron ore mining and the processing and sales of iron ore concentrates. However, the Company was advised by its PRC legal adviser that the interest in Shangma Iron Mine cannot be directly transferred to the Company as Shangma Iron Mine is a sole proprietorship enterprise.

As stated in the Letter from the Board, in light of the abovementioned technical deficiency and to facilitate the transfer of the interest in Shangma Iron Mine to the Company, Fushun Shangma has acted as a platform for the restructuring of Shangma Iron Mine's assets and completed the acquisition of all the assets of Shangma Iron Mine in May 2012. Furthermore, as advised by the Directors, Shangma Iron Mine has also obtained the land use right certificates and the building ownership certificates for both of the mine processing plants of the Shangma Mine. According to the Letter from the Board, as at the Latest Practicable Date, all the assets of the Shangma Iron Mine have been acquired by Fushun Shangma. The land use right certificates and the building ownership certificates for both of the mine processing plants of the Shangma Mine are in process of transferring to Fushun Shangma. The PRC legal adviser has confirmed that the transfer of land use right certificates and the building ownership certificates for both of the mine processing plants of the Shangma Mine is a procedural matter where Fushun Shangma will only need to fulfill the registration procedures to change the license holder' s name.

As advised by the PRC legal adviser, based on the due diligence undertaken for this transaction, the PRC legal adviser is not aware of any fact that may cause such certificates to not be transferred to Fushun Shangma and therefore the Directors do not believe there would be any potential adverse legal nor financial consequence as a result of failure of transfer of such certificates. As stated in the Letter from the Board, Fushun Shangma is now applying for (or renewal of) the following licenses and/or approvals required by Fushun Shangma for conducting its business activities: (i) the temporary land use rights for the Shangma Mining Land; (ii) the land use rights certificate for the new tailing pond; (iii) the water catchment permits; (iv) the safety production permits; and (v) consents for the forest land use.

According to the Letter from the Board, the equity interest in Fushun Shangma will be transferred to Aoniu Mining upon registration of the transfer with the relevant Administration for Industry and Commerce after the conditions precedent to the Fushun Shangma Acquisition are satisfied (or waived by Aoniu Mining). The legal representative and sole director of Fushun Shangma is Mr. Yang, a non-executive Director and one of the Controlling Shareholders. According to the current plans of the Company, Mr. Yang would remain the legal representative and sole director of Fushun Shangma after completion of the Fushun Shangma Acquisition.

As stated in the Letter from the Board, Fushun Shangma was established in the PRC in March 2009. It is primarily engaged in the business of iron ore mining and the processing and sales of iron ore concentrates and currently owns the Shangma Mine which was previously operated by Shangma Iron Mine, with a filed amount of iron ore reserves of approximately 15.98 million tons which were verified by the Reserve Reports. As advised by the Directors, as at 31 May 2012, 3.7 million tons of the iron ore reserves therein had been mined.

In order to understand the current operating status and the compliance records of Fushun Shangma, we have conducted interview with the Directors. Based on the representation of the Directors during the interview, other than the issues disclosed in the Letter from the Board, there is no material issue related to the current operating status and the compliance records of Fushun Shangma identified.

Temporary land use rights for the Shangma Mine

According to the Letter from the Board, as confirmed by Fushun County Bureau of Land and Resources, Fushun Shangma, being one of the experimenting enterprises in Fushun County, is in the process of applying to undertake mining activities at the Shangma Mine on a temporary land use basis. As of the Latest Practicable Date, Fushun Shangma had applied to the relevant Land and Resources Bureau to use Shangma Mine on a temporary land use basis.

As advised by the PRC legal advisers, there are 9 steps to be taken by Fushun Shangma for applying to undertake mining activities at the Shangma Mine on a temporary land use basis, please refer to the section headed "temporary land use right for the Shangma Mine" in the Letter from the Board for more details.

According to the Letter from the Board, as of the Latest Practicable Date, Fushun Shangma has already completed first step of submission of application to the Fushun County Bureau of Land and Resources and is in the process of second step of examination and approval of the application, the Fushun County Bureau of Land and Resources shall arrange for formulation of the "Proposal for Experiment on the Reform of Mining Land use Right" and submit it to the Fushun City Bureau of Land and Resources. Based on the representation of the Director, the "Proposal for Experiment on the Reform of Mining Land use Right" has been revised based on the comments received from Liaoning Department of Land and Resources and will be submitted by Fushun County Bureau of Land and Resources to Liaoning Department of Land and Resources for approval.

The terms of the temporary land use rights for the Shangma Mining Land, including the period, renewal terms and conditions, are subject to the determination of the relevant Land and Resources Bureau.

In order to understand the duration of the temporary land use right, we have discussed with the Directors and interviewed with the PRC legal adviser. Based on the representation from the Directors, the Directors are of the view that the temporary land use right will not have material negative impact on the operation of Fushun Shangma in the future. As advised by the PRC legal adviser, according to the Liaoning Province Mining Land Use Management Measures issued by the Liaoning Department of Land and Resources on 25 May 2012, the temporary land use right will have a duration of three years; for any special circumstances that require an extension, the extension shall not be longer than two years. In addition, the PRC legal adviser confirms us that the Company is not forbidden to apply for the extension or renewal of temporary land use right (if necessary) after the period of 5 years granted in accordance with the applicable laws and regulations in the PRC and they did not identify any legal impediment for the Company to apply for temporary land use right based on the recent situation of the Company. In this regard, we concur with the view of Directors that the the temporary land use right will not have material negative impact on the operation of Fushun Shangma in the future.

Furthermore, the PRC legal adviser has advised that no exact time frame for the formulation of the planned area which can satisfy the conditions for the exploration preparation work and for obtaining the approval is stipulated under the "Proposal for Experiment on the Reform of Mining Land Use Right". The expected timing required for the above will be very much dependent on the internal approval process of the relevant government authorities, which is beyond the control of Fushun Shangma. Fushun Shangma is already in the process of applying to undertake mining activities at the Shangma Mining Land on a temporary basis. Based on the current progress of the application and confirmation from the Fushun County Bureau of Land and Resources on 20 August 2012, the Company estimates that the approval for the temporary land use rights will be obtained within six months after the "Proposal for Experiment on the Reform of Mining Land Use Right" is approved by the State Administration for Land and Resources. The Directors are of the view that it is the proper timing to conduct Fushun Shangma acquisition although the application of the "Proposal for Experiment on the Reform of Mining Land Use Right" has not yet been completed. Based on the confirmation from Fushun County Bureau of Land and Resources dated 20 August 2012, we understand that the application of the "Proposal for Experiment on the Reform of Mining Land Use Right" was in progress and Fushun Shangma will be able to obtain the temporary land use right within six months after the relevant approval of the proposal, so we concur with the view of the Directors that is a proper timing for the Company to conduct Fushun Shangma Acquisition although the application of the" Proposal for Experiment on the Reform of Mining Land Use Right" has not yet been completed.

Land use rights certificates for tailing pond

According to the Letter from the Board, Fushun Shangma still need to take several procedures in order to obtain land use right certificate for its new tailing pond. As advised by the Directors that the estimated outstanding costs payable by Fushun Shangma for applying for the land use rights certificates is approximately RMB5 million and the Directors took this into account when determining the consideration of the Equity Transfer Agreement.

As stated in the Letter from the Board, the construction of the new tailing pond is basically complete. Fushun Shangma has negotiated with the local villagers and entered into a land compensation agreement with regards to the land for the new tailing pond. Fushun Shangma is in the process of applying for the land use rights certificate for use of the land. The timetable for obtaining the approval of a temporary land use rights certificate will be very much dependent on the internal approval process of the relevant government authorities which is beyond the control of Fushun Shangma and cannot be determined. However, the PRC legal adviser is of the opinion that there is no legal impediment to Fushun Shangma obtaining the relevant land use rights certificate for the new tailing pond. As stated in the Letter from the Board, Fushun Shangma has also obtained approval in respect of preliminary safety evaluation and environmental evaluation as of the Latest Practicable Date, and is in the process of obtaining the final evaluation as of trial operations have commenced in early August 2012.

According to the Letter from the Board, the Company confirms that the current experimenting policy for mining land in Liaoning Province has considered including the land of the tailing pond into the boundary of experimentation, but detailed standards for examination and approval is to be clarified in the near future. If the Company is unable to obtain the land use rights certificate for the tailing pond, it will consider applying for the temporary land use rights for the use of the land of the tailing pond if possible. As advised by the PRC legal adviser, they are not aware of any legal impediment that leads Fushun Shangma failing to obtain land use rights certificates for its new tailing pond.

Other approvals and licenses required

According to the Letter from the Board, other than the land use rights certificates for the Shangma Mining Land and new tailing pond, Fushun Shangma requires the following approvals and licenses for conducting its business activities: (i) the land use right certificates and the building ownership certificates for both of the mine processing plants of the Shangma Mine; (ii) water catchment permits; (iii) safety production permits; (iv) consents for the forest land use, all of which Fushun Shangma is in the process of applying or for renewal of or transferring to Fushun Shangma. The Company estimates that these permits and approvals (other than (i) which have already been obtained and are in the process of transferring to Fushun Shangma) will be obtained by the end of 2012. Based on the due diligence undertaken for this transaction, the PRC legal adviser is not aware of any legal uncertainty that the abovementioned licenses cannot be transferred to Fushun Shangma, obtained or renewed.

Based on our discussion with and the representation from the Directors and PRC legal adviser's opinion, the Directors confirmed us they are of the view that the above mentioned issues of outstanding approvals and licenses will not have material negative impact on the Fushun Shangma Acquisition because (i) the PRC legal adviser advised that in light of the transfer of the outstanding licenses is a procedural matter where Fushun Shangma will only need to fulfill the registration procedures to change the license holder's name, there is no legal uncertainty that the outstanding licenses cannot be transferred to Fushun Shangma. Based on the due diligence undertaken for the transaction, the PRC legal adviser is not aware of any legal uncertainty that the outstanding licenses cannot be transferred to Fushun Shangma. Therefore, the Directors believe that there will be no potential adverse legal nor financial consequence; and (ii) as advised by the PRC legal adviser, except for the outstanding issues relating to land use right (including the abovementioned application for land use rights for the Shangma Mining Land and new tailing pond) and applications for the transfer, obtained or renewal of certain certificates and licenses from Shangma Iron Mine to Fushun Shangma, Fushun Shangma has obtain all the material licenses, certificates, approval and permits which are necessary for its business operation activities in the PRC. Based on the abovementioned analysis of the Directors, we concur with the view of the Directors and it is reasonable for the Company to conduct Fushun Shangma Acquisition at this stage.

According to the Letter from the Board, when the "Proposal for Experiment on the Reform of Mining Land Use Right" of Fushun County is approved in future, it is expected that Fushun Shangma will be able to undertake mining activities at the Shangma Mining Land on a temporary land use basis in accordance with the relevant laws and regulations.

In this regard, we have conducted interview with the Directors. According to the representation of the Directors, we understand that such view of Directors is mainly based on (i) the announcement of the "Proposal for Experiment on the Reform of Mining Land Use Right; (ii) the confirmations from Fushun County Land and Resources Bureau dated 20 August 2012 which stated that (a) the Bureau's application regarding the "Proposal for Experiment on the Reform of Mining Land Use Right" is still in progress; (b) Fushun Shangma, being one of the experimenting enterprises in Fushun County, is in the process of applying to undertake mining activities at the Shangma Mine on a temporary land use basis; and (c) Fushun County Land and Resources Bureau confirmed that Fushun Shangma can obtain the temporary land use right within six months after the "Proposal for Experiment on the Reform of Mining Land Use Right" being approved; and (iii) the PRC legal adviser confirmed us that Fushun County Land and Resources Bureau is a competent authority for issuing the above confirmations. In this regard, we concur with the view of the Directors that Fushun Shangma will be able to undertake mining activities at the Shangma Mine when the "Proposal for Experiment on the Reform of Mining Land Use Right" of Fushun County is approved in future.

Financial Information

Fushun Shangma and Shangma Iron Mine

As stated in the Letter from the Board, Fushun Shangma had not commenced business since its incorporation until 31 May 2012 and it has not yet generated any revenue or profit as at the Latest Practicable Date. The registered capital of Fushun Shangma is RMB5 million which has been fully paid up. Fushun Shangma has acquired all the assets of Shangma Iron Mine in May 2012 for a consideration of RMB205 million, the sum of which has not yet been paid to Shangma Iron Mine and will be settled in full by Fushun Shangma on or before the end of September 2012.

As advised by the Directors, based on the unaudited accounts of Shangma Iron Mine prepared in accordance with PRC GAAP, the profits of Shangma Iron Mine for the two financial years ended 31 December 2010 and 31 December 2011 were as follows:

	Financial year ended 31 December 2010 *(approx. RMB million)*	**Financial year ended 31 December 2011** *(approx. RMB million)*
Unaudited profit before taxation and extraordinary items	55.61	125.12
Unaudited profit after taxation and extraordinary items	41.70	93.80

As stated in the Letter from the Board, based on the unaudited combined management account of Fushun Shangma prepared in accordance with PRC GAAP, the total asset value and the net asset value of Fushun Shangma as at 31 May 2012 were approximately RMB214 million and RMB5 million, respectively.

According to the Letter from the Board, as at 31 May 2012, Fushun Shangma had total liabilities of RMB209 million and total assets of RMB214 million, of which, RMB60 million were current assets, which primarily included raw materials, spare parts, prepaid equipment and cash, and RMB154 million were non-current assets, which included, among others, mining rights, land use rights, storage facilities and production equipment. The main assets of Fushun Shangma are in good condition. We understand that the Company has engaged the Valuer to conduct Valuation Report on the equity interest of Fushun Shangma Acquisition which was prepared on assets-based approach. Please refer to Appendix I of the Circular for the Valuation Report.

As advised by the Directors, all the assets of Fushun Shangma as at 31 May 2012 were owned and operated by Shangma Iron Mine before the relevant acquisition in May 2012. In order to have a better understanding of the business operation of Fushun Shangma, we discussed with Directors about the selected financial information of Shangma Iron Mine for three years ended 31 December 2011. As stated in the Letter from the Board, after the acquisition of Shangma Iron Mine, Fushun Shangma's major customers are steelmakers and trading companies located in the Liaoning Province. Based on the unaudited accounts of Shangma Iron Mine, its total sales for the three years ended 31 December 2011 were as follows:

	2009	2010	2011
	(approx. RMB million)	*(approx. RMB million)*	*(approx. RMB million)*
	(unaudited)	*(unaudited)*	*(unaudited)*
Total sales	131.55	148.80	299.87

As advised by the Directors, total sales of Shangma Iron Mine for the year ended 31 December 2010 was approximately 148.80 million, representing an increase of approximately 13.11% from approximately 131.55 million for the year ended 31 December 2009, which was mainly attributable to increase in market price of iron ore concentrate during the year 2010. Total sales of Shangma Iron Mine for the year ended 31 December 2011 was approximately 299.87 million, representing an increase of approximately 101.53% from approximately 148.80 million for the year ended 31 December 2010, which was mainly attributable to increase in market price of iron ore concentrate and increase in sales volume as a result of increase mining and production capacity of Shangma Iron Mine when compared with that of the year 2010.

Historical output

According to the Letter from the Board, after the acquisition of Shangma Iron Mine, Fushun Shangma's major suppliers are diesel fuel and explosives supplying companies located in the Liaoning Province. Based on the unaudited management accounts of Shangma Iron Mine, the historic outputs of the Shangma Mine for the three years ended 31 December 2011 were as followed:

	2009	2010	2011
	(unaudited)	*(unaudited)*	*(unaudited)*
Output (Ton)	219,913.77	146,892.98	286,100.00
Cost of Mining (RMB/Ton)	250.74	210.14	318.75
Cost of Processing (RMB/Ton)	133.40	143.50	119.70
Total Cost (RMB/Ton)	384.14	353.64	438.45

As advised by the Directors, total output of Shangma Mine for the year ended 31 December 2010 was approximately 146,892.98 tons, representing a decrease of approximately 33.20% from approximately 219,913.77 tons for the year ended 31 December 2009, which was mainly attributable to decrease in the then reserve of certain mining areas operated by Shangma Iron Mine and more resources had been allocated to the applications for licenses of new mining areas. As advised by the Directors, total output of Shangma Mine for the year ended 31 December 2011 increased by approximately 94.76% to approximately 286,100.00 tons was mainly attributable to the increase in market demand and increase in production capacity of Shangma Iron Mine as a result of additional new mines had been put into production in 2011.

According to the Letter from the Board, total cost per ton of Shangma Mine for the three years ended 31 December 2011, which comprised cost of mining and cost of processing, were in amount of approximately RMB384.14, RMB353.64 and RMB438.45, respectively.

As advised by the Directors, cost of mining mainly included materials costs, direct labour cost, depreciation,mining equipment leasing fees and transportation costs. Cost of mining for the year ended 31 December 2010 was approximately RMB210.14 per ton, representing a decrease of approximately 16.19% from approximately RMB250.74 per ton for the year ended 31 December 2009, which was mainly attributable to decrease in materials costs as a result of the improvement in quality of mined ore. Cost of mining for the year ended 31 December 2011 increased by approximately 51.68% to approximately RMB318.75 per ton, which was mainly attributable to that in order to meet the great demands for iron ore concentrate, new mining sites had to be added, geotechnical stripping increased and strip mining doubled compared to the year ended 31 December 2010. Due to the increase of strip mining, the iron ore mined was diluted and more iron ore was needed in order to produce the same amount of iron ore concentrates. As a result of the reasons above the overall cost of mining increased.

As advised by the Directors, cost of processing mainly comprised iron ore crushing, ball-milling and magnetic separation. The cost of processing for the year ended 31 December 2010 was approximately RMB143.50 per ton, representing an increase of approximately 7.57% from approximately RMB133.40 per ton for the year ended 31 December 2009, which was mainly attributable to decrease in output of iron ore concentrates which led to higher fixed processing costs per ton. Cost of processing per ton for the year ended 31 December 2011 decreased by approximately 16.59% to RMB119.70 per ton was mainly attributable to increase in production volume which led to the effect of economies of scale. Based on our review on the unaudited management account for the three years ended 31 December 2011 provided by the Company and discussion with the Directors, no material contradictory statements made by the Directors regarding the abovementioned financial information was identified.

PRINCIPAL FACTORS CONSIDERED

In arriving at our recommendation and giving our advice to the Independent Board Committee and the Independent Shareholders in respect of the Equity Transfer Agreement and the transactions contemplated thereunder, we have considered the following principal factors and reasons:

1. Reasons and the benefits of the Fushun Shangma Acquisition

A. *Changes in circumstances since the issue of the Prospectus*

As disclosed in the Prospectus, Shangma Iron Mine was treated as excluded business because the timing of obtaining the land use right certificates and the building ownership certificates for the Shangma Mine (which was previously operated by Shangma Iron Mine and has already been transferred to Fushun Shangma in May 2012) and its mine processing plants was uncertain. According to the Letter from the Board, subsequent to the listing of the Company on the Stock Exchange, the following progress has been made in this regard:

(i) *Title certificates for the mine processing plants*

According to the Letter from the Board, Shangma Iron Mine has obtained the land use right certificates and the building ownership certificates for both of the mine processing plants of the Shangma Mine.

(ii) *Availability of temporary land use rights for the Shangma Mining Land*

According to the Letter from the Board, since the issue of the Prospectus, the problems associated with the lack of land use rights certificates for the Shangma Mining Land has been further mitigated as a result of new measures introduced by the PRC government. As advised by the PRC legal adviser, on 21 November 2011, the Liaoning Department of Land and Resources promulgated a new notice on the experimentation on the reform of land use in mining activities, which allows certain mining enterprises to occupy land on a temporary land use basis. Fushun Shangma, being designated as one of the experimenting enterprises in Fushun County, is in the process of applying to undertake mining activities at the Shangma Mining Land on a temporary land use basis, and it is expected that when the "Proposal for Experiment on the Reform of Mining Land Use Right" of Fushun County is approved in future, Fushun Shangma will be able to undertake mining activities at the Shangma Mining Land on a temporary land use basis in accordance with the relevant laws and regulations.

As advised by the PRC legal adviser, so far as the PRC legal adviser is aware, there are no legal consequences or legal impediment to Fushun Shangma undertaking mining activities at the Shangma Mining Land on a temporary land use basis in accordance with the relevant laws and regulations of the PRC if the "Proposal for Experiment on the Reform of Mining Land Use Right" is approved and the temporary land use right is granted to Fushun Shangma accordingly.

The Directors are of the view that, and as advised by the PRC legal adviser, in light of the new measures introduced by the PRC government above, and the Shangma Mine has been in operations for over 10 years, the risk that Fushun Shangma will be subject to penalties as a result of conducting mining activities at the current site of the Shangma Mining Land in the absence of land use rights certificates is much lower than that at the time prior to the listing of the Company.

According to the Letter from the Board, pursuant to the Equity Transfer Agreement, if Aoniu Mining suffers any penalties imposed by any government authorities in relation to any legal defects with regard to Shangma Iron Mine Assets including the failure to obtain the land use right certificates, Shenyang Toyo has undertaken to indemnify Aoniu Mining and Fushun Shangma for any losses incurred.

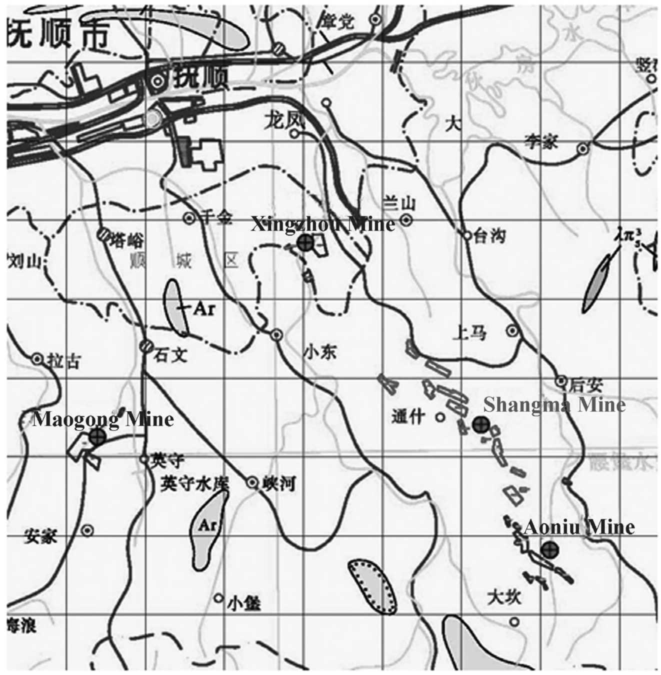
The Directors and the PRC legal adviser have confirmed that according to the undertaking in the Equity Transfer Agreement given by Shenyang Toyo to indemnify Aoniu Mining, the compensation of liabilities suffered by Aoniu Mining that Shenyang Toyo shall bear will not be limited to the governmental penalties for the legal defects with regard to the Shangma Iron Mine Assets but will include other damages and losses suffered by Aoniu Mining and Fushun Shangma. Provided that any such legal defects or non-compliance with regard to the Shangma Iron Mine Assets had occur prior to the Completion Date. In this regard, we are of the view that it is in the interest of the Company and its shareholders as a whole.

(iii) *New mine exploration strategy introduced by the PRC government which enable further expansion of the Group's Iron Exploration Business after the Fushun Shangma Acquisition*

According to the Letter from the Board and based on the representation of the Directors, the Ministry of Land and Resources is promoting a new strategy relating to mine exploration based on the geology of the mine, which emphasizes the exploration preparation work. We have conducted interview with the Directors and we understand that the New Strategy was announced on 29 April 2011. A professional institution has been commissioned by the Fushun City Bureau of Land and Resources to formulate Fushun County Liaoning Province Reinforcement — Aoniu Scheme in June 2012, which is a proposal prepared pursuant to the New Strategy by the local bureau of land and resources in respect of the Aoniu District in which the Shangma Mine, the Aoniu iron ore mine and the Xingzhou iron ore mine of the Group are located. The Fushun authorities are in the process of formulating a planned area which can satisfy the conditions for such exploration preparation work. Prior to the introduction of the New Strategy, the Company could only carry out exploration work in the vicinity of 500 meters of its mining areas. However, such restrictions will be removed under the new strategy, and the potential exploration area around the mines is expected to be significantly expanded. Based on our interview with and representation from the Directors, we consider that it is not unreasonable for the Directors to have such expectation.

According to the Letter from the Board and based on the representation of the Directors, the Shangma Mine is situated at the centre of the iron ore metallogenic belt in Fushun and is just located mid-way between the Aoniu iron ore mine and Xingzhou iron ore mine of the Group. It can act as a hub of the Aoniu iron ore mine and Xingzhou iron ore mine. These three iron ore mines should be consolidated and undergo system planning from the perspective of the sustainable development of the Group's iron exploration business. It is expected that after acquisition of the Shangma Mine, the consolidation of the three mines can help the Group to creating a complete exploration area from Aoniu to Xingzhou, which will help the Group to expand its development in iron ore exploration and significantly increase the potential of the reserves.

A map showing the location of the Shangma Mine, the Aoniu iron ore mine and the Xingzhou iron ore mine of the Group is set out below:



(iv) *Additional resources of the Shangma Mine have been explored*

As advised by the Directors, additional resources of the Shangma Mine have been explored but the relevant approved filing certificate has not yet been obtained from the Liaoning Department of Land and Resources. It is expected that in case the Group acquires Fushun Shangma after such certificate has been obtained, the consideration payable for such acquisition will be higher than that currently payable under the Equity Transfer Agreement. Thus, the Directors considers that it is in the interest of the Company and its shareholders as a whole to acquire Fushun Shangma as soon as practicable.

The Directors have confirmed that they cannot quantify the extent of which the consideration of the Fushun Shangma Acquisition will be affected once the relevant certificates for the additional resources of the Shangma Mine is obtained, because although the additional resources have been explored, the actual minable resources and the costs involved in mining them cannot be measured accurately at this preliminary stage.

In light of the above, the Directors are of the view that Fushun Shangma should be acquired as soon as practicable, since the earlier the acquisition, the earlier the Company will be able to plan the exploration of the three iron ores mines as a whole. As such, the Directors further advise us that they consider the Fushun Shangma Acquisition is in the ordinary and usual course of business of the Group and is in the interest of the Company and its Shareholders as a whole. In this regard, we are of the view that it is fair and reasonable for the Company to conduct Fushun Shangma Acquisition at this stage.

B. ***The Fushun Shangma Acquisition will increase the iron ore reserves of the Group***

According to the Letter from the Board, being the largest independent privately-owned iron ore concentrate producer in Northeastern China, it is always the interest of the Group to explore opportunities to expand its iron ore reserves. The Shangma Mine has considerable iron ore reserves. The approved filing certificates of iron ore reserves in relation to the Shangma Mine issued by the Liaoning Department of Land and Resources have been obtained in 2009 and 2010 and the filed iron ore resource of the Shangma Mine was over 12 million tons as at 31 May 2012, the approved filing certificates of such iron ore reserves have also been obtained. Furthermore, additional resources of the Shangma Mine have been explored. The approved filing certificate of such new iron ore resources is expected to be obtained from the Liaoning Department of Land and Resource in future. The Directors expect that the Fushun Shangma Acquisition, if proceeding to completion, will increase the iron ore reserves of the Group.

C. ***The Fushun Shangma Acquisition will be beneficial to the expansion of the Group's operation capacity***

According to the Letter from the Board, the Shangma Mine is relatively mature and has two mine processing plants with a total capacity of processing 1.42 million tons of iron ore and producing 300,000 to 400,000 tons of iron ore concentrates (depending on the grades of the iron ore) per annum. The actual amount of iron ore concentrates produced by Shangma Iron Mine was approximately 286,100 tons in 2011, which was equivalent to approximately 22.8% of the total iron ore concentrates production of the Group in the same year. The Directors expect that the Fushun Shangma Acquisition, if proceeding to Completion, will improve the Group's operation capacity and revenue.

D. ***Resolving the potential competition issue between the Controlling Shareholders and the Group***

As stated in the Letter from the Board, we note that Shangma Iron Mine was treated as excluded business because the timing of obtaining the land use right certificates and the building ownership certificates for the Shangma Mine (which was previously operated by Shangma Iron Mine and has already been transferred to Fushun Shangma in May 2012) and its mine processing plants was uncertain and the Controlling Shareholders have granted to the Company a pre-emptive right to purchase the interest in Shangma Iron Mine pursuant to a non-competition undertaking dated 16 June 2011. The Directors are of the view that upon the Completion, Fushun Shangma will become the wholly-owned subsidiary of the Group and the potential competition issue between the Controlling Shareholders and the Group can be resolved and which is in interest of the Company and its shareholders as a whole.

E. ***Promising industry prospect of iron ore market in the PRC***

As stated in the Letter from the Board, the Directors have made reference to the prospect of the iron ore industry in determining the consideration of the Fushun Shangma Acquisition. In this regard, we have discussed with the Directors and the Directors had provided certain information of the recent iron ore market development as disclosed below:

(i) according to 中華人民共和國工業和信息化部 ("Ministry of Industry and Information Technology of the PRC"), it is anticipated that the total consumption quantity of iron ore in PRC will reach approximately 1.13 billion tons for the year ending 31 December 2015, which represents a CARG of approximately 4.2% from approximately 930 million tons for the year ended 31 December 2010;

(ii) according to Ministry of Industry and Information Technology of the PRC, it is expected that demand for crude iron in the PRC will amount to approximately 750 million tons for the year ending 31 December 2015, which represents a CARG of approximately 3.72% as compared with approximately 648 million tons for the year ended 31 December 2011;

(iii) according to the interim results announcement for the six months ended 30 June 2012 of the Company dated 21 August 2012 ("**Interim Results Announcement**") and the representation of the Directors, in the first half of 2012, the economy of PRC was affected and the growth rate was dampened, which is attributable to the slow recovery of economy of the United States and contagious effect of the recession in European countries. Currently, the domestic steel output is emerging a trend of a modest growth and a significantly decelerated growth rate. According to the data from the National Bureau of Statistics of the PRC, in the first half of 2012, the national outputs of pig iron, crude steel and steel were 334.04 million tons, 357.2 million tons and 467.44 million tons respectively, representing an increase of 2.9%, 1.8% and 6.1% respectively compared to the corresponding period of the previous year. However, according to the data published by Bureau of Statistics of Liaoning Province, the GDP of Liaoning province was RMB1,122.81 billion in the first half of 2012, representing an increase of 9.2% compared with the corresponding period of the previous year and was higher than the national average. Furthermore, Liaoning Province continued to promote industrial upgrading measures for industries including equipment manufacturing, and to construct affordable housing as well as energy and transportation facilities, which will then boost the demand for raw materials (including iron ore). In this regard, as advised by the Directors, the sales volume of iron ore products produced by the Company for the six months ended 30 June 2012 remains at similar level as compared to the corresponding period of the previous year despite the sluggish economy of the PRC as mentioned above;

(iv) according to the Interim Results Announcement, in the first half of 2012, the iron ore mining of the Group was expanded, and the iron ore production volume was 2,899.2 thousand tons, representing a year-on-year increase of 37.90%; the production of iron ore concentrates reached 681 thousand tons, representing an increase of 8.71% as compared to corresponding period of the previous year. Based on the representation of the Directors, although the sales of iron ore concentrates of the Group remains at similar level as compared to the corresponding period of the previous year, the increase in production volume mainly serves for the purpose of meeting sales orders of the Group in the second half of 2012; and

(v) according to the Interim Results Announcement, the crude steel output of the PRC of the first half of 2012 recorded an increase of 1.8% compared to the corresponding period of the previous year. Yet, to consider the absolute output volume, the crude steel output of China for the first half of 2012 reached 357 million tons, representing 46.6% of the global crude steel output, which remains as the largest crude steel production country worldwide. At the same time, as at the end of 2011, the urbanization rate in China reached 51.27%. As compared to the urbanization rate of approximately 80% of developed countries, the Directors consider that the PRC still has huge potential in terms of urbanization. Accordingly, the rate of growth of crude steel output in China may not reach a high level, but the aggregate output will still maintains at a high level, which will in turn be the continuous support for the future demand for the iron ores market.

Having consider abovementioned industry prospect of iron ore market in the PRC, the Directors consider that by increasing the iron ore reserves of the Group and operation capacity through the Fushun Shangma Acquisition, the Group will be in a better position to capture the expected increase in market demand in long run. In the light of the above, the Directors are of the view that the Fushun Shangma Acquisition is in the ordinary and usual course of business of the Group and in the interest of the Company and its shareholders as a whole.

For the data as stated in the above mentioned public available information, we have reviewed (i)《鋼鐵工業"十二五"發展規劃》issued by Ministry of Industry and Information Technology of the PRC on 7 November 2011; and (ii) data from the National Bureau of Statistics of the PRC regarding pig iron, crude steel and steel dated 18 June 2012 and urbanization rate dated 17 August 2012; and (iii) gross domestic product of Liaoning Province from the Bureau of Statistics of Liaoning Province dated 1 August 2012, we consider that our understanding is consistent with that of the Directors.

Taking into account the background to, and reasons for, the Fushun Shangma Acquisition, including (i) information of Fushun Shangma; (ii) changes in circumstances since the issue of Prospectus (iii) Fushun Shangma Acquisition being part of the Group's strategy to increase its iron ore reserves and operation capacity in the PRC; (iv) PRC legal adviser's opinion on the temporary land use rights to be obtained by Fushun Shangma; and (v) the latest overview of the iron ore market in the PRC, we are of the view that it is reasonable for the Directors to conduct the acquisition at this stage and concur with the view of the Directors that the Fushun Shangma Acquisition is in the ordinary and usual course of business of the Group and in the interest of the Company and its shareholders as a whole.

2. Consideration of the Fushun Shangma Acquisition

In order to assess the fairness and reasonableness of the consideration of the Fushun Shangma Acquisition, we have (i) reviewed and discussed with the Directors the principal terms of the Equity Transfer Agreement, (ii) discussed with the Directors the basis of their consideration; and (iii) reviewed the valuation of the equity interest of Fushun Shangma prepared by an independent third party.

A. *Principal terms of the Equity Transfer Agreement*

The principal terms of the Equity Transfer Agreement as stated in the Letter from the Board are extracted as below:

Date	3 July 2012
Parties	(i) Aoniu Mining, as the purchaser of 100% equity interest in Fushun Shangma (ii) Shenyang Toyo, as the vendor of 100% equity interest in Fushun Shangma, which is a subsidiary of Hanking Group (iii) Fushun Shangma, the target company under the Equity Transfer Agreement
Subject of the Fushun Shangma Acquisition	100% equity interest in Fushun Shangma
Consideration for the Fushun Shangma Acquisition	RMB100 million The consideration will be settled entirely by cash, with approximately HK$36.40 million (equivalent to approximately RMB29.44 million) of which will be funded by the proceeds raised from the Company's initial public offering and the remaining balance will be settled by internal resources of the Group.

According to the Letter from the Board, pursuant to the Equity Transfer Agreement, if Aoniu Mining suffers any penalties imposed by any government authorities in relation to any legal defects with regard to Shangma Iron Mine Assets including the failure to obtain the land use right certificates, Shenyang Toyo has undertaken to indemnify Aoniu Mining and Fushun Shangma for any losses incurred.

The Directors and the PRC legal adviser have confirmed that according to the undertaking in the Equity Transfer Agreement given by Shenyang Toyo to indemnify Aoniu Mining, the compensation of liabilities suffered by Aoniu Mining that Shenyang Toyo shall bear will not be limited to the governmental penalties for the legal defects with regard to the Shangma Iron Mine Assets but will include other damages and losses suffered by Aoniu Mining and Fushun Shangma.

Provided that any such legal defects or non-compliance with regard to the Shangma Iron Mine Assets had occur prior to the Completion Date. In this regard, we are of the view that it is in the interest of the Company and its shareholders as a whole. The principal terms of the Equity Transfer Agreement are determined by the parties involved in the Fushun Shangma Acquisition after the arms-length negotiation. In this regard, the Directors are of the view that the principal terms of the Equity Transfer Agreement are on normal commercial terms and fair and reasonable.

B. ***Basis of the consideration of the Fushun Shangma Acquisition***

According to the Letter from the Board, the consideration of the Fushun Shangma Acquisition was arrived at after arm's length negotiation between the parties to the Equity Transfer Agreement, after taking into account, among others, (i) the prospect of the iron ore industry; (ii) the existing size and quality of Fushun Shangma's assets; and (iii) the historical output and cost of the Shangma Mine. We understand that the Directors have also considered the estimated outstanding costs payable by Fushun Shangma for applying for the land use rights certificates is approximately RMB5 million. We note that since the additional cost payable by the land use rights certificate in amount of approximately RMB5 million is just accounted for approximately 5% of the consideration of the Fushun Shangma Acquisition, we are of the view that this amount will not be material for us to consider the fairness and reasonableness of the consideration of the Fushun Shangma Acquisition.

Based on the abovementioned basis, the Directors advise us that, in calculation of the consideration of the Fushun Shangma Acquisition, they have considered and made reference to (i) the prospect of the iron ore industry in the PRC, market development and government policies as discussed in the section headed "Reasons for entering into the Equity Transfer Agreement" in the Letter from the Board as well as the trend of iron ore concentrate selling price of the Group in the past year; (ii) in assessing the size and quality of Fushun Shangma's assets, reference was made to transactions of selected companies listed on the Shanghai Stock Exchange in order to assess the fair value of the mining rights of Fushun Shangma, as well as the book value of the other assets and liabilities of Fushun Shangma. The transactions of companies listed on the Shanghai Stock Exchange are acquisitions of mines which are similar in size, maturity and within a similar geographic region as the Shangma Mine as well as having similar iron ore processing capabilities. Reference was mainly made to the fair value per ton of iron ore concentrates in these transactions. In respect of the reference cases, we have discussed with the Directors and the Directors advised us that the reference cases included (i) disclosed acquisition of 方大特鋼科技股份有限公司 ("Fangda Special Steel Technology Co., Ltd") (SH:600507) with announcement dated 4 January 2011; and (ii) disclosed acquisition of 山東大成農藥股份有限公司 ("Shandong Dacheng Pesticide Co., Ltd.") (SH:600882) with announcement dated 25 July 2011. Based on the representation of the Directors regarding the factors that they had considered for the reference cases, we consider that it is not unreasonable for the Directors to make references on these cases for their consideration of the fair value of the mining right. With regards to the historical output and cost of the Shangma Mine, reference was made to the sales, cost and profits of the Shangma Mine for the past three years, and also taking into consideration the fact that the Shangma Mine is a relatively mature mine which has had increasing production levels for the past three years. In this regard, the Directors are of the view that the basis of consideration of Fushun Shangma Acquisition is on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole.

Further advised by the Director, although the Company has the right to acquire Fushun Shangma at a price determined by an independent valuer pursuant to the non-competition agreement dated 16 June 2011, after arm's length negotiation between the Company and the Controlling Shareholders have arrived at the consideration of RMB100 million having considered the various factors stated under the paragraph headed "Basis of Consideration" in the Letter from the Board and this letter. In addition, in order to allow the Independent Financial Adviser, the Independent Shareholders and the Independent Board Committee to have an additional reference point for the valuation of the equity interest in Fushun Shangma, the Company has engaged an independent valuer, Savills, to value the equity interest in Fushun Shangma before execution of the Equity Transfer Agreement. According to the valuation report prepared by the Valuer dated 6 June 2012 (the "**Valuation Report**"), the fair value of the equity interest in Fushun Shangma was approximately RMB106 million based on the fair value of the net assets position of Fushun Shangma as of 31 May 2012. We understand that the consideration of RMB100 million arrived at by the Company and the Controlling Shareholders on the bases stated under the paragraph headed "Basis of Consideration" in the Letter from the Board was approximately to the value of equity interest in Fushun Shangma as set out in the Valuation Report. The Directors are of the view that such basis for determining the consideration is more appropriate in light of all current circumstances and is in the interests of the Company and its shareholders as a whole, therefore, the Directors have decided not to use the independent valuation prepared by the Valuer as the basis for determining the consideration payable under the Equity Transfer Agreement.

C. ***Valuation***

We note that the Company has engaged Savills to provide an opinion on the fair value of the equity interest in Fushun Shangma (the "**Equity Valuation**") as at 31 May 2012 (the "**Valuation Date**") in order to allow the Independent Financial Adviser, the Independent Shareholders and the Independent Board Committee to have an additional reference from an independent professional party for the Equity Valuation. According to the Valuation Report, the Valuer is of the opinion that the Equity Valuation is in the amount of approximately RMB106 million based on the fair value of the net assets position of Fushun Shangma as at the Valuation Date. As advised by the Directors, the Company has not made reference to the Valuation Report when determining the consideration of the Fushun Shangma Acquisition.

In order to understand the fairness and reasonableness of the Valuer's opinion on the Equity Valuation, we have reviewed the Valuation Report and discussed with the Valuer regarding, among other things, (i) assessing the profile of the Valuer and enquired the valuation standards adopted by the Valuer, (ii) the methodology adopted by the Valuer in conducting the Equity Valuation, and (iii) major Factors and assumptions considered by the Valuer. We have not carried out any independent verification of the information provided to us.

(i) *Profile of the Valuer and the valuation standards adopted by the Valuer*

According to the Valuation Report and our discussion with the Valuer, Mr. Paul Hung is the representative of Savills to approve and issue the Valuation Report. Mr. Hung is a member of Royal institution of Chartered Surveyors, Accredited Senior Appraiser (Business Valuation) of American Society of Appraisers, the member of the Canadian Institute of Mining, Metallurgy and Petroleum and the member of the Australasian Institute of Mining and Metallurgy, and a Certified Business Appraiser of the Institute of Business Appraisers, Inc.. The Valuer advises us that he has over 10 years' experience in valuation of mineral resources projects in Hong Kong and the PRC. In the meanwhile, the Valuer confirmed us that he was independent of the issuer, the Directors, the senior management of the Company and other advisers involved in this transaction. Based on the interview and the representation of the Valuer, we understand that the Valuer has performed mineral resources valuation projects before such as China Investment Fund Company Limited (HK: 00612) and other private merge and acquisition cases, which are similar to the Equity Valuation.

According to the Valuation Report, the Valuer has adopted the Hong Kong Business Valuation Forum Business Valuation Standards (the "**BVS**"). Based on the representation of the Valuer, the Valuer advises that the BVS is formed by the Hong Kong institute of surveyors, the Hong Kong Society of Financial Analysts and the Royal Institution of Chartered Surveyors to regulate the business valuation practitioners in Hong Kong and consider the BVS is the relevant governing standards in regulating business valuation. Based on our discussion with the Valuer, we understand that the BVS has been adopted in the business valuation of mining companies in the valuation reports of certain notifiable transactions of listed issuers on the Stock Exchange in the prior year, such as, Fushan International Energy Group Limited (HK: 00639) with circular dated 29 December 2008, Inno-Tech Holdings Limited (HK: 08202) with circular dated 11 September 2009 and Siberian Mining Group Company Limited (HK: 01142) with circular dated 19 January 2010.

(ii) *Methodology adopted by the Valuer in conducting the Equity Valuation*

According to the Valuation Report and our discussion with the Valuer, we understand that the Valuer has considered certain approaches for the Equity Valuation, namely the income approach, market approach and asset-based approach. The Valuer considered that, the income approach and market approach are not appropriate for the Equity Valuation since (i) the income approach does not reflect the value of non-operating assets. In this regard, it is difficult to distinguish those assets from operating assets by adopting income approach; and (ii) the market approach requires comparable cases regarding, among other things, comparable transaction time, scales of the mines, types of mines, mining grades and regional geology. The Valuer is of the view that there are not sufficient comparable cases for them to perform relevant verification works to support their opinion on the Equity Valuation according to the relevant requirements of the valuation standards, thus, the Valuer considers that the market approach will not be the most appropriate approach for the assessment of Equity Valuation when compared with the asset-based approach. Therefore, the Valuer has finally decided to adopt the asset-based approach for the Equity Valuation since the asset-based approach will provide a more accurate result on operating assets and non-operating assets. According to the Valuation Report, we understand that the asset-based approach represents an asset-based method of determining the value of the assessed assets by considering the fair value of the Company by deducting the fair value of liabilities from the fair value of various asset and the Valuer estimated the fair value based on the book value of assets/liabilities other than inventories, fixed assets, construction in progress and intangible assets. Based on the above, we concur with the view of the Valuer that asset based approach is an appropriate valuation approach for the Valuer to form his opinion on the Equity Valuation.

(iii) *Principle assumptions considered in the Equity Valuation*

According to the Valuation Report, the Equity Valuation is in the amount of RMB106 million as at the Valuation Date. A table showing the details of the result of the Equity Valuation is set out below:

Valuation Date **31 May 2012**	**Book Value** *(RMB)*	**Fair Value** *(RMB)*
Cash balance and cash	2,501	2,501
Inventories	4,874,485	4,874,485
Payment in advance	1,662,667	1,662,667
Other receivables	53,881,840	53,881,840
Total current assets	60,421,494	60,421,494
Fixed assets	62,099,319	56,928,000
Construction in progress	12,218,729	12,218,000
Intangible assets — mining right	25,490,300	120,000,000
Intangible assets — land	15,943,800	27,782,000
Deferred assets	37,761,179	37,761,179
Total non-current assets	153,513,327	254,689,179
Accounts payable	8,820,114	8,820,114
Taxes liabilities	–4,939,589	–4,939,589
Other payables	205,054,296	205,054,296
Total current liabilities	208,934,821	208,934,821
Net assets	**5,000,000**	**106,000,000**

According to section headed "Principal Valuation Assumption" in the Letter from the Board, in preparing the Valuation Report, we understand the Valuer has adopted principal assumptions which are stated in the section headed "Specific Assumptions" in the Valuation Report. The Board considers all the principal assumptions to be fair and reasonable based on their collective experience, professional judgments and careful due diligence on (i) the financial information and other pertinent data concerning Fushun Shangma and Shangma Iron Mine; (ii) the historical operating capacities and current reserves of the Shangma Mine; and (iii) the cash flow forecast of Shangma Iron Mine.

For further details of the principal valuation assumptions, please refer to the section headed "Principal Valuation Assumption" in the Letter from the Board. Based on our assessment on the profile of the Valuer as stated above, we consider that the Valuer should possesses relevant experience in order to conduct the valuation of the equity interest of

Fushun Shangma. Based on our discussions with the Directors and the Valuer regarding the principal valuation assumptions considered in the fair value of certain principal items, we have no reason to believe the principal valuation assumptions are unreasonable in material aspect and we consider that the Valuation Report has been prepared by the Valuer on a reasonable basis without any unusual assumption which might lead to material misstatement on the Valuer's opinion of the Equity Valuation.

We note that the key changes are mainly attributable to increment in the valuation of Fushun Shangma's mining right from the book value of RMB25,490,300 to the fair value of RMB120,000,000.

Mining right

According to the Valuation Report, the Valuer has adopted the multi-period excess earnings method in the valuation of mining right, which calculates the operating profits derived from mining right less the required return from tangible and intangible assets. The fair value of mining right represents the sum of discounted present value of expected excess earnings for the year. The Valuer advises us that the multi-period excess earning method is the one of the mostly used methods to access the fair value of mining rights.

As advised by the Valuer, in accessing the fair value of the mining right, among other factors, the Valuer has considered the expected income from existing resources and reserve of Shangma Mine, which is the key revenue generator of Fushun Shangma depending on (i) the iron ore resources of Shangma Mine and (ii) the projected market price of the iron ore in the PRC.

As advised by the Directors and the Valuer, the Valuation Report has only taken into account the value of Shangma Mine iron ore resources which have already obtained the approved filing certifications but without taking into account its iron ore resources which are under exploration but which approval and filing procedures are yet to be completed. According to the Valuation Report, we understand that the Valuer has relied on the Reserve Reports to ascertain the reserves of Shangma Mine. According to our discussion with the Valuer, we understand that the Valuer has conducted certain due diligence, including but not limited to site visit, site measuring, recording and sampling in order to have a better understanding of the Reserve Reports. The Valuer advised us that they assumed that the statements in the Reserve Reports were correctly recorded in the preparation of Valuation Report. Furthermore, we note that the Reserve Reports were issued by 遼寧溪源 — 礦產資源評估有限公司 (Liaoning Xiyuan Mineral Resources Appraisal Company Limited*) (the "**Reserve Reports Issuer**"). The Directors advised us that the Reserve Reports Issuer was an independent third party and was one of the licensed evaluators on list of mineral reserve evaluators of Ministry of Land and Resources of the PRC. As discussed with the Directors and based on the representation of the Reserve Report Issuer, we understand that the representative of the Reserve Report Issuer who in-charged the preparation of the Reserve Reports had gained the required qualification of for valuer of mineral reserve in the PRC accredited by the Ministry of Land and Resources of the PRC with about 10 years experiences in mineral related projects in the PRC and the Reserve Reports were prepared in accordance with the new Chinese Code. The Directors advised us that the Reserve Reports had been filed with Liaoning Province Department of Land & Resources Bureau. As advised by the PRC legal adviser, the approved filing certificates indicate the Reserved Reports and its filings are complied with relevant rules and regulations of the PRC.

According to the Reserve Reports, we understand that the Reserve Reports Issuer has performed, among others, comprehensive geological survey, engineering control, sampling and pumping test in order to identify the mines of the Mining Right and their respective sizes, attitudes, occurrences and ore qualities in accordance with Specifications for iron, manganese and chromium mineral exploration (DZ/T0200–2002) under Geology and Mineral Resources Industry Standard of the PRC issued by Ministry of Land and Resources of the PRC.

Based on the interview with the Valuer, they have past experiences in interpreting the data from the relevant PRC standard reserve reports for certain listed issuers on the Stock Exchange. In the meanwhile, based on the representation from the Valuer, we understand that the Valuer is familiar with the difference between the reporting standards adopted in the Reserve Reports and the other internationally accepted standards (e.g. JORC code). For details, please refer to the Valuation Report in Appendix I as to this Circular.

As (i) the Reserve Reports were issued by licensed evaluator on the list of Ministry of Land and Resources of the PRC under Geology and Mineral Resources Industry Standard of the PRC, (ii) the Valuer has the relevant experiences and qualification to understand the Reserve Report based on our assessment stated in the paragraphs headed "Profile of the Valuer and the valuation standards adopted by the Valuer" and the representation from the Valuer and (iii) the Valuer has conducted due diligence regarding the Reserve Reports, we consider as stated above that it is justifiable for the Valuer to adopt the information of the Reserve Reports and use the multi-period excess earnings method in forming his opinion on the fair value of the mining right.

Furthermore, according to our interview with the Valuer, we understand that, in their consideration of the expected income from the existing resources and reserve, the Valuer has taken into account of the projected market prices of iron ore which are forecasted with reference to the market research reports issued by certain reputable investment banks including but not limited to Credit Suisse, City Group Markets, Goldman Sachs, Morgan Stanley, and UBS. We understand that the date of the selected market research reports ranged from 10 January 2012 to 13 April 2012. As advised by the Valuer, it is reasonable to rely on such research reports as they are issued by reputable investment banks.

Given the valuation of the mining rights of Fushun Shangma in the Valuation Report involves the use of the discounted cash flows approach, it is regarded as a profit forecast under Rule 14.61 of the Listing Rules and the Company is required to, and has, fully complied with Rule 14.62 of the Listing Rules. The Directors have confirmed that they have reviewed and discussed with Savills the bases and assumptions upon which the Valuation Report has been made. We understand that the Directors has engaged a reporting accountant to review its discounted future estimated cash flow. The reporting accountant is in the opinion that the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled, in all material respects, in accordance with the assumptions. For details, please refer to Appendix II as to this Circular. The Directors have confirmed that the Valuation Report has been made after due and careful enquiry according to the Letter from the Board.

Assets/Liabilities other than mining right

According to the Valuation Report, the Valuer also adopted various methodologies to assess the valuation of assets/liabilities other than the mining right based on the various natures of such assets including: (i) cost of the inventory as at the Valuation Date; (ii) replacement cost approach in the valuation of buildings, structures, other auxiliary facilities and the construction in process; (iii) second hand market approach in the valuation of electronic devices and motor vehicles; (iv) cost approach in the valuation of manufacturing machines and equipments and (v) land datum value approach in the valuation of land use right. The Valuer consider that there will not be material difference between the book value and the fair value of payment in advance, other receivables, deferred assets, accounts payable, taxes and dues payable, other payables as those balance are expected to be settled within one year with no material indication of impairment identified as confirmed by the Company. For further details of the basis of aforesaid methodologies applied to the assets/liabilities other than mining right of Fushun Shangma, please refer to the section headed "Appendix I — Valuation Report". For further details of the Valuer's basis for adopting each of the valuation methodology for each asset/liability other than the mining right, please refer to the section headed "Appendix I — Valuation Report"

As advised by the Valuer, in order to arrive at abovementioned various valuations, they have (i) performed site visit and independent research regarding Equity Valuation; (ii) reviewed and sampling checked fixed assets, inventory, receivables and payables records and discussed with the management of the Company; and (iii) reviewed mining right certificate of Shangma Iron Mine.

Based on assessment on the qualification of the Valuer, our discussion with the Valuer and the representation of the Valuer, the Valuer is of the view that the methodologies applied to the assets/liabilities other than mining right of Fushun Shangma are best suitable based on their past experiences in valuations of such similar assets/liabilities and we do not identify any unusual assumption and methodologies which would lead to material misstatement on the valuation of the assets/liabilities other than mining right of Fushun Shangma.

D. *Conclusion*

Since Fushun Shangma is primarily engaged in the business of mining and processing of iron ore fines and iron ore concentrates and currently owns the Shangma Mine, we have discussed with the Directors and the Valuer and we understand that the Valuation Report is not prepared under the requirement of the rule 18.34 of the Listing Rules. However, after taking into account (i) the profile of the Valuer and enquired the valuation standards adopted by the Valuer, (ii) the methodology adopted by the Valuer in conducting the Equity Valuation, and (iii) major factors and assumptions considered in the fair value of certain principal items, we consider that the Valuation Report has been prepared by the Valuer on a reasonable basis without any unusual assumption which might lead to material misstatement on the Valuer's opinion of the Equity Valuation. In the light of the above, we are of the view that the Equity Valuation can provide a reliable benchmark for the Independent Board Committee and the Independent Shareholders to access whether the consideration of the Fushun Shangma Acquisition is on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole.

We understand that the Company and the Controlling Shareholders have arrived at the consideration of approximately RMB100 million having considering various factors as discussed in the paragraphs headed "Basis of Consideration of the Fushun Shangma Acquisition" in our letter. While we have considered those factors as discussed in the paragraphs headed "Basis of Consideration of the Fushun Shangma Acquisition" in our letter, in addition, we also consider the Valuation Report which provided us an additional reference on reasonableness of the Equity Valuation. Based on our assessment on the Valuation Report as stated in our letter, we are of the view that the Equity Valuation stated in the Valuation Report can provide a reliable benchmark for us to access whether the consideration of the Fushun Shangma Acquisition is on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole. Therefore, we have not performed additional valuation assessment with another valuation approach to verify the Equity Valuation. As confirmed by the Directors and solely based on their representations, they are not aware of any subsequent events that will have any potential impairment on the valuation of the equity interest in Fushun Shangma and hence negatively affect the Group's earning up to the Latest Practicable Date since the Valuation Date.

Given the fact that (i) the principal terms of the Equity Transfer Agreement are determined by the parties involved after arms-length negotiation; (ii) the Directors have made reference to several factors, among others, the prospect of the iron ore industry; the book value of net assets of Fushun Shangma as at the Valuation Date as well as comparable cases in determining the consideration of the Fushun Shangma Acquisition; and (iii) the consideration of the Fushun Shangma Acquisition at RMB100 million represents a discount of approximately 6% when compared with the Equity Valuation prepared by the Valuer at RMB106 million. We concur with the view of the Directors that the principal terms of the Equity Transfer Agreement and the consideration for Fushun Shangma Acquisition is on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

3. Possible financial effects of the Fushun Shangma Acquisition on the Group

A. *Effect on net assets value*

According to the Interim Result Announcement, the unaudited net asset attributable to owners of the Company was approximately RMB1,296.9 million as at 30 June 2012. As stated in the Valuation Report, the Equity Valuation is in the amount of approximately RMB106 million as at the Valuation Date which is slightly higher than the consideration of the Fushun Shangma Acquisition of RMB100 million according to the Letter from the Board. In light of abovementioned, the Directors consider that the Fushun Shangma Acquisition will not have material negative impact on the net assets position of the Group immediately upon the Completion.

B. ***Effect on earnings***

As stated in the Letter from the Board, the Fushun Shangma Iron Mine generated unaudited profit after taxation and extraordinary items for each of the two years ended 31 December 2011 of approximately RMB41.70 million and RMB93.80 million, respectively. In this regard, the Directors expect that Fushun Shangma can contribute to the Group's earning upon the Completion as well as enhance the future earnings capability of the Group.

C. ***Effect on gearing and working capital***

As advised by the Directors, the bank balances and cash, and unutilised banking facilities of the Aoniu Mining as at 30 June 2012 was approximately RMB573.80 million and RMB624.00 million respectively; and the bank balance and cash, and unutilized banking facilities of the Group as at 30 June 2012 was approximately RMB684.15 million and RMB624.00 million respectively.

As stated in the Letter from the Board, the consideration of the Fushun Shangma Acquisition of RMB100 million will be settled entirely by cash funded by part of the proceeds raised from the Company's initial public offering and internal resources of the Group and as advised by the Directors, approximately HKD36.40 million (equivalent to approximately RMB29.44 million as at the Latest Practicable Date) of the proceeds raised from the Company's initial public offering will be used for the consideration of the Fushun Shangma Acquisition settlement, which is consistent with the use of proceeds stated in the Prospectus. The remaining balance will be settled by internal sources of the Group and no new interest-bearing borrowings will be made for the purpose of Fushun Shangma Acquisition. In this regard, the Directors, after the consideration of available working capital of Aoniu Mining and the Group as a whole, consider that the payment for the consideration of the Fushun Shangma Acquisition of RMB100 million will not have any material adverse impact on the working capital position of the Group in long run.

On the other hand, as stated in the Letter from the Board, Fushun Shangma has acquired all the assets of Shangma Iron Mine, which was wholly-owned by Mr. Yang, in May 2012 for a consideration of RMB205 million, the sum of which has not yet been paid and recorded as other payable in the book of Fushun Shangma as at 31 May 2012. As confirmed by the Directors, such other payable will constitute part of the Group's current liabilities immediately after the Completion. According to the Interim Result Announcement, the Group was at the net current assets position of approximately RMB177.0 million as at 30 June 2012. According to the Valuation Report, the fair value of current assets and current liabilities of Fushun Shangma as at 31 May 2012 are approximately RMB60.4 million and RMB208.9 million respectively. In this regard, the Directors are of the view that the Fushun Shangma Acquisition will increase the gearing position of the Group immediately after the Completion. In the meanwhile, the Directors advised us that this other payable was interest free and repayable on demand. Based on the management's communication with Shangma Iron Mine up to the latest practicable date, the Directors expect that Fushun Shangma will fully repay the amount due to Shangma Iron Mine on or before the end of September 2012 with the internal resources of the Group. In this regard, the Directors are of the view that the repayment of amount due to Shangma Iron Mine of approximately RMB205 million on or before the end of September 2012 will not have material negative effect on the financial position of the Group in long run after taking into account of the recent bank balance and cash position, the latest unutilised banking facilities as well as the operating activities of the Group.

In light of the above, we concur with the views of Directors that the Fushun Shangma Acquisition will not have any material adverse impact on the financial position of the Group in long run.

RECOMMENDATION

Having taking into account the principal factors and reasons as discussed above, we consider that the terms of the Equity Transfer Agreement and the transactions contemplated thereunder are in the ordinary and usual course of business of the Group, on normal commercial terms, fair and reasonable and the Fushun Shangma Acquisition is in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Shareholders, and the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the special resolutions to be proposed at the EGM to approve the Equity Transfer Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
CMB International Capital Limited
Kenny How
Managing Director
Investment Banking Division

The followings are the texts of the valuation report in respect of the entire equity interests in Fushun Shangma prepared by Savills Valuation and Professional Services Limited for the purpose of incorporation in this circular:

This valuation report is not a mineral asset valuation report prepared in accordance with Chapter 18 of the Listing Rules.

savills
第一太平戴維斯

Savills Valuation and
Professional Services Limited
23/F Two Exchange Square
Central, Hong Kong

T : (852) 2801 6100
F : (852) 2530 0756

EA Licence: C-023750
savills.com

The Directors

Fushun Hanking Aoniu Mining Limited
Hanking Building
No. 227 Qingnian Street
Shenhe District
Shenyang
Liaoning Province

6 June 2012

No. of this report: BJ/2012/VPS/8279/PH/XL

Dear Sirs,

RE: THE EVALUATION OF THE MARKET VALUE OF FUSHUN HANKING SHANGMA MINING COMPANY LIMITED

In accordance with your requirements and on behalf of Fushun Hanking Aoniu Mining Limited, we have assessed the market value of the enterprise value of Fushun Hanking Shangma Mining Company Limited (hereinafter referred to as the "Company") as of 31 May 2012 (hereinafter referred to as the "Valuation Date").

PURPOSE OF EVALUATION AND DEFINITION OF VALUE

This evaluation is intended to express an independent opinion regarding the market value of the enterprise value of Fushun Hanking Shangma Mining Limited as at the valuation date for circulation purpose.

This valuation is conducted in accordance with the rules of the Hong Kong Business Valuation Forum ("HKBVF"), pursuant to which market value represents "the price for the transfer of an asset between identified knowledgeable and willing parties that properly reflects the respective interests of those parties".

BRIEF INTRODUCTION OF THE COMPANY

The legal representative of Fushun Hanking Shangma Mining Company Limited is Yang Jiye, domiciled in Shangma Village, Shangma Township, Fushun Town. The Company was established on 4 March 2009, with the type of enterprise as limited liability company and a registered capital of RMB5 million. Operation scopes include underground production of open pit of iron mines (No. C2100002009112120042218 of the mining permit, which is due to expire on 26 September 2015; the safety production permit is due to expire on 24 December 2014), processing of iron ore (safety production permit is due to expire on 14 June 2013), consulting services on mining development, technical consulting services on mining as well as steel sales.

VALUATION METHODS

Considering that comparable cases are required for the use of the market approach regarding comparable transaction time, scales of the mines, types of mines, mining grades and regional geology, market approach is not adopted for this valuation due to the lack of sufficient comparable cases. Considering that the income approach only takes into account the income derived from the operating assets, and it is difficult to specifically distinguish non-operating assets from operating assets of the Company, the income approach is not adopted for this valuation.

Based on the current operating position of the Company, the asset-based approach is applicable for this valuation.

Under the asset-based approach, we have arrived at the fair value of the Company by deducting the fair value of liabilities from the fair value of various assets. We estimate the fair value based on the book value of assets/liabilities other than inventories, fixed assets, construction in progress and intangible assets. We assume that there is no material error in the scope or sum of the book value.

Assets/liabilities items involved in this valuation are set out as follows:

1. Money funds
2. Inventories
3. Payment in advance
4. Other receivables
5. Fixed assets
6. Construction in progress
7. Intangible assets
8. Long-term deferred expenses
9. Accounts payable
10. Taxes and dues payable
11. Other payables

Money funds

In the valuation of money funds, we have adopted the book value as at the valuation date and assume that there is no material error in the recording of financial information.

Payment in advance, other receivables, long-term deferred expenses, accounts payable, taxes and dues payable, other payables

As informed by the Company, there is no material difference between the time when all receivables and payables are due, whether they are due on demand or within a short period of time. Long-term liabilities due within one year will be repaid within a short period of time. Therefore, we have used the book value of assets in this valuation. Furthermore, we assume that there is no material error in the recording of financial information and all receivables are recoverable and sufficient provisions have been made.

Inventories

Market value of inventories as at the acquisition date is cost of materials less the current replacement cost for acquirers.

We have conducted our valuation subsequent to the valuation date as instructed by the Company. We assume that the information regarding the amount of inventories and the book values provided by the Company are accurate and without recording errors.

The Company has provided us with the acquisition cost of each material as at the valuation date for the valuation of materials. We have considered such costs as the market value of relevant materials during the valuation process.

Fixed assets

Fixed assets include buildings, structures and other auxiliary facilities, machines and equipments, automobiles and electronic devices.

We have adopted the replacement cost approach in the valuation of buildings, structures and other auxiliary facilities. For the purpose of this valuation, the "replacement cost approach" is defined by us as the value of land in the current condition in use and the replacement costs for buildings and structures, including professional fees and financial costs, less any costs incurred due to ages, natural decays and functional degradations.

We have adopted the second hand market approach in the valuation of electronic devices and motor vehicles. The second hand market approach considers the price paid for comparable second hand assets purchased recently, adjusted based on accrued impairments due to relevant conditions, tenures, losses and other factors of the assessed assets, to reflect the conditions and functions of the assessed assets as compared with those of the existing assets in the market.

The cost approach is adopted for manufacturing machines and equipments. The cost approach considers the costs of re-producing or replacing the existing assets with brand new ones calculated based on the current market price of comparable assets, including replacement costs comprising of transportation costs, installation and commissioning costs and preliminary expenses as well as capital cost, among others, adjusted based on accrued impairments due to relevant conditions, tenures, losses, functions and economics of technologies.

Construction in progress

We have adopted the replacement cost approach in the valuation of construction in progress. For the purpose of this valuation, the "replacement cost approach" is defined by us as the value of land in the current condition in use and the replacement costs for buildings and structures, including professional fees and financial costs, less any costs incurred due to ages, natural decays and functional degradations.

Intangible assets

Intangible assets include mining rights and land.

Intangible assets — mining rights

We have based the valuation of the mining permits on the geological report provided by the Company and other information of the Company. Details of the assessed mining permits are as follows:

Name of Permits	No. of Permits	Date of expiry	Area *(sq km.)*	Production Volume Permitted *(tons/year)*
Mining Permit of Fushun Hanking Shangma Mining Company Limited	C2100002009112120042218	26 September 2015	4.9849	800,000

We have adopted the excess earnings approach in the valuation of mining rights. Excess earnings are operating profits derived from mining rights less required return from tangible and intangible assets. Fair value of mining rights represents the sum of discounted present value of expected excess earnings for the year.

Expected excess earnings for the year is calculated based on financial budget and other relevant information provided by the management of the Company. In arriving at the expected excess earnings for the year, we have considered the following main factors:

Expected operating cash flow derived from mining rights:

(1) forecasted income from existing reserves and resources: the forecasted income from 2012 to 2016 are RMB271,820,000, RMB288,820,000, RMB302,000,000 and RMB103,200,000, respectively.

(2) assess all direct costs, relevant expenditure and capital expenditure from the production of relevant products based on the information and forecasts provided by the Company: the forecasted cost from 2012 to 2016 are RMB178,610,000, RMB191,800,000, RMB204,540,000 and RMB67,260,000, respectively.

(3) income tax calculated based on profit before tax: the forecasted income tax from 2012 to 2016 are RMB23,300,000, RMB24,250,000, RMB24,360,000 and RMB8,990,000, respectively.

(4) profit after tax calculated based on forecasted income, cost and tax: the forecasted profit after tax from 2012 to 2016 are RMB69,910,000, RMB72,760,000, RMB73,090,000 and RMB26,960,000, respectively.

In arriving at the required return from tangible and intangible assets:

(5) required return from tangible and intangible assets is calculated by multiplying the value of tangible and intangible assets by required return rate of each asset. In arriving at the required return of tangible assets, operating capital, fixed assets and labor, we have considered the following factors:

    (i) The latest average operating capital divided by its revenue;

    (ii) Estimated borrowing costs;

    (iii) Training costs for employees;

(6) expected excess earnings for the year is calculated by using expected operating profit less the required return from tangible and intangible assets; and

(7) calculating expected excess earnings for the year by using an appropriate discount rate.

In calculating the discount rate, we use the weighted average cost of capital (WACC) of the Company as the basic discount rate. WACC is arrived at, with reference to relevant weightings of each component of the capital structure, using the following formula:

$$WACC = We \times Re + Wd \times Rd \times (1 - T)$$

In which

Re	=	Cost of equity
Rd	=	Cost of debt
We	=	Weight of equity value to enterprise value
Wd	=	Weight of debt value to enterprise value
T	=	Corporate tax rate

Cost of equity = risk-free interest rate + equity beta × market risk premium + size premium + country risk premium.

Intangible assets — land

We have adopted the land datum value approach in the valuation of land. The land datum value approach represents an asset appraisal method of determining the price of the assessed land as at the valuation date by using assessed results such as the land datum value in towns and cities, as well as the correction coefficient of the land datum value, and in accordance with the substitution principle, comparing the area and individual conditions of the assessed land with the average conditions of the area it is located in, adjusted by the correction coefficient chosen in the correction coefficient table for the land datum value.

OTHER CONSIDERATIONS

In arriving at the market value, we have considered all relevant factors regarding the assessed assets and business operations of the Company. Basic factors include:

- market and operational risks of assessed assets;
- overall economic environment and specific investment environments for assessed assets and relevant industries of the Company;
- the nature and current financial conditions of the assessed assets and the Company;
- other specific assumptions mentioned in this report.

We have been provided with extracts of copies of relevant documents and audited and unaudited financial information relating to the assessed assets. We have relied upon the aforesaid information in forming our opinion of the market value. However, we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us. We have no reason to doubt the truth and accuracy of the said information which is material to the valuation. We have been advised by the Company that no material facts have been omitted from the information provided. We have also made relevant inquiries and obtained further information as considered necessary for the purpose of this valuation.

While we have exercised our professional knowledge and cautions in adopting assumptions and other relevant key factors in our valuation, those factors and assumptions are still vulnerable to the changes of the business, economic environment, competitive uncertainties or any other abrupt alternations of external factors.

The conclusion of the value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Further, while the assumptions and other relevant factors are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company and us.

This report is subject to specific and general assumptions and limiting conditions, which are set out in the attachments.

Opinion of Value

Based on the research, investigation and valuation approach adopted mentioned above, we have arrived at the following opinion on the market value of the enterprise value of Fushun Hanking Shangma Iron Mining Co., Ltd. at the valuation date:

Valuation Date **31 May 2012**	**Book Value** *(RMB)*	**Fair Value** *(RMB)*
Money funds	2,501	2,501
Inventories	4,874,485	4,874,485
Payment in advance	1,662,667	1,662,667
Other receivables	53,881,840	53,881,840
Total current assets	60,421,494	60,421,494
Fixed assets	62,099,319	56,928,000
Construction in progress	12,218,729	12,218,000
Intangible assets — mining rights	25,490,300	120,000,000
Intangible assets — land	15,943,800	27,782,000
Deferred assets	37,761,179	37,761,179
Total non-current assets	153,513,327	254,689,179
Accounts payable	8,820,114	8,820,114
Taxes and dues payable	(4,939,589)	(4,939,589)
Other payables	205,054,296	205,054,296
Total current liabilities	208,934,821	208,934,821
Net assets	**5,000,000**	**106,000,000**

On behalf of
Savills Valuation and Professional Services Limited

Paul Hung
MRICS ASA MAusIMM

Mr. Paul Hung is a member of Royal Institution of Chartered Surveyors, Accredited Senior Appraiser (Business Valuation) of American Society of Appraisers, the member of the Canadian Institute of Mining, Metallurgy and Petroleum and the member of the Australasian Institute of Mining and Metallurgy. He has over 10 years' experience in valuation of mineral resources projects in Hong Kong and the PRC.

SPECIFIC ASSUMPTIONS

Notwithstanding the incorporation of foreseeable changes in our valuation, a number of specific assumptions have been made in the preparation of the reported assessed figures. The assumptions are:

— As stated by the Company, "the mining permit held by Shangma Mining currently set a mining limit of 800,000 tons each year. The Company is currently in the procedure of increasing mining capacity from 800,000 tons each year to 1,300,000 tons each year. If the Company is fined by government authorities due to exceeding the mining limit set out in the mining permits, original shareholders of Shangma Mining will suffer from relevant losses." Therefore, we assume the applications for enhancing mining capacities will be approved and the assumptions involved in forecasting annual production in this valuation report will not be affected;

— Reserves of the Company are determined based on the《遼寧省撫順縣上馬鐵礦擴界資源儲量核實報告評審備案證明 — 遼國土資儲備字[2009]102號》(Examination and filing of the verified report of the expanded resources reserves of Shangma Iron Mine, Fushun Town, Liaoning Province — Liao Guo Tu Zi Chu Bei Zi [2009] No. 102) and《遼寧省撫順縣上馬鐵礦IV、V區詳查報告評審備案證明 — 遼國土資儲備字[2010]183號》(Examination and filing of the detailed report for Area IV and V of Shangma Iron Mine, Fushun Town, Liaoning Province — Liao Guo Tu Zi Chu Bei Zi [2010] No. 183) (The new Chinese Code is a blend of the old Chinese Code and the codes in current use today, including JORC and the current United Nations standard, with some additional local components added. JORC is a non-prescriptive code, which does not lay out specific limits for resource classification in terms of such things as borehole spacing. Instead it emphasizes the principles of transparency, materiality and the role of the competent person. Whilst some guidelines do exist e.g. the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, that they are not mandatory and classification is left in the hands of the competent person. When combined with its professional standards, which are effectively mandatory, the Chinese Code is much more prescriptive but does not include the role of the competent person. In terms of broad categorization, the levels of geological confidence ascribed to measured and indicated resources are quite similar in both codes. The ranges of borehole spacings, thickness cut-offs and quality limitations that are enforced by the Chinese system would generally result in the same resource classification under the JORC Code.);

— Based on the track record and relevant data provided by the Company, we assume that the stripping ratio of the open pits is 4 (excluding reserves) to 1, mineral processing rate is 4.4:1, and mineral processing rate in underground mines is 3:1;

— We assume that the direct mining cost, out-of-pocket cost in mineral processing cost, transportation fees in sales cost and controllable cost in management costs have an annual growth rate of 3%;

— We assume that all mining permits can be extended to produce all resources and reserves in the future without incurring substantial increase in expenditure cost;

— We assume that there is no material difference between forecasted production capacity of the Company and its actual production capacity in the future;

— According to the information provided by the Company, profit forecast for refined iron ore is based on past records and we assume that there is no material difference between the forecasted production capacity and actual production capacity in the future;

— We assume that profit and cash flow forecasts provided by the Company include sufficient environmental costs;

— We assume that the Company has obtained all necessary operating permits and licenses at the valuation date, including but not limited to approval of relevant environmental assessment reports, pollutant discharge permits and other relevant environmental preservation documents, iron ore mining licenses, iron mining permits, safe production permits, land-use rights licenses and structure ownership licenses. All the documents mentioned above are extendable at the expiration date without incurring substantial costs;

— We assume that the assets and liabilities records provided by the Company are accurate;

— We assume that there is no material time difference between current assets and current liabilities mentioned;

— We assume that the Company has conducted due diligence to ensure that the earning forecast and cash flow forecast of the mining rights are accurate and appropriate. We assume that the forecasts are achievable by the management of the Company.

GENERAL ASSUMPTIONS

Notwithstanding the incorporation of foreseeable changes in our valuation, a number of general assumptions have been made in the preparation of the reported assessed figures. The assumptions are:

— There will be no major changes in existing political, legal, fiscal or economic conditions in the country or district where the business is in operation or registered;

— There will be no major changes in the current taxation law in the areas in which the Company carries on its business, given that the rate of tax payable remains unchanged and that all applicable laws and regulations will be complied with;

— The inflation, interest and currency exchange rate will not differ materially from those presently prevailing;

— The Company will retain their key management and technical personnel to maintain their ongoing operations;

— There will be no major business disruptions through international crisis, diseases, industrial disputes, industrial accidents or severe weather conditions that will affect the existing business;

— The Company will remain free from claims and litigations against the business or its customers that will have a material impact on value;

— The business is unaffected by any statutory notice and the operation of the business gives, or will give, no rise to a contravention of any statutory requirements;

— The business of the Company is not subject to any unusual or onerous restrictions or encumbrances; and

— The potential bad debt (if any) of the recoverable amount will not materially affect the business operations.

LIMITING CONDITIONS

We have to a considerable extent relied on the financial data and other related information provided by the Company. We are not in a position to comment on the lawfulness of the business.

We have been provided with the extracts from the copy of relevant documents relating to the Company's assets. However, we have not searched the original documents to verify the existence of any amendments, which possibly do not appear on the documents available to us. We are not in the position to give advice on the ownership of the assets, and this issue should be within the scope of work of the Company's legal adviser. During our valuation, we assumed that the assets can be traded in the market freely, and there's no need to pay additional taxes or other fees.

We have had no reason to doubt the truth and accuracy of the information provided to us by you. We have also been informed by you that no material factors have been omitted from the information supplied.

In accordance with our valuation standards, we state that this report is confidential and is only for the use of the party to whom it is addressed, and no responsibility is accepted to any third party for the reliance of the whole or any part of its contents.

Neither any part of this report and valuation, nor any reference thereto may be included in any documents or statements without our written approval.

MATTERS CONFIRMED BY THE MANAGEMENT

Drafts of this report and our calculation have been presented to the management of the Company, which has reviewed and orally confirmed to us that this report and factors included in the calculation are accurate in all material aspects and to the best of their knowledge there is no material matter regarding our engagement that have not been included.

SUBSEQUENT EVENTS STATEMENT

This report has taken into account all the factors, which the Company considered, that may affect the valuation on the Valuation Date. No legal responsibility is taken for changes in market conditions and no obligation is assumed to revise this report to reflect events or changes in government policy or financial condition or other conditions, which occur subsequent to the Valuation Date.

Deloitte.
德勤

德勤・關黃陳方會計師行
香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu
26/F Wing On Centre
111 Connaught Road Central
Hong Kong

TO THE DIRECTORS OF CHINA HANKING HOLDINGS LIMITED

ACCOUNTANTS' REPORT ON CALCULATIONS OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE VALUATION OF MINING RIGHTS OF FUSHUN HANKING SHANGMA MINING COMPANY LIMITED

We have examined the calculations of the discounted future estimated cash flows on which the valuation of mining rights of Fushun Hanking Shangma Mining Company Limited (''Fushun Shangma'') as at 31 May 2012 (the ''Valuation'') included in the valuation of the enterprise value of Fushun Shangma prepared by Savills Valuation and Professional Services Limited dated 6 June 2012 is based. Fushun Shangma is a company established in Fushun, the People's Republic of China, whose principal asset is mining rights. The Valuation based on the discounted future estimated cash flows is regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the ''Listing Rules'') and will be included in a circular dated 5 September 2012 to be issued by China Hanking Holdings Limited (the ''Company'') in connection with the acquisition of 100% equity interest in Fushun Shangma (the ''Circular'').

Directors' responsibility for the discounted future estimated cash flows

The directors of the Company are responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions determined by the directors and set out in Appendix I to the Circular (the ''Assumptions''). This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Reporting accountants' responsibility

It is our responsibility to form an opinion on the arithmetical accuracy of the calculations of the discounted future estimated cash flows on which the Valuation is based and to report solely to you, as a body, as required by Rule 14.62(2) of the Listing Rules, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Our engagement was conducted in accordance with Hong Kong Standard on Assurance Engagements 3000 ''Assurance Engagements Other Than Audits or Reviews of Historical Financial Information'' issued by the Hong Kong Institute of Certified Public Accountants. This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance on whether the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled in accordance with the Assumptions. Our work does not constitute any valuation of mining rights of Fushun Shangma.

Because the Valuation relates to discounted future estimated cash flows, no accounting policies of the Company have been adopted in its preparation. The Assumptions include hypothetical assumptions about future events and management actions which cannot be confirmed and verified in the same way as past results and these may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Valuation and the variation may be material. Accordingly, we have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and do not express any opinion whatsoever thereon.

Opinion

Based on the foregoing, in our opinion, the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled, in all material respects, in accordance with the Assumptions.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
5 September 2012

1. RESPONSIBILITY STATEMENT

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

2. SUBSTANTIAL SHAREHOLDERS

(a) As at the Latest Practicable Date, so far as was known to the Directors of the Company, the following persons had, or were deemed to have, an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or in any options in respect of such capital:

Name	Capacity and nature of interest	Number of Shares/ Percentage of total issued share capital of the Company: Long position	%	Note
China Hanking (BVI) Limited	Beneficial owner	751,035,000	41.04%	
Bisney Success Limited	Beneficial owner	424,360,500	23.19%	
Splendour Ventures Limited	Beneficial owner	165,651,000	9.05%	
SAIF IV GP Capital Ltd	Interest in a controlled corporation	93,107,000	5.09%	(1)
SAIF IV GP LP	Interest in a controlled corporation	93,107,000	5.09%	(1)
SAIF Partners IV L.P.	Beneficial owner	93,107,000	5.09%	(1)
Yan Andrew Y	Interest in a controlled corporation	93,107,000	5.09%	(1)

Note:

(1) These 93,107,000 shares belong to the same group of Shares.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors, there was no person (other than a Director or chief executive of the Company) who had an interest or short position in the shares and underlying shares, and debentures of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' INTERESTS

(a) Directors' Interests or Short Positions in the Shares

Save as disclosed in this section, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which 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 Part XV of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Company to be notified to the Company and the Stock Exchange.

(i) ***Long positions in the shares, underlying shares and debentures of the Company:***

Name of Director	Capacity	Nature of interest	Number of Shares of the Company	Percentage of total issued share capital of the Company	Note
Ms. Yang	Beneficial owner	Interests in controlled corporation	751,035,000	41.04%	(1)
		Founder of discretionary trust	29,953,500	1.64%	(1)
Mr. Yang	Beneficial owner	Interests in controlled corporation	424,360,500	23.19%	(2)
Xia Zhuo	Beneficial owner	Others	165,651,000	9.05%	(3)
Zheng Xuezhi	Beneficial owner	Personal	50,000	0.00%	

(ii) ***Long positions in shares, underlying shares and debentures of associated corporations of the Company:***

Name of associated corporation	Name of Director	Capacity	Nature of interest	Number of ordinary shares	Percentage of total issued share capital	Note
China Hanking (BVI) Limited	Ms. Yang	Beneficial owner	Personal	1	100%	
Best Excellence Limited	Ms. Yang	Beneficial owner	Personal	1	100% (held through controlling management trust)	(4)
Bisney Success Limited	Mr. Yang	Beneficial owner	Personal	50,000	100%	
Splendour Ventures Limited	Xia Zhuo	Beneficial owner	Personal	3,138	6.28%	

Notes:

(1) Ms. Yang holds 100% interest in China Hanking (BVI) Limited and serves as settlor and beneficiary of management trust which holds the entire issued share capital of Best Excellence Limited. As a result, Ms. Yang is deemed to own interests of 751,035,000 shares held by China Hanking (BVI) Limited and 29,953,500 shares held by Best Excellence Limited.

(2) Mr. Yang holds 100% interest in Bisney Success Limited. As a result, Mr. Yang is deemed to own interests of 424,360,500 shares held by Bisney Success Limited.

(3) Mr. Xia Zhuo holds 6.28% interest in Splendour Ventures Limited, which holds 165,651,000 shares of the Company.

(4) The management trust is a revocable discretionary trust settled by Ms. Yang as settlor with Credit Suisse Trust Limited as trustee for the purposes of recognizing and rewarding the contributions of certain eligible staff ("**Beneficiaries**"). On 2 June 2011, China Hanking (BVI) Limited transferred 19,969 shares of the Company, representing approximately 1.6% of the share capital of the Company after the listing, to Best Excellence Limited. It is the intention of Ms. Yang and the trustee that the Beneficiaries of the management trust include Ms. Yang herself and two groups of eligible staff. The first group comprises 11 persons who are employees of the Group including Mr. Pan Guocheng (潘國成), Mr. Zheng Xuezhi (鄭學志), Mr. Huang Jinfu (黃金夫) and Mr. Lu Zengxiang (路增祥), and these Beneficiaries may hold up to approximately 1.025% of the issued share capital of the Company. The second group comprises 16 employees of Hanking Group, and the aggregate maximum amount of shares to be received by this group of Beneficiaries is expected to represent approximately 0.612% of the issued share capital of the Company. Credit Suisse Trust Limited as trustee has the discretionary powers to, among others, allocate all or a portion of the trust fund of the management trust (including the shares held by Best Excellence Limited), but Ms. Yang, as settlor of the management trust, may request Credit Suisse Trust Limited as trustee to make distributions of such shares to one or more Beneficiaries, including herself. As at the date of this Circular, no decision has been made by Ms. Yang or the trustee with respect to any such distribution.

As at the Latest Practicable Date, the following Directors are also directors or employees of the companies which had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Director	Company which had such discloseable interest or short position
Ms. Yang	China Hanking (BVI) Limited
	Best Excellence Limited
Mr. Yang	Bisney Success Limited
Xia Zhuo	Splendour Ventures Limited

Save as disclosed above, as at the Latest Practicable Date, none of the Directors was a director or employee of a company which had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(b) Competing Interests

As at the Latest Practicable Date, in addition to the Controlling Shareholders' interest in Fushun Shangma which shall be acquired by the Group pursuant to the Equity Transfer Agreement, the following interests are owned or controlled by the Controlling Shareholders, which competes or is likely to compete, either directly or indirectly, with the Group's businesses.

Benxi Iron Processing

Benxi Hanking Iron Processing Co., Ltd. (本溪罕王鐵選有限公司) ("**Benxi Iron Processing**") was established in the PRC in July 2010. As at the Latest Practicable Date, it was 100% owned by Hanking Group. Benxi Iron Processing is engaged in the iron processing business only. The ore processing business engaged in by Benxi Iron Processing used to be operated under Benxi Hanking Mining Co., Ltd. (本溪罕王礦業有限公司) ("**Benxi Mining**"), a subsidiary of the Company. Benxi Iron Processing has been excluded from the Group because the timing of obtaining the land use rights relating to the land on which its business is operated is uncertain. The reasons for this uncertainty are: (i) according to the urban planning programme ("城市規劃", the "**Programme**") of Benxi City prepared by the government of Benxi City and approved by the government of Liaoning Province, the land of Benxi Iron Processing is preserved as the "green land" (綠化用地) under the Programme, and therefore cannot be granted for use for other purposes, unless the Programme is amended and the use of such land is not restricted to "green" uses, (ii) if the planned usage of the land is not altered in the Programme, then Benxi Iron Processing will not be able to apply for land use rights with the government authorities and (iii) according to applicable PRC laws, amendment of the Programme is subject to strict examination by government authorities at different levels (first by the government authorities of Benxi City and then finally approved by the government of Liaoning Province) and there is no set time limit within which such procedures would be completed. Therefore, Hanking Group cannot control or predict the timing as to when or whether such land use right can be obtained. In the event Benxi Iron Processing is required to relocate as a result of the lack of land use right, it should be able to relocate to a suitable site in a timely manner.

The Controlling Shareholders have confirmed that Benxi Iron Processing has been excluded from the Group because the timing of obtaining the land use rights relating to the land on which its business is operated is uncertain. As at the Latest Practicable Date, the Programme is under review by related authorities and Benxi Iron Processing will only be able to apply for the land use rights after the Programme is altered. Benxi Iron Processing may not be able to obtain the land use rights in the next year or so.

Since the land use right certificate(s) relating to the land on which the iron processing business is operated have not been obtained and the timing of obtaining such certificates is uncertain, the iron processing business was then transferred from Benxi Mining and retained by Hanking Group. On 16 June 2011, Benxi Mining and Benxi Iron Processing entered into a processing agreement, pursuant to which, for a term of three years, Benxi Iron Processing will process the iron ores extracted by Benxi Mining and deliver the iron ore concentrates produced to Benxi Mining. While the Directors had considered a number of restructuring plans in connection with the listing of the Company, the Company chose not to transfer the land without proper title to Benxi Iron Processing during the reorganization in preparation for the listing of the Company for a number of reasons. First, despite the fact that ownership of land can be separated from ownership of the operations, given the importance of use of such land to Benxi Iron Processing, the Directors believed that it would not be commercially appropriate to separate the ownership of land from the overall business operations of Benxi Iron Processing. Second, the defect in the land title exists regardless of whether the operation of Benxi Iron Processing is transferred to the Company and as such, so long as Benxi Iron Processing continues to use the land for its processing operations, any defect in the land title, if not rectified, would have a potentially adverse impact on the operations of Benxi Iron Processing.

Pursuant to the non-competition agreement dated 16 June 2011 entered into by the Controlling Shareholders in favor of the Company (the "**Non-Competition Agreement**"), if and when the land use right certificate of Benxi Iron Processing is obtained, Benxi Iron Processing must promptly give notice to the Company and the Company has the right to purchase the interests of Benxi Iron Processing at a price determined by an independent valuer. Once the Company decides to exercise such right, after obtaining the approval of the independent non-executive Directors and/or the independent shareholders, as the case may be, Hanking Group, the owner of Benxi Iron Processing, is obliged to transfer its interests in Benxi Iron Processing to the Company. Therefore, the Directors are of the view that the Non-Competition Agreement can sufficiently safeguard the interest of the Company.

Financial Information Benxi Iron Processing

To the best knowledge of the Directors and based on the information available to the Directors, the table below sets out the key financial information of the Benxi Iron Processing:

		31 December	
	2009	**2010**	**2011**
		RMB (million) (unaudited)	*RMB (million) (unaudited)*
Total assets	N/A	37.8	46.5
Total liabilities	N/A	32.1	39.1
Revenue	N/A	12.7	36.5
Total net profit/loss	N/A	0.7	1.7

* *Benxi Iron Processing was established in July 2010. Prior to its establishment, the iron ore processing business engaged in by Benxi Iron Processing used to be operated under Benxi Mining.*

Hanking Group

Hanking Group was established in the PRC and is held by Ms. Yang and Mr. Yang as to 60.67% and 28.29%, respectively. It is a holding company of the Controlling Shareholders to hold their interests in other businesses, as follows: (i) Benxi Iron Processing: Hanking Group holds a 100% equity interest in Benxi Iron Processing, (ii) Iron ore mining related businesses with suspended operations: Hanking Group holds, through its wholly-owned subsidiary Fushun Hanking Mining Co., Ltd ("**Fushun Hanking**"), a 100% equity interest in Fushun Hanking Metallurgical Mining Co., Ltd, a 100% equity interest in Fushun Hanking and a 50% equity interest in Fushun Hanking Bangze Mining Co., Ltd and (iii) Non-iron ore mining and processing related businesses, including Fushun Hanking Jingmao Mining Co., Ltd. (100%) which is mainly engaged in exploration management and consulting, Fushun Hanking D.R.I. Co., Ltd (100%), Shenyang Shengtai Properties Management Co., Ltd (30%) and Fushun Hanking Shopping Mall Co., Ltd. (30%).

Directors' and Controlling Shareholders' Positions in Competing Business

As at the Latest Practicable Date, save as disclosed below, the Directors and their related associates have not held other positions in any business which the Company, either directly or indirectly or likely to compete against:

Name of Directors	Positions in the Company	Other interests
Ms. Yang	Chairlady and Non-executive Director	Chairlady of the Board of Directors of Hanking Group
Mr. Yang	Vice chairman and Non-executive Director	Vice chairman of the Board of Directors of Hanking Group
Xia Zhuo	Executive Director and Joint Company Secretary	Director of Hanking Group

Save as disclosed above, as at the Latest Practicable Date, so far as the Directors are aware, none of the Directors nor their respective associates have any interest in any business, which competes or may compete, either directly or indirectly, with the business of the Group.

(c) Directors' Interests in Assets of the Group

The Company had been granted a waiver from compliance with the strict requirements on announcement and approval of independent shareholders under the Listing Rules for the following continuing connected transactions which one or more Directors have a material interest in.

Procurement of Steel Balls

Aoniu Mining and Fushun County Dawei Casting ("**Dawei Casting**") concluded an agreement on purchase of steel balls on 16 June 2011. According to the agreement, the Group shall procure steel balls from Dawei Casting for a term of three years commencing from the listing date of the Company (30 September 2011) (the "**Listing Date**"). Dawei Casting is an entity wholly-owned by Ms. Yang, a Director of the Company and Chairlady of the Board and a director of Dawei Casting, which specializes in the production and sales of mining mechanical parts, iron metal artworks, cast pipe and cast-steel objects. Pursuant to Rule 14A.11 of the Listing Rules, Dawei Casting is a connected person of the Company. During the year ended 31 December 2011, the annual cap of the continuing connected transactions for 2011 was RMB11,400,000, and the actual transaction amount was RMB2,968,000.

Benxi Iron Processing Service

Benxi Mining and Benxi Iron Processing signed an agreement for the provision of iron processing services on 16 June 2011. According to the agreement, Benxi Iron Processing will provide iron processing services and process the iron ore provided by Benxi Mining, and deliver the iron ore concentrates produced to Benxi Mining for a term of three years commencing from the Listing Date. Benxi Mining is an indirect wholly-owned subsidiary of the Company, specializing in iron ore exploration. Benxi Iron Processing is a wholly-owned subsidiary of Hanking Group, specializing in ore processing. According to Rule 14A.11 of the Listing Rules, Benxi Iron Processing is a connected person of the Company. During the year ended 31 December 2011, the annual cap of the continuing connected transactions for 2011 was RMB49,500,000, and its actual transaction amount was RMB36,450,000.

Sales of iron ore concentrates

The Company entered into a procurement agreement with Fushun Hanking D.R.I. Co., Ltd. ("**Fushun D.R.I.**") on 16 September 2011. According to the agreement, the Company will, through its subsidiaries, including Aoniu Mining and Shenyang Toyo Steel Utility Co., Ltd. ("**STSU**"), provide iron ore concentrates to Fushun D.R.I. for a term of three years commencing from the Listing Date. Fushun D.R.I. is a wholly-owned subsidiary of Hanking Group, specializing in producing direct reduced iron and pig iron and selling iron ore concentrates, iron ores and steel. According to Rule 14A.11 of the Listing Rules, Fushun D.R.I. is a connected person of the Company. During the year ended 31 December 2011, the annual cap of the continuing connected transactions for 2011 was RMB400,000,000, and its actual transaction amount was RMB323,152,000.

Transportation Services

Aoniu Mining entered into an agreement on transportation of iron ores with Fushun Mingcheng Transportation Co., Ltd. ("**Mingcheng Transportation**") on 16 September 2011. According to the agreement, Aoniu Mining appointed Mingcheng Transportation or its affiliated companies to provide transportation services for a term of three years commencing from the Listing Date. Mr. Yang Xinhuan, a nephew of Ms. Yang, a Director and Chairlady of the Board, owns 100% interest in Mingcheng Transportation, and 70% interest in Fushun Mingyang Transportation Co., Ltd. Both Mingcheng Transportation and Mingyang Transportation specialize in transportation of common goods and mass goods by road. According to Rule 14A.11 of the Listing Rules, both Mingcheng Transportation and Mingyang Transportation are connected persons of the Company. During the year ended 31 December 2011, the annual cap of the continuing connected transactions for 2011 was RMB24,300,000, and its actual transaction amount was RMB22,886,000.

Lease of Properties and Properties Management

Aoniu Mining, STSU and Shenyang Shengtai Property Management Co., Ltd. ("**Shengtai Property**") entered into a lease agreement on 16 September 2011. According to the agreement, Aoniu Mining and STSU leased office premises located at No. 227, Qingnian Road, Shenhe District, Shenyang City, Liaoning Province, with a leased area of approximately 3,193.8 square meters from Shengtai Property, leased advertising sites in the same building, and engaged Shengtai Property to provide properties management service for a term of three years commencing from the Listing Date. Given the fact that 96.69% of interest in Shengtai Property is indirectly held by the Controlling Shareholder of the Company, Shengtai Property is connected person of the Company in accordance with Rule 14A.11 of the Listing Rules. During the year ended 31 December 2011, the annual cap of the continuing connected transactions for 2011 is RMB4,800,000, and its actual transaction amount is RMB4,800,000.

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors had: (i) any direct or indirect interests in any assets which have been since 31 December 2011 (being the date to which the latest published audited consolidated financial statements of the Group were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group; and (ii) any material interest in any contract or arrangement at the Latest Practicable Date which is significant in relation to the business of the Group.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has a service contract with any member of the Group which is not determinable within one year without payment of compensation (other than statutory compensation).

5. LITIGATION

As at the Latest Practicable Date, so far as the Directors are aware, the Group has not been engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Group.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirm that there was no material adverse change in the financial or trading position of the Group since 31 December 2011, the date to which the latest published audited consolidated financial statements of the Group were made up.

7. QUALIFICATION OF EXPERTS AND CONSENT

The followings are the qualification of the experts who have given opinion or advice which is contained in this circular:

Name	**Qualification**
CMBI	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Deloitte Touche Tohmatsu	Certified public accountants
Savills	Professional valuer
Jingtian	PRC legal adviser
遼寧溪源礦產資源評估有限公司 (Liaoning Xiyuan Mineral Resources Appraisal Company Limited*	Professional Resources Appraiser

As at the Latest Practicable Date, each of CMBI, Deloitte Touche Tohmatsu, Savills, Jingtian and Liaoning Xiyuan Mineral Resources Appraisal Company Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein a copy of its letter (in the case of CMBI, Deloitte Touche Tohmatsu and Savills) and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, each of CMBI, Deloitte Touche Tohmatsu, Savills, Jingtian and Liaoning Xiyuan Mineral Resources Appraisal Company Limited did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, none of CMBI, Deloitte Touche Tohmatsu, Savills, Jingtian and Liaoning Xiyuan Mineral Resources Appraisal Company Limited had any direct or indirect interests in any assets which have been, since 31 December 2011 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

8. MISCELLANEOUS

(1) The joint company secretaries of the Company are Ms. Mok Ming Wai and Mr. Xia Zhuo. Ms. Mok Ming Wai is a director of KCS Hong Kong Limited and a fellow member of Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in United Kingdom, and Mr. Xia Zhuo is an executive Director of the Company.

(2) The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The head office of the Company is located at No. 227, Qingnian Street, Shenhe District, Shenyang 110015, Liaoning Province, the PRC, while the principal place of business of the Company in Hong Kong is located at 8th Floor, Gloucester Tower, The Landmark, 15 Queen’s Road Central, Hong Kong.

(3) The Hong Kong share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited located at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.

(4) The English text of the circular shall prevail over the Chinese text.

9. DOCUMENTS FOR INSPECTION

Copies of the following documents are made available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at 8th Floor, Gloucester Tower, The Landmark, 15 Queen’s Road Central, Hong Kong from the date of this circular up to and including the date of the EGM:

(a) the Equity Transfer Agreement;

(b) a letter from the Independent Board Committee, the text of which is set out on pages 24 to 25 of this circular;

(c) the letter from CMBI, the text of which is set out on pages 26 to 52 of this circular;

(d) the letters of consent from CMBI, Deloitte Touche Tohmatsu, Savills, Jingtian and Liaoning Xiyuan Mineral Resources Appraisal Company Limited referred to in the above paragraph headed "Qualification of Expert and Consent" in this Appendix;

(e) the valuation report dated 6 June 2012 issued by Savills relating to Fushun Shangma, the text of which is set out in Appendix I to this circular; and

(f) the letter from Deloitte Touche Tohmatsu, the text of which is set out in Appendix II to this circular.

HANKING

CHINA HANKING HOLDINGS LIMITED

中國罕王控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 03788)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of China Hanking Holdings Limited (the "**Company**") will be held at 22nd Floor Conference Room, Hanking Tower, No. 227 Qingnian Avenue, Shenhe District, Shenyang City, Liaoning Province, PRC on Friday, 21 September 2012 at 9:00 a.m. for the purposes of considering and, if thought fit, passing the following resolutions (with or without modifications):

"**THAT**

(1) the equity transfer agreement dated 3 July 2012 (the "**Equity Transfer Agreement**") entered into among Shenyang Toyo Steel Company Limited (as vendor), Fushun Hanking Aoniu Mining Limited ("**Aoniu Mining**") (as purchaser) and Fushun Hanking Shangma Mining Company Limited ("**Fushun Shangma**") (as the target company) in relation to the acquisition of the entire equity interest in Fushun Shangma by Aoniu Mining and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(2) any director of the Company (the "**Director(s)**") be and are hereby authorized to do all such acts and things and to sign and execute all such documents and to take all such steps which, in the opinion of the Directors, may be necessary, desirable or expedient to give effect to the terms of, or the transactions contemplated by the Equity Transfer Agreement and to agree to such variation, amendment or waiver or matter relating thereto as are, in the opinion of the Directors, not of a material nature and in the interests of the Company and its shareholders as a whole.

By order of the Board
China Hanking Holdings Limited
Yang Min
Chairlady and non-executive Director

Shenyang, the PRC
5 September 2012

Notes:

1. A shareholder entitled to attend and vote at this meeting may appoint one or more proxies to attend and vote in his stead. A proxy need not to be a shareholder of the Company.

2. The instrument appointing a proxy must be in writing under the hand of a shareholder or his attorney duly authorised in writing. If the shareholder is a corporation, that instrument must be either under its common seal or under the hand of its director(s) or duly authorised attorney(s).

3. If that instrument is signed by an attorney of the shareholder, the power of attorney authorizing that attorney to sign or other authorisation document must be notarised.

4. In order to be valid, the form of proxy together with the power of attorney or other authorization document (if any) must be deposited at the Company's share registrar, Computershare Hong Kong Investor Services Limited (address: 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong) for holders of Shares not less than 48 hours before the time appointed for the holding of this meeting or any adjournment thereof (as the case may be). Completion and return of a proxy form will not preclude a shareholder from attending and voting in person at this meeting if he so wishes.

5. Where there are joint holders of any shares, any one of such joint holders may vote, either in person or by proxy, in respect of such shares as if he were solely entitled thereto; but if more than one of such joint holders are present at the meeting (or any adjournment thereof), the most senior will alone be entitled to vote, whether in person or by proxy. For this purpose, seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

6. Shareholders or their proxies attending this meeting shall produce their identity documents.