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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.

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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 70% EQUITY INTEREST IN NORTHEASTERN LION

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



A letter from the Board is set out on pages 6 to 24 of this circular.

A letter from the Independent Board Committee is set out on pages 25 to 26 of this circular.

A letter from the Independent Financial Adviser is set out on pages 27 to 48 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 4 March 2013 at 9:00 a.m. is set out on pages EGM-1 to EGM-2 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.

15 February 2013

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DEFINITIONS

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

“Aoniu HK”	Hanking Aoniu Investment (Hongkong) Company Limited (罕王傲牛投資(香港)有限公司), a limited liability company incorporated in Hong Kong on 8 January 2010, a wholly-owned subsidiary of Hanking Group
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of directors of the Company
“BVI”	British Virgin Islands
“CEO”	Chief executive officer
“City Globe”	City Globe Limited, a limited liability company incorporated in Hong Kong, which is a wholly-owned subsidiary of Northeastern Lion and holds 75% equity interests in KP
“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 Northeastern Lion 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 Northeastern Lion Acquisition in accordance with the terms and conditions of the Share Purchase Agreement
“Company Law”	the Company law of Indonesia
“Competent Person’s Report”	has the meaning ascribed to it under the Listing Rules
“Completion Date”	the fifteenth business day after the EGM on which the resolution in respect of the Share Purchase Agreement and the transactions contemplated thereunder be duly passed, or certain other date that both the purchaser and the vendor agree on
“connected persons”	has the meaning ascribed to it under the Listing Rules

DEFINITIONS

“Controlling Shareholders”	the controlling shareholders of the Company, namely Mr. Yang, Ms. Yang, China Hanking (BVI) Limited, Bisney Success Limited and Best Excellence Limited
“CSA Global”	CSA Global Pty Ltd
“Denway Development”	Denway Development Limited, a limited liability company incorporated in Hong Kong, which is a wholly-owned subsidiary of Northeastern Lion and holds 75% equity interest of KS and KKU respectively
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held to approve the Share Purchase Agreement and the transactions contemplated thereunder
“Enlarged Group”	the Group as enlarged by the Northeastern Lion immediately upon Completion
“Evergreen Mining”	Evergreen Mining Limited, a limited liability company incorporated in the BVI on 23 November 2012, an indirectly wholly-owned subsidiary of Hanking Group
“Exploration IUP”	mining business licenses allowing the holders to do general survey, exploration and feasibility study activities
“GDP”	Gross domestic product
“Group”	the Company and its subsidiaries
“Government”	The governmental authorities of Indonesia
“Hanking Group”	Hanking Group Co., Limited (罕王實業集團有限公司), a company established in the PRC on 4 April 1996, which is controlled by Ms. Yang and Mr. Yang
“HHP”	Hadiputranto, Hadinoto & Partners, the Company’s Indonesian legal adviser
“HK\$”	the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“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 will be formed to advise the Independent Shareholders in relation to the Share Purchase Agreement
“Independent Shareholders”	the shareholders of the Company other than the Controlling Shareholders and their associates
“Indonesia”	the Republic of Indonesia
“IUP”	mining business licenses in Indonesia, which can be divided into two stages: Exploration IUP (covering general survey, exploration and feasibility study activities) and Production Operation IUP (covering construction, mining, processing and refinery, and transportation and selling activities)
“JORC Code”	Code of the Australasian Joint Ore Reserves Committee
“KKU”	PT Karyatama Konawe Utara, a company duly incorporated in Indonesia
“KP”	PT Konutara Prima, a company duly incorporated in Indonesia
“KS”	PT Konutara Sejati, a company duly incorporated in Indonesia
“Kt”	Kilo-ton
“Latest Practicable Date”	6 February 2013, being the latest practicable date for ascertaining certain information prior to printing 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
“Mt”	million tonnes
“Northeastern Lion”	Northeastern Lion Limited, a limited liability company incorporated in the BVI on 23 November 2012, which was a wholly-owned subsidiary of Evergreen Mining as at the date of this circular

DEFINITIONS

“Northeastern Lion Acquisition”	the acquisition of the Target Shares from Evergreen Mining by the Company pursuant to the Share Purchase Agreement
“Old Agreements”	the development cooperation agreement on project of laterite nickel mines at North Konawe Regency, South East Sulawesi Indonesia, supplement agreement of development cooperation agreement on project of laterite nickel mines at North Konawe Regency, South East Sulawesi Indonesia and supplement agreement I of development cooperation agreement on project of laterite nickel mines at North Konawe Regency, South East Sulawesi Indonesia, entered by Hanking Group, P.T. Bumi Makmur Selaras and Geological Team No. 308 of Yunnan Nonferrous Metals Geological Bureau (雲南有色地質局308隊)
“PRC” or “China”	the People’s Republic of China, which for the purposes of this circular excludes Hong Kong, the Macau Special Administration of the People’s Republic of China and Taiwan
“Production Operation IUP”	mining business licenses allowing the holders to do construction, mining, processing and refinery, and transportation and selling activities
“Project Companies”	KP, KS and KKU
“RMB”	Renminbi, the lawful currency of the PRC
“Rp”	the lawful currency of Indonesia
“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)
“Share Purchase Agreement”	the share purchase agreement dated 20 December 2012 entered into among Evergreen Mining (as vendor), the Company (as purchaser) and Aoni HK (as guarantor) in relation to the Northeastern Lion Acquisition
“Shareholder(s)”	the shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary” or “subsidiaries”	has the meaning ascribed to it under the Listing Rules
“t”	tonnes

DEFINITIONS

“Target Shares”	70% equity interest of Northeastern Lion
“US\$”	the lawful currency of the United States of America
“Valuation Report”	A valuation report in respect of the Target Shares in Northeastern Lion
“%”	per cent

LETTERS FROM THE BOARD



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:

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P.O. Box 2681
Grand Cayman, KY1-1111
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Headquarters in the PRC:

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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

15 February 2013

To the shareholders

Dear Sir or Madam,

DISCLOSABLE AND CONNECTED TRANSACTION
ACQUISITION OF 70% EQUITY INTEREST IN NORTHEASTERN LION

INTRODUCTION

Reference is made to the announcement of the Company dated 20 December 2012 regarding the Northeastern Lion Acquisition pursuant to the Share Purchase Agreement.

LETTERS FROM THE BOARD

The purpose of this circular is to provide, among other things, (i) further information in relation to the Share Purchase 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; (iv) a Competent Person's Report prepared in accordance with the requirements of Chapter 18 of the Listing Rules; (v) a Valuation Report in compliance with the relevant requirements of Chapter 18 of the Listing Rules; and (vi) the notice of the EGM.

THE SHARE PURCHASE AGREEMENT

1. Summary

Date	20 December 2012
Parties	(i) the Company, as the purchaser of the Target Shares (ii) Evergreen Mining, which is an indirectly wholly-owned subsidiary of Hanking Group, as at the date of this circular, as the vendor of the Target Shares (iii) Aoniu HK, as the guarantor of Evergreen Mining
Subject of the Northeastern Lion Acquisition	the Target Shares
Consideration for the Northeastern Lion Acquisition	RMB311.8 million, which will be settled entirely by cash funded by internal resources of the Company
Payment Schedule	At the Completion Date, the purchaser shall pay a lump sum of RMB45.0 million to the vendor. The purchaser is entitled to make such amount directly to Northeastern Lion as the vendor's initial capital increase.

The purchaser may at its discretion pay up the outstanding consideration (in one lump sum or by instalments) to the vendor during the thirty six months after the Completion Date on the condition that the purchaser shall send a notification to the vendor at least three business days prior to each payment. The purchaser is entitled to make such subsequent payments directly to Northeastern Lion as the vendor's subsequent capital increase.

LETTERS FROM THE BOARD

Conditions Precedent

- Conditions precedent to be fulfilled by the vendor:
 - (1) the vendor shall make sure that Northeastern Lion convenes a board meeting on which all resolutions as follows shall be passed:
 - (i) to appoint director(s) nominated by the purchaser;
 - (ii) to approve the resignation of certain director(s) as requested by the purchaser;
 - (iii) to change the signatory of all of the bank accounts owned by Northeastern Lion as proposed by the purchaser; and
 - (iv) to transfer the Target Shares to the purchaser, add the purchaser into the share register of Northeastern Lion as a shareholder, destroy the current share certificates of the Target Shares, affix a seal on the new share certificate with the purchaser's name and deliver the new share certificates to the purchaser;
 - (2) from the signing date of Share Purchase Agreement to the Completion Date, the vendor shall not take any action that may 1) result in any material adverse change to the status of Northeastern Lion, City Globe, Denway Development, KP, KS and KKU, 2) affect the normal and ordinary operation of Northeastern Lion, City Globe, Denway Development, KP, KS and KKU, or 3) result in the non-compliance of Northeastern Lion, City Globe, Denway Development, KP, KS and KKU with all applicable laws in any material aspect;
 - (3) the vendor shall provide a copy of the board resolution of the vendor which approved the Share Purchase Agreement and the transactions contemplated thereunder, certified by a director of the vendor;
 - (4) the vendor shall provide the relevant documents of Northeastern Lion including the minutes book, the statutory books and the registers, and the accounting book, as well as any of its official seals;

LETTERS FROM THE BOARD

(5) the vendor shall provide an executed share transfer instrument in favour of the purchaser or its nominee (as the case may be); and

(6) the vendor shall provide the share certificates and register of shareholders evidencing that the purchaser or its nominee (as the case may be) is the owner of the Target Shares.

- Conditions precedent to be fulfilled by the purchaser:

the purchaser shall comply with the requirements under Chapter 14A of the Listing Rules, including reporting, publishing announcement and obtaining Independent Shareholders' approval with respect to the Northeastern Lion Acquisition at the EGM.

Detail of Guarantee

The guarantor and the vendor jointly and severally represent and warrant to the purchaser that all warranties provided by the vendor are true, accurate and not misleading. The warranties provided by the vendor include but are not limited to the followings:

- (1) the corporate status and good standing of the vendor, Northeastern Lion, City Globe, Denway Development, KP, KS and KKU;
- (2) the mining rights, assets and contracts in which Northeastern Lion, City Globe, Denway Development, KP, KS and KKU are interested;
- (3) the compliance with local laws and regulations in respect of environmental protection, tax and others in BVI, Hong Kong and Indonesia, respectively by Northeastern Lion, City Globe, Denway Development, KP, KS and KKU; and
- (4) the truthfulness, completeness and accuracy of information contained in the disclosure schedule provided by the vendor as attached to the Share Purchase Agreement.

Completion Date

The Completion Date refers to the fifteenth business day after the resolution in respect of the consummation of the transactions contemplated under the Share Purchase Agreement be duly approved by the Independent Shareholders at the EGM, or certain other date that both the purchaser and the vendor may agree on.

LETTERS FROM THE BOARD

The consideration will be settled in RMB. The capital increase of Evergreen Mining (the vendor) will be determined by the construction needs of the Project Companies and since the capital increase will be injected on a pro rata basis, it will not affect the equity interest of the Company in Northeastern Lion. According to the Share Purchase Agreement, there is no long stop date for the conditions precedent. If the vendor fails to fulfill the conditions precedent, due to which the Completion cannot be carried out on the Completion Date, the purchaser is entitled to waive any conditions precedent to proceed with the Completion to the extent reasonably practicable. As at the Latest Practicable Date, all the conditions precedent of the vendor have been fulfilled.

2. Basis of Consideration

The consideration of the Northeastern Lion Acquisition was arrived at based on normal commercial terms after arm's length negotiation between the parties to the Share Purchase Agreement, after taking into account, among others, (i) the prospect of the nickel ore industry; (ii) the volume and quality of the existing nickel resources possessed by the Project Companies; (iii) the historical costs contributed by Hanking Group to the Project Companies; and (iv) other relevant factors (e.g. the rights and obligations of Northeastern Lion to be assumed by the Group after the Completion).

Based on the abovementioned basis, in calculation of the consideration of the Northeastern Lion Acquisition, the Company have considered and made reference to the following factors:

- (i) regarding the prospect of the nickel ore industry, the Company focuses on the nickel related products market in the PRC in the future. The Directors consider that nickel is widely used in over 300,000 products for consumer, industrial, military, transportation/aerospace, marine and architectural applications. The biggest use is as an alloying metal along with chromium and other metals in the production of stainless and heat-resisting steels. Around 61% of nickel in the world is used to manufacture stainless steels. According to the Stainless Steel Council of China Special Steel Enterprise Association (“中國特鋼企業協會不銹鋼協會”), the apparent consumption volume of stainless steel in the PRC was approximately 9.14Mt for the 9 months ended 30 September 2012, representing an increase of approximately 12.98% or approximately 1.05Mt as compared with the same period previous year. According to the Twelfth Five-year Plan for the Steel Industry (“鋼鐵工業「十二五」發展規劃”) issued by the Ministry of Industry and Information Technology of the PRC dated 7 December 2011, the expected annual consumption volume of stainless steel will be approximately 16.0Mt in 2015, representing a compound annual growth rate (“CAGR”) of approximately 11.2% as compared to the annual consumption volume of stainless steel of approximately 9.4Mt in 2010. In this regard, the Directors believe that the Northeastern Lion Acquisition can achieve the Group's strategy of diversification of mining resources and will be in a better position to capture the expected increase in market demand in long run.
- (ii) in assessing the volume and quality of the existing nickel resources owned by the Project Companies, the Company engaged CSA Global to undertake an independent technical assessment of the exploration, geology, resources/reserves estimate, mining, metallurgical and processing plant, and environmental permitting and approvals of laterite nickel projects of the Project Companies. For details of the Competent Person's Report, please refer to Appendix II as to the Circular.

LETTERS FROM THE BOARD

- (iii) Regarding the historical costs contributed by Hanking Group to the Project Companies, up to 30 September 2012, Hanking Group held approximately 75% equity interest in the Project Companies through Northeastern Lion. The Consideration mainly represents 70% of Hanking Group's investments paid for the Project Companies plus expected returns from the Hanking Group's investments and financial assistance provided to the Project Companies for the year from 2010 to 2012 (i.e. 3 years) of which the expected rate of return was made reference to 3 to 5 years lending rate of the People's Bank of China as at 30 September 2012.

3. Information Regarding the Northeastern Lion

The Company started to look for various acquisition opportunities due to its strategy of diversifying mining resources and internationalization, and spotted the laterite nickel ore resources in Indonesia relating to Controlling Shareholders. Consequently, the Company approached the Controlling Shareholders in September 2012 and conducted thorough due diligence review and started to negotiate the terms and conditions of the Share Purchase Agreement since then.

The Company has conducted due diligence investigation on the Project Companies since September 2012, for which the Company established a team led by Dr. Pan Guocheng, the CEO of the Company and a due diligence workgroup consisting of professionals from relevant departments of the Company and external intermediaries. The third-party experts and advisors include HHP as the Indonesian legal advisor, CSA Global as the independent technology consultant, and Hatch Ltd. as a market analysis consultant.

The thorough due diligence process covers a comprehensive investigation regarding history, resources, forest and land, smelting conditions and legal documents of the laterite nickel mines of the Project Companies located in North Konawe Regency in Southeast Sulawesi Province, Indonesia (the “**North Konawe Nickel Project**”). Based on the due diligence findings, the Company conducted a feasibility study on resources, investment, cost, revenue and earnings outlook of the North Konawe Nickel Project. It concluded that the North Konawe Nickel Project, as a rich laterite nickel mine with abundant resources, presents the Company an excellent opportunity to enter into the nickel sector, and provides extensive growth potential for the Company to achieve its goal as one of the emerging players in the global mining sector. The Directors have also considered potential risks associated with the Northeastern Lion Acquisition, including prohibition of raw ore export, shareholding reduction by foreign shareholders, risk in project development and downside nickel prices, which are addressed in the sections headed “Indonesia Regulation” and “Risk Factors and Mitigation Measures”, respectively. Taking into account of the counter-measures and risk mitigation practices, the Directors believe these risks are manageable.

3.1. *The business of Northeastern Lion*

Northeastern Lion was established in the BVI on 23 November 2012. It holds 100% equity interest in City Globe and Denway Development, respectively. City Globe holds 75% equity interest in KP, and Denway Development holds 75% equity interest in KS and KKV respectively. As at 30 September 2012, there are outstanding shareholder loans with a total amount of approximately RMB139 million due from City Globe and Denway Development to Hanking Group.

LETTERS FROM THE BOARD

KP was duly established in Indonesia in January 2008 with a registered capital of Rp27,600,000,000 (approximately HK\$22,148,216.5, pursuant to an exchange rate of HK\$1=Rp1,246.15), which was held as to 75% by City Globe, 16.5% by PT Wira Perdana Konawe, and the remaining 8.5% by PT Sinindo Mining. KP holds a Production Operation IUP for nickel covering an area of 2,827 hectares with an initial term of 20 years ending on 11 March 2031 and may be extended for twice, each for a period of ten years.

KS was duly established in Indonesia in May 2008 with a registered capital of Rp66,800,000,000 (approximately HK\$53,605,103.7, pursuant to an exchange rate of HK\$1=Rp1,246.15), which was held as to 75% by Denway Development, 16.5% by PT Wira Perdana Konawe, and the remaining 8.5% by PT Sinindo Mining. KS holds a Production Operation IUP for nickel covering an area of 1,923 hectares with an initial term of 20 years ending on 22 December 2029 and may be extended for twice, each for a period of ten years.

KKU was duly established in Indonesia in January 2008 with a registered capital of Rp66,800,000,000 (approximately HK\$53,605,103.7, pursuant to an exchange rate of HK\$1=Rp1,246.15), which was held as to 75% by Denway Development, 16.5% by PT Wira Perdana Konawe, and the remaining 8.5% by PT Sinindo Mining. KKU holds a Production Operation IUP for nickel covering an area of 3,119 hectares with an initial term of 20 years ending on 14 December 2029 and may be extended for twice, each for a period of ten years.

PT Wira Perdana Konawe and PT Sinindo Mining are both independent third parties to the Company as at the date of this circular. PT Wira Perdana Konawe is a wholly-owned subsidiary of P.T. Bumi Makmur Selaras, which is an Indonesian shareholder. PT Sinindo Mining is a wholly-owned subsidiary of Geological Team No. 308 of Yunnan Nonferrous Metals Geological Bureau, which is a PRC shareholder.

According to the articles of associations of KS, KP and KKU respectively, the purposes and objectives of KS, KP and KKU are to engage in nickel ore mining businesses. To achieve such purposes and objectives, they can carry out the activities in nickel ore mining including general survey, exploration, feasibility study, construction, mining, processing and refinery as well as transportation and sales and other related business activities (the “**New Business**”).

The Project Companies have built up necessary infrastructures at the mining area. Additionally, the Company itself owns the smelting technologies, which can be utilized in Indonesia with economic viability. In particular, the Company has also acquired a laterite nickel ore smelter in the PRC as a base for training workers and constantly improving its smelting technologies for laterite nickel ores. Accordingly, there remains no material obstacles to prevent the normal operations of the Project Companies.

3.2. Information regarding the North Konawe Nickel Project

The Company has appointed the CSA Global to prepare an independent technical assessment of the exploration, geology, resources/reserves estimate, mining, metallurgical and processing plant, and environmental permitting and approvals of North Konawe Nickel Project.

LETTERS FROM THE BOARD

The mineral resource estimated under JORC Code as of 30 November, 2012 for the North Konawe Nickel Project is summarised as: at a cut-off grade of ore bodies at 1.0% Ni, the measured, indicated and inferred mineral resources are 85.82Mt with average grades of 1.51% Ni and 0.09% Co; 182.2Mt with average grades of 1.35% Ni and 0.08% Co; and 83.10Mt with average grades of 1.26% Ni and 0.070% Co, respectively.

According to the existing Government mining policy, the export of nickel laterite ore is prohibited from 1 January, 2014. Therefore, the following mining plan was developed:

Year	2013	2014	2015	2016	2017	2018	.....	2032
Ore Production (Kt)								
(wet)	1,500	2,000	2,000	2,000	4,000	4,000	.....	4,000

The Project Companies plan to produce 1,500,000 tonnes of ore for exporting overseas. After 2014, Project Companies will have to carry out local smelting.

The Project Companies plan to construct a shaft furnace operation with an annual output of 40,000 tonnes nickel metal. The planned production schedule is summarized as:

Year	2013	2014	2015	2016	2017	.....	2032
Nickel Metal (t)	0	10,000	20,000	30,000	40,000	.....	40,000
Wet Ore (Kt)	0	1,000	2,000	3,000	4,000	.....	4,000

The North Konawe Nickel Project will require a total investment of US\$245 million, with US\$143 million being invested in mining and US\$102 million in smelting. Substantially all the capital expenses of the Project Companies will be financed by its own cash flow. The total investment of US\$245 million will be funded either by internal resources such as profit generated by the Project Companies given that Project Companies have started operating and will be generating cash flow since 2013, or external resources such as bank loans. In case the aforementioned two resources do not provide enough funds to support the needs of development of Project Companies, City Globe, Denway Development and the other shareholders of the Project Companies may consider to make capital injection to the Project Companies on a pro rata basis, and under such circumstances, City Globe and Denway Development will make the capital injection on behalf of the other shareholders of the Project Companies. Please refer to “3.4 Other Information” for more details regarding the capital injection arrangement among City Globe, Denway Development and other shareholders of the Project Companies.

The occurrence and mining methods of laterite nickel resources determine that the mining of the mine will have greater effects on the topsoil disturbance, including mining land, waste dumps and stockyards and roads for mining. The tropical rainforest climate and genesis of the deposit in the mine also determine that it would be easier to carry out rehabilitation work after mining of such resources. In order to mitigate the effects of mining on environment, significant attention should be paid to the control of surface water which is vital and important during mining process. In order to reduce the impacts of mining on environment, the Company will take the following measures during mining

LETTERS FROM THE BOARD

process: (i) strengthening the control of topsoil, so as to improve soil conservation, water conservation, and fertilizer maintenance, thus reducing the loss of soil nutrients; (ii) strengthening the control of surface water, and enhancing water drainage and dewatering; and (iii) adopting inverted pits mining method, conducting rehabilitation work while mining, so as to reduce the impacts on environment and decrease the mining cost.

3.3. *Financial Information*

As at the date of this circular, KP and KKU have not commenced business since their respective incorporation, and they have not yet generated any revenue or profit. KS has started to operate since April 2012.

Based on the unaudited combined management account prepared by Northeastern Lion in accordance with IFRS, the net loss before and after taxation and extraordinary items for the two financial years ended 31 December 2010 and 31 December 2011 were as follows:

	Financial year ended 31 December 2010 <i>(approx. RMB million)</i>	Financial year ended 31 December 2011 <i>(approx. RMB million)</i>
Unaudited loss before taxation and extraordinary items	9.17	25.65
Unaudited loss after taxation and extraordinary items	9.17	25.65

Based on the unaudited combined management account prepared by Northeastern Lion in accordance with IFRS, the total asset value and the net asset value as at 30 September 2012 were approximately RMB591,042,769 and RMB253,393,974, respectively. In order to furnish the Independent Shareholders and the Independent Board Committee with an additional reference for the fairness and reasonableness of the Northeastern Lion Acquisition, the Company has engaged an independent valuer to prepare a Valuation Report. The valuation of 70% equity interest of Northeastern Lion as at 30 September 2012 is RMB390,000,000, the detail of which is set out in Appendix I to this circular.

3.4. *Other Information*

In 2009, Hanking Group acquired 75% equity interest in the Project Companies from P.T. Bumi Makmur Selaras and Geological Team No. 308 of Yunnan Nonferrous Metals Geological Bureau respectively with a total consideration of RMB320 million. As at 30 September 2012, RMB228 million has been paid with an outstanding amount of RMB92 million. Further, Hanking Group is required to make a maximum contribution of RMB680 million on behalf of the other shareholders of the Project Companies in the event of capital increase going forward. The capital increase will be subject to the needs of the Project Companies and will not affect the shareholding structure of the Project Companies. As at 30 September 2012, RMB30 million has already been contributed by Hanking Group on behalf of the other shareholders of the Project Companies.

LETTERS FROM THE BOARD

For the purpose of and in connection with the Northeastern Lion Acquisition, Hanking Group, P.T. Bumi Makmur Selaras, Geological Team No. 308 of Yunnan Nonferrous Metals Geological Bureau and Denway Development entered into a novation agreement on 25 November 2012, pursuant to which Hanking Group transferred by novation to Denway Development all of its rights, liabilities, duties and obligations under and in respect of each of the Old Agreements (as appropriate).

For the purpose of and in connection with the Northeastern Lion Acquisition, Hanking Group, P.T. Bumi Makmur Selaras, Geological Team No. 308 of Yunnan Nonferrous Metals Geological Bureau and City Globe entered into a novation agreement on 25 November 2012, pursuant to which Hanking Group transferred by novation to City Globe all of its rights, liabilities, duties and obligations under and in respect of each of the Old Agreements (as appropriate).

The aforementioned novation agreements were entered into to simplify and clarify the transaction structure of Northeastern Lion Acquisition, which only involve the rights, liabilities, duties and obligations under and in respect of each of the Old Agreements. According to the novation agreements, Denway Development and City Globe will be responsible for paying the outstanding consideration amounting to RMB92 million and the maximum contribution of RMB650 million on behalf of the other shareholders of the Project Companies. Since City Globe and Denway Development are wholly-owned subsidiaries of Northeastern Lion, of which 30% equity interest will be held by Hanking Group and 70% equity interest will be held by the Company, Hanking Group and the Company will bear the capital commitment proportionate to their shareholding in any event of capital increase of the Project Companies.

As defined above, Old Agreements include the development cooperation agreement on project of laterite nickel mines at North Konawe Regency, South East Sulawesi Indonesia, supplement agreement of development cooperation agreement on project of laterite nickel mines at North Konawe Regency, South East Sulawesi Indonesia and supplement agreement I of development cooperation agreement on project of laterite nickel mines at North Konawe Regency, South East Sulawesi Indonesia, entered by Hanking Group, P.T. Bumi Makmur Selaras and Geological Team No. 308 of Yunnan Nonferrous Metals Geological Bureau to develop laterite nickel mines at North Konawe Regency, South East Sulawesi Indonesia.

4. Reasons for and Benefits of the Northeastern Lion Acquisition

As disclosed in its annual report for the fiscal year ended 31 December 2011, the Company has the strategy of diversifying mining resources and internationalization. Aiming at gradually diversifying its existing business from iron ore to gold, nickel and copper ores, the Company has recently acquired a gold mine in Australia and the Directors believe that the Northeastern Lion Acquisition will be beneficial to the Company's expansion strategy into nickel mines business.

Nickel is widely used in fields of consumer goods, industrial, military, transportation/aerospace, marine and construction sectors. It is most frequently used as an alloy element in conjunction with chromium and other metals in production of stainless steel and heat-resistant steel. Approximately 61% of the world's nickel is used in production of stainless steel, which is one of the fastest growing segments of the steel sector in China and the world. According to the Twelfth Five-year Plan for the Steel Industry issued by the Ministry of Industry and Information Technology of the PRC on 7 December 2011, the annual consumption of

LETTERS FROM THE BOARD

stainless steel is expected to reach approximately 16Mt by 2015, representing a CAGR of around 11.2% from approximately 9.4Mt in 2010. Therefore, the Directors believe nickel has a great potential for development and growth in value. With respect to nickel mineral resources, the available reserves have been declining sharply due to exploitation of nickel sulphide ores through the years yet without a major breakthrough in exploration of new nickel sulphide resources in the recent two decades. Currently, a crisis is looming over the global nickel sulphide mineral resources, and the traditional nickel sulphide mines are experiencing higher difficulty in exploitation due to the increasing mining depth. Therefore, the global nickel industry has shifted its development focus to abundant laterite nickel resources at more competitive costs. In this regard, Indonesia is endowed with considerable amounts of laterite nickel resources in the world and is also a major global producer of these minerals. As a result, after comprehensively considering the resources, infrastructure and other conditions, the Company has determined to develop nickel business in Indonesia.

The Company has exercised considerable care in selecting the potential sellers, and has considered many different factors including price, reserve and location. The location of the nickel resources with minimum cost has a crucial effect on the profitability of the acquisition. Due to the above-mentioned factors, the Company has rejected many potential sellers at a very preliminary stage. Since the aforementioned projects have been rejected at a very preliminary stage and the Company did not follow up, the Directors believe there is no alternative offer. Primarily the nickel resources involved in the Northeastern Lion Acquisition are rich (the measured and indicated nickel resources and the inferred nickel resources of the Project Companies reached approximately 3.75Mt and 1.04Mt respectively) and the price is relatively low. Furthermore, among the three Project Companies, KS has started exporting nickel from the fourth quarter of 2012 and KKU is also expected to start exporting nickel from 2013. Therefore, the Directors believe it is the best opportunity to make the Northeastern Lion Acquisition at this time and chose to acquire the New Business from the Controlling Shareholders. Additionally, a nickel smelter with annual production capacity of 40,000 tonnes will be completed by the end of 2016. It is a precious opportunity for the Company to enter into the market of nickel, which will help the Company to diversify mining resources, expand the business scope and enlarge the scale as well as become an international mining company.

One of the Project Companies, KS, has already commenced mining, selling laterite nickel and will gradually expand its mining capacity. In addition, the North Konawe Nickel Project is in initial operation, which is expected to be further expanded upon Completion by the Company and to contribute sales revenue in 2013. Meanwhile, the Company also acquired a laterite nickel ore smelter as well as a base for staff training and continuing improvement of the alchemical technique for laterite nickel ore in the PRC. In addition, the Company possesses an alchemical technique for laterite nickel mining and metallurgy, which can be applied in Indonesia and has economic feasibility.

KP is located South East Sulawesi, which serves as an important location point for nickel laterite deposit in Indonesia. It is currently on a preliminary stage of exploration. Hanking Group acquired KP with a consideration of RMB90 million, and had an obligation to make maximum contribution of RMB180 million to KP as capital increase on behalf of the other shareholders based on the development needs of KP. While the Company plans to give priority to development of laterite nickel deposit in KS and KKU in the first several years as KS and KKU have abundant resources with much mature conditions, the Company will reinforce the exploration on KP so as to gain more resources. As at the date of this circular, there is no definitive development plan for KP for the foreseeable future.

LETTERS FROM THE BOARD

The mining activities of the Project Companies are carried out by the Project Companies themselves. The Project Companies have progressively established sales teams in the PRC to develop Chinese customers within the laterite nickel ore industry. The sales teams contact the end customers directly, primarily targeting the market for Chinese laterite nickel smelters using electric furnaces, blast furnaces and shaft furnaces. Currently, they are successfully getting customers in Liaoning Province and Shandong Province of the PRC.

The Directors believe that the Northeastern Lion Acquisition will provide the Company with a precise opportunity to invest in the overseas mining business with comparatively low risk. The Company believes that the Northeastern Lion Acquisition will be complementary to the Company's existing business and will further enhance the Group's mineral resources and operations as a whole.

Based on the foregoing, the Directors (other than the independent non-executive Directors who will express their views in "Letter from Independent Board Committee" set out on page 25 to 26 of this circular) are of the view that the transactions contemplated under the Share Purchase Agreement are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

5. Indonesia Regulation

As a country with abundant natural resources, Indonesia has been encouraging foreign capital to develop its resources with the implementation of a number of laws to protect foreign investment. Despite certain policies unfavourable to foreign investors, which are discussed below, the policy environment as a whole is friendly for foreign capital in local resource development.

5.1 Divestment Requirements

There are Divestment Requirements (as defined below) in Indonesia regarding foreign shareholding in companies holding IUPs in Indonesia. In accordance with Article 112 of the Mining Law of Indonesia and the Government Regulation No. 23 of 2010 on Minerals and Coal Mining Business ("**GR23/2010**"), a company holding an IUP in Indonesia is required to reduce its shareholding by foreign investors to no more than 80% within a period of five years after the issue of IUP. On February 2012, Government Regulation No. 24 of 2012 ("**GR24/2012**") was issued which further requires in companies holding IUPs in Indonesia the foreign shareholders to progressively divest their shareholding from the 6th to the 10th year of the issue of IUP, to the effect that the foreign shareholding in companies holding IUPs in Indonesia has to be reduced to no more than 49% at the expiry of the 10th anniversary after the issue of relevant IUPs (collectively the "**Divestment Requirements**").¹ According to the Divestment Requirements, foreign shareholdings to be divested must be offered to certain Indonesia entities, public and private, as appropriate.

As at the date of this circular, 16.5% equity interest of KP, KS and KKU is held by Indonesian shareholders respectively. Considering the issue dates of their IUPs, the foreign shareholdings in KP, KS and KKU have to be reduced from 83.5% to no more than 80% by 11 March 2016, 22 December 2014 and 14 December 2014, respectively. According to the shareholders agreement entered into by

¹ As advised by HHP, the Divestment Requirements are evolving and there are uncertainties in terms of interpretation. The calculation of the period for reduction of foreign shareholding may be by reference to the commencement of production by companies holding IUPs which is normally later than the timing of issue of IUPs.

LETTERS FROM THE BOARD

City Globe and other shareholders of KP, and the shareholders agreement entered into by Denway Development and other shareholders of KS and K KU, in the event that GR23/2010 takes effect and applies to the Project Companies, the shareholders of the Project Companies other than City Globe and Denway Development would have to reduce their foreign shareholding in the Project Companies before the reduction by City Globe and Denway Development. In the case of KP, KS and K KU, after the Completion, the Company will not have to divest its shareholding until at least March 2017, December 2015 and December 2015 respectively. In light of the above, the Company is of the view that the Divestment Requirements will not have material adverse effect on the Northeastern Lion Acquisition.

Under the Company Law, the required quorum for holding a general meeting of shareholders of an Indonesian-incorporated company is the shareholders representing at least 50% of the total number of shares that carry voting rights at such meeting. The number of votes required to pass an ordinary resolution at a general meeting of shareholders of an Indonesian-incorporated company is 50% or more of the votes cast at the meeting. The quorum requirement and voting thresholds can be amended by including higher thresholds in the articles of association of an Indonesian-incorporated company, in the meanwhile some higher thresholds are required under the Company Law for certain matters in specific circumstances. In the event that the interest of the Company in the Project Companies may fall below 50% due to the Divestment Requirements, the Company may procure the Project Companies to amend their respective articles of association to set higher thresholds for quorum requirement and voting thresholds with an aim to providing more protection to minority shareholders.

As advised by HHP, companies listed on the Indonesian Stock Exchange which have foreign shareholders are not currently required to comply with the Divestment Requirements. In correspondence to the development of the Project Companies, the Company might consider the listing plan of the Project Companies on the Indonesian Stock Exchange in due course.

Other options to deal with the Divestment Requirements include disposal of the project at fair and reasonable price no less than the equivalent equity price in the Valuation Report to a third party determined by the Company on a willing basis, which would incur no loss to the interests held by the Company. Furthermore, the Divestment Requirements provide that foreign shareholders may retain up to 49% interests. Even in a scenario that Denway Development and City Globe had to reduce their interests in the Project Companies to 49%, the Company would still ensure them as the largest shareholders to exercise de facto control over the Project Companies.

Since the Company does not yet foresee any legal impediment in Indonesian regarding listing in Indonesia or the disposal to third parties, these two aforementioned options are both feasible. Meanwhile, as at the date of this circular, no definitive plan has been formed in relation to the above because the Directors believe that it is in the best interest of the Company and the Shareholders as a whole to keep the maximum flexibility and less likeliness to cause unnecessary obstacle for the normal business of the Project Companies for now. The Company will start to consider and make plans to deal with the Divestment Requirements after the Completion. An announcement may be published as soon as practicable should there be any further update in this regard.

LETTERS FROM THE BOARD

High discount rate of 19% has been adopted in the Valuation Report which included additional 1% of specific risk discount related to the local political risk according to valuation practice and the Valuer's experience.

5.2 Recent export ban in relation to raw ores

As advised by HHP, the Government policy of encouraging further value-adding to mineral exports has been in existence for some time in Indonesia and is reflected in a series of laws and regulations since 1990s. The Regulation of the Minister of Energy and Mineral Resources No. 7 of 2012 on the Value Added Enhancement of Minerals Through Mineral Processing and Purification Activities (the "**MEMR7/2012**") has the effect of banning exports of raw ore from 6 May 2012. The provision banning exports of raw ore from 6 May 2012 has now been amended by a new provision which says that raw ore can be exported after the IUP holder becomes a "Registered Mining Product Exporter". This registration will only apply for companies holding IUPs till 12 January 2014. Once the IUP holder has become a Registered Mining Product Exporter, it is still necessary to obtain a further recommendation from the Directorate General of Minerals and Coal (the "**Per-Shipment Recommendation**") and an export approval from the Department of Trade for that shipment (the "**Mining Product Export Approval**") for each proposed shipment of mineral ores.

As advised by HHP, KS, KP and KKU have been confirmed as Registered Mining Product Exporters. Currently, the Mining Product Export Approval of KP and KKU have expired on 25 September 2012 and KS has obtained a new Mining Product Export Approval which is valid until 8 April 2013. As such, KP and KKU have to renew both the Per-Shipment Recommendation and the Mining Product Export Approval before each proposed shipment of mineral ores and KS has to renew its Mining Product Export Approval after its expiration. Saved as disclosed above, the Projected Companies have obtained all necessary approval and licences for conducting the New Business.

As stated above, the registration for Registered Mining Product Exporter will only be applicable to companies holding IUPs till 12 January 2014. According to the current laws and regulations, after 12 January 2014, the export of raw ore will be banned.

To mitigate the uncertainty of further laws and regulations to be issued after 12 January 2014, the Project Companies have made plans to establish laterite nickel smelters in Indonesia to add values to laterite nickel to be produced by them and thus to meet the aforementioned requirements. In this regard, the Directors are of the view that the risk of this issue is low. The Valuer has taken into account the related capital and refinery cost in the Valuation Report.

6. Characters of the Nickel Business

Nickel is a hard, ductile and lustrous silver-white metal with good thermal conductivity, electrical conductivity, high corrosion resistance and oxidative resistance. Approximately 61% of the world's nickel metal is used for production of stainless steel, and 16% for production of non-ferrous alloys and alloy steel.

LETTERS FROM THE BOARD

The global demand for nickel metal is mainly driven by the demand from China. During the past eight years, China's demand for nickel metal was growing at a CAGR of 22%, compared to -1% for the rest of the world. In the long-term horizon, the growth in nickel metal consumption is not only driven by China, but also fuelled by more emerging economies (such as Brazil, Russia, India and Indonesia). From 2005 to 2011, China posted a CAGR of 26% in production of stainless steel, compared to -1% for the rest of the world.

Stainless steel is widely used in food and beverage, household appliances, buildings, construction, industrial equipment and engineering fields. Therefore, consumption of stainless steel will continue to grow in the future, backed by the increasing trends of global urbanization, modernization and mobility as well as the growing demands for energy, food and water worldwide. Meanwhile, China's GDP as a key driver is estimated to grow at around 7% from 2011 to 2015, which will lend continuous supports to the demand for stainless steel.

On nickel supply, according to the U.S. Geological Survey, global nickel ore output (in terms of nickel content) increased from 1.66Mt in 2007 to 1.8Mt in 2011, representing a CAGR at around 2% which suggests that nickel supply has been outpaced by its demand growth.

In addition, the available reserves have been declining sharply due to exploitation of nickel sulphide ores through the years yet without a major breakthrough in exploration of new nickel sulphide resources in the recent two decades. Currently, a crisis is looming over the global nickel sulphide mineral resources, and the traditional nickel sulphide mines are experiencing higher difficulty in exploitation due to the increasing mining depth. Therefore, the global nickel industry has shifted its development focus to abundant laterite nickel resources at more competitive costs. In 2011, the nickel metal output from laterite nickel mines had already accounted for over 50% of the global output.

Therefore, the increasing global demand for nickel metal, coupled with the sharply declined nickel sulphide ore production, posts a promising opportunity for development of laterite nickel mines.

7. Risk Factors and Mitigation Measures

Based on the abovementioned information, in order to furnish the Independent Shareholders and the Independent Board Committee with an additional reference for the fairness and reasonableness of the Northeastern Lion Acquisition, the Company has summarized the following risk factors and relevant mitigation measures of the Northeastern Lion Acquisition:

Risk category	Risk profile	Mitigation measures	Risk level
Risk in prohibition of raw ore export	Pursuant to the prevailing mining laws and policies in Indonesia, export of laterite nickel ore is prohibited effective from 1 January 2014.	The policy might be adjusted in the future, taking into account that a complete prohibition of raw ore export would have a material adverse impact on Indonesian economy. Moreover, the prohibition would have no impact on the North Konawe Nickel Project as a whole as the Company has determined to establish a local smelter.	Short-term: low Long-term: low

LETTERS FROM THE BOARD

Risk category	Risk profile	Mitigation measures	Risk level
Risk in development of North Konawe Nickel Project	Risk factors include poor site infrastructure, lack of local skilled workers, and lack of experienced construction workers for the proposed smelter project.	Key equipments of shaft furnace are designed and manufactured by the Company in the PRC, which only require installation in Indonesia. Skilled workers will be trained in the PRC and sent to Indonesia. Chinese companies which has construction experience in Indonesia will be engaged for infrastructure.	Short-term: modest Long-term: low
Risk in downside nickel prices	The sluggish global economy and capital market, coupled with the slower growth in Chinese stainless market, will post a challenge against the demand growth in nickel metal and in turn lead to nickel price volatility.	The valuation has fully taken into account the potential price dampers and adopted a conservative price. The local smelting facilities with low integrated production costs are able to cope with the price volatility risk.	Short-term: modest Long-term: low
Risk in Divestment Requirements	As mentioned in “5.1 Divestment Requirements”, foreign shareholding in companies holding IUPs in Indonesia are required to progressively divest their shareholding from the 6th to the 10th year of the issue of IUP, to the effect that the foreign shareholding in companies holding IUPs in Indonesia has to be reduced to no more than 49% at the expiry of the 10th anniversary after the issue of relevant IUPs.	According to the current shareholding, the North Konawe Nickel Project will not involve any risk of further mandatory shareholding reduction at least before the end of 2015. Options to deal with the Divestment Requirements include seeking listing in Indonesian Stock Exchange, and disposal of the project at fair and reasonable price no less than the equivalent equity price in the Valuation Report to a third party determined by the Company on a willing basis, either way the Company will still ensure to exercise de facto control over the Project Companies.	Short-term: modest Long-term: low

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.

Evergreen Mining is a company established in the BVI and is principally engaged in investment holding.

LETTERS FROM THE BOARD

Northeastern Lion is a company established in the BVI and is principally engaged in investment holding.

Aoniu HK is a limited liability company established in Hong Kong and is principally engaged in investment holding.

LISTING RULES IMPLICATIONS

Evergreen Mining is an indirectly wholly-owned 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 a the Controlling Shareholder. As such, Evergreen Mining is an associate of both Ms. Yang and Mr. Yang and is therefore a connected person of the Company. Under Chapter 14A of the Listing Rules, the transactions contemplated under the Share Purchase Agreement constitute a connected transaction of the Company.

As the highest applicable percentage ratio under Rule 14.07 of the Listing Rules in respect of the Northeastern Lion Acquisition exceeds 5% but is less than 25%, the Northeastern Lion 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 Share Purchase Agreement. Both of them have abstained from voting on the board resolutions approving the Share Purchase Agreement and the transactions contemplated thereunder.

As of the Latest Practicable Date, Ms. Yang and her associates hold 780,988,500 shares of the Company, representing 42.68% of the total issued shares of the Company. Mr. Yang and his associates hold 424,360,500 shares, representing 23.19% of the total issued shares of the Company. The Controlling Shareholders and their associates will abstain from voting on the resolutions approving the Share Purchase Agreement at the EGM.

VALUATION OF NORTHEASTERN LION

A valuation report in respect of the Target Shares in Northeastern Lion (the "**Valuation Report**") has been prepared by Savills, the texts of which are set out in Appendix I to this circular. The valuation of the 70% equity interest of Northeastern Lion in the Valuation Report involves the use of the discounted cash flows approach.

The Directors have confirmed that they have reviewed and discussed with Savills the bases, assumptions (the "**Assumptions**") and calculations (the "**Calculations**") upon which the Valuation Report has been made.

LETTERS FROM THE BOARD

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 Northeastern Lion 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 Northeastern Lion and the Project Companies; (ii) the current reserves of the North Konawe Nickel Project; and (iii) the cash flow forecast of the North Konawe Nickel Project.

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

- (i) Data including mine reserve, annual production volume, investment cost, operating cost and smelting cost for the project are based on the technical report issued on 19 November 2012 by CSA Global Pty Ltd.;
- (ii) Selling prices of mineral products of the project are estimated with reference to the industry report issued on 30 November 2012 by Hatch Ltd.;
- (iii) Risk-free rate adopted for the valuation is approximately 0.74%, based on yield of 10-year Hong Kong Exchange Fund Bills & Notes; and
- (iv) Betas of 3 comparable companies are 1.491 from Western Areas (WSA.ASX), 1.313 from ERAMET (ERA.FP), and 1.033 from China Nickel Resources Holdings (2889.HK).

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.

COMPETENT PERSON'S REPORT

A Competent Person's Report prepared in accordance with Chapter 18 of the Listing Rules, the texts of which are set out in Appendix II to this circular.

GENERAL

The Company has appointed an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the Share Purchase 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 Share Purchase Agreement at the EGM. The Independent Board

LETTERS FROM THE BOARD

Committee comprising all independent non-executive Directors, has been established to advise the Independent Shareholders as to whether the Share Purchase Agreement are 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 Northeastern Lion Acquisition, after taking into account 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 4 March 2013 at 9:00 a.m. at which the relevant resolutions will be proposed to approve the Share Purchase Agreement and the transactions contemplated thereunder is set out on pages EGM-1 to EGM-2.

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 Share Purchase Agreement is on normal commercial terms and is 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 resolution to approve the Share Purchase Agreement and the transactions contemplated thereunder at the EGM. The text of the letter from the Independent Board Committee is set out on page 25 to 26 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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

15 February 2013

To the Independent Shareholders

Dear Sir or Madam,

**DISCLOSABLE AND CONNECTED TRANSACTION
ACQUISITION OF 70% EQUITY INTEREST IN NORTHEASTERN LION**

We refer to the circular issued by the Company to Shareholders dated 15 February 2013 (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 Share Purchase 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 Share Purchase 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 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 is set out from pages 27 to 48 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.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the terms of the Share Purchase Agreement and the advice of the Independent Financial Adviser, we are of the opinion that the Share Purchase 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 Share Purchase 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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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.



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

15 February 2013

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION – ACQUISITION OF 70% EQUITY INTEREST IN NORTHEASTERN LION

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 of the Company regarding the acquisition of 70% equity interest in Northeastern Lion (the “**Northeastern Lion 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 15 February 2013 (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 Northeastern Lion Acquisition. Unless otherwise stated, defined terms used herein shall have the same meanings as those defined in the Circular.

The Board announces that on 20 December 2012, the Company entered into the Share Purchase Agreement with Evergreen Mining and Aoniu HK pursuant to which the Company has agreed to acquire, and Evergreen Mining has agreed to sell, 70% equity interest in Northeastern Lion for a total consideration of RMB311.8 million (the “**Consideration**”).

As at the Latest Practicable Date, Evergreen Mining is an indirectly wholly-owned 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, Evergreen Mining is an associate of both Ms. Yang and Mr. Yang and is therefore a connected person of the Company. Under Chapter 14A of the Listing Rules, the transactions contemplated under the Share Purchase Agreement constitute a connected transaction of the Company.

As the highest applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Northeastern Lion Acquisition exceed 5% but is less than 25% and Evergreen Mining is a connected person of the Company, the Northeastern Lion 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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

independent non-executive directors of the Company, has been established to advise the Independent Shareholders as to whether the Share Purchase 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 Share Purchase Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and the Northeastern Lion Acquisition is in the ordinary and usual course of business of the Group and 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 not 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 Share Purchase 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 Northeastern Lion 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.

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Information regarding the parties involved

Information of the Group, Aoniu HK and Evergreen Mining

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 HK is a limited liability company established in Hong Kong and is principally engaged in investment holding. It is a wholly owned subsidiary of Hanking Group as at the date of the Circular.

Evergreen Mining is a company established in the BVI and is an indirectly wholly-owned subsidiary of the Hanking Group. It holds 100% equity interests in Northeastern Lion as at the date of the Circular.

Northeastern Lion is a company established in the BVI and is principally engaged in investment holding. Northeastern Lion was a wholly-owned subsidiary of Evergreen Mining as at the date of the Circular.

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 regarding the Northeastern Lion

The business of the Northeastern Lion

According to the Letter from the Board, Northeastern Lion was established in the BVI on 23 November 2012. It holds 100% equity interest in City Globe and Denway Development, respectively. City Globe holds 75% equity interest in KP, and Denway Development holds 75% equity interest in KS and KKU respectively. As at 30 September 2012, there are outstanding shareholder loans with a total amount of approximately RMB139.0 million due from City Globe and Denway Development to Hanking Group.

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KP was duly established in Indonesia in January 2008 with a registered capital of Rp27,600,000,000 (approximately HK\$22,148,216.5, pursuant to an exchange rate of HK\$1=Rp1,246.15), which was held as to 75% by City Globe, 16.5% by PT Wira Perdana Konawe, and the remaining 8.5% by PT Sinindo Mining. KP holds a Production Operation IUP for nickel covering an area of 2,827 hectares with an initial term of 20 years ending on 11 March 2031 and may be extended twice, each for a period of ten years.

KS was duly established in Indonesia in May 2008 with a registered capital of Rp66,800,000,000 (approximately HK\$53,605,103.7, pursuant to an exchange rate of HK\$1=Rp1,246.15), which was held as to 75% by Denway Development, 16.5% by PT Wira Perdana Konawe, and the remaining 8.5% by PT Sinindo Mining. KS holds a Production Operation IUP for nickel covering an area of 1,923 hectares with an initial term of 20 years ending on 22 December 2029 and may be extended twice, each for a period of ten years.

KKU was duly established in Indonesia in January 2008 with a registered capital of Rp66,800,000,000 (approximately HK\$53,605,103.7, pursuant to an exchange rate of HK\$1=Rp1,246.15), which was held as to 75% by Denway Development, 16.5% by PT Wira Perdana Konawe, and the remaining 8.5% by PT Sinindo Mining. KKU holds a Production Operation IUP for nickel covering an area of 3,119 hectares with an initial term of 20 years ending on 14 December 2029 and may be extended twice, each for a period of ten years.

PT Wira Perdana Konawe and PT Sinindo Mining are both independent third parties to the Company as at the date of the Circular. PT Wira Perdana Konawe is a wholly-owned subsidiary of P.T. Bumi Makmur Selaras, which is an Indonesian shareholder. PT Sinindo Mining is a wholly-owned subsidiary of Geological Team No. 308 of Yunnan Nonferrous Metals Geological Bureau, which is a PRC shareholder.

According to the articles of associations of KS, KP and KKU respectively, the purposes and objectives of KS, KP and KKU are to engage in nickel ore mining businesses. To achieve such purposes and objectives, they can carry out the activities in nickel ore mining including general survey, exploration, feasibility study, construction, mining, processing and refinery as well as transportation and sales and other related business activities.

The Project Companies has built up necessary infrastructures at the mining area. Additionally, the Company itself owns the smelting technologies, which can be utilized in Indonesia with economic viability. In particular, the Company has also acquired a laterite nickel ore smelter in the PRC as a base for training workers and constantly improving its smelting technologies for laterite nickel ores. Accordingly, there remains no material obstacles to prevent the normal operations of the Project Companies.

According to the legal due diligence conducted by HHP, as stated in its report dated 2 January 2013 (the “**HHP Report**”). HHP advised that the HHP Report was prepared based on documents provided by the Project Companies and subject to a number of assumptions and qualifications as stated in the HHP Report. The Directors advise us that HHP confirms that the Project Companies were validly incorporated under the laws of the Republic of Indonesia and hold IUPs which have been added to the list of IUPs maintained by the Directorate General of Minerals and Coal of Indonesia (the “**DGoMC**”) which are found to have been validly issued and not overlapping with other mining concessions. As advised by the Directors, we understand that DGoMC is being the government authority in-charge in the mining related matters of Indonesia.

We have reviewed the HHP Report and communicated with the Company, HHP and the Indonesian local counsel of the Project Companies regarding the findings on the HHP report.

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We note that there are a number of issues identified by HHP which might have potential impact on the legal title of Denway Development and City Globe's equity interests in the Project Companies and the operation of the Project Companies. We have discussed with the Company regarding those issues in order to understand the actions would be/had been taken to protect the interests of the Company as the purchaser of the Target Shares and how the Directors took into account of the issues in the consideration of the Company's interest in the Northeastern Lion Acquisition.

As stated in HHP Report, there are a number of instances where there were a failures to comply with the acquisition procedure under the Company Law which caused changes in control of the Project Companies. The Directors confirm that these were historical issues related to the share transfers of the former shareholders of the Project Companies before Denway Development and City Globe acquired the shares of the Project Companies. The Directors advise us that, based on the advice provided by HHP, the Directors understand that the former shareholders and the creditors of the Project Companies should be the only parties who can challenge the Project Companies in respect of this issue. The Directors confirm that Evergreen Mining has made warranty in the Share Purchase Agreement regarding the completeness and validity in relation to the establishments of the Project Companies. In this regard, the Directors are of the view that the risk of this issue is low.

As stated in HHP Report, the Mining Product Export Approval of KGU and KP have expired on 25 September 2012. The Directors advise that KP and KGU have not commenced business since their respective incorporation and they have not yet generated any operating income or profit. As advised by the Directors and the Indonesian local counsel of the Project Companies, they did not identify any legal impediment for the Project Companies to renew the Mining Product Export Approval as at the Latest Practicable Date. In the meanwhile, the Directors advise that the Company has already made plans to mitigate the recent export ban in relation to raw ores in Indonesia. For details, please refer to the paragraph headed "B. Recent export ban in relation to raw ores" in the Letter from the Board. In this regard, the Directors are of the view that the risk of this issue is low.

As stated in the HHP Report, we note that, in order for the Project Companies to start mining activities in the forestry areas granted by the IUPs, the Project Companies need to obtain Borrow and Use Permits. HHP identified that the recent Borrow and Use Permits obtained by the Project Companies could not cover 100% of their relevant IUP areas. As advised by the Directors, they will apply for the Borrow and Use Permit for the relevant IUP areas which the Project Companies actually decide to use from time to time according to the development of the Project Companies. As advised by the Directors and the Indonesian local counsel of the Project Companies, KS and KGU have obtained approvals which are required to be obtained before the application of Borrow and Use Permits ("**Principle Approval**"), the Directors expect to obtain the Borrow and Use Permits when appropriate based on the Company's mining plan. As further advised by the Directors, KP is in the process of obtaining the Principle Approval. As advised by the Indonesian local counsel of the Project Companies, they didn't identify any legal impediment for the Project Companies to obtain the relevant permits regarding the mining activities as at the Latest Practicable Date. In this regard, the Directors are of the view that the risk of this issue is low.

As stated in the HHP Report, HHP advise the Company that holders of IUPs are required to reach settlements with local land holders to compensate them for the loss of the use of the surface rights of their land, if any. As advised by the Directors, if there is any settlement needed, the Company will instruct the Project Companies to apply and arrange for settlement with the third parties holding those overlapped area

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held in accordance with the applicable laws and regulations of Indonesia before the Project Companies start mining operation in there. The Directors estimated that the settlement costs will be approximately RMB55 million.

We have reviewed the Share Purchase Agreement and noted that Evergreen Mining has provided warranties to the Company regarding the Project Companies including but not limited to the completeness and validity of establishments, shareholdings and IUPs, compliance with relevant environmental regulations, no legal disputes, and fulfilled tax payments in all kinds.

As advised by the HHP, based on documents provided to HHP and the court searches conducted by HHP for the purpose of HHP Report that they are not aware of i) any current challenge from third parties or any other court or arbitral action in Indonesia involving the Project Companies in recent years; and ii) any Government entity had imposed or considered imposing any sanctions on the Project Companies for the issues identified.

As advised by the Directors, save for issues disclosed in the paragraphs above, the Directors are not aware of any other material legal issue of the Project Companies.

Since the Directors are of the view that the risks of the abovementioned issues are low and Evergreen Mining has undertaken to indemnify the Company for any loss incurred if the Company, Northeastern Lion and the Project Companies suffer from any penalties to be imposed by any government authorities and third parties or any loss in relation to the abovementioned issues. Thus, the Directors consider that the abovementioned issues identified by HHP are manageable and would not have any material negative impacts on the Company's interest in the Northeastern Lion Acquisition.

Taking into account the findings of HHP and the Directors' response to the legal issues identified by HHP as stated above, since we note that the Directors have considered the abovementioned matters in the Northeastern Lion Acquisition with relevant follow up action plans and relevant warranties have been provided by Evergreen Mining to cover the respective potential penalties in relation to those issues, we concur with the Directors' view that the abovementioned legal issues will not have any material negative impacts on the Company's interest in Northeastern Lion Acquisition.

Information regarding the North Konawe Nickel Project

According to the Letter from the Board, the Company has appointed the CSA Global to prepare an independent technical assessment of the exploration, geology, resources/reserves estimate, mining, metallurgical and processing plant, and environmental permitting and approvals of the North Konawe Nickel Project. According to the Letter from the Board, CSA Global is the professional resources consultant which is responsible for the preparation of the Competent Person's Report in accordance with Chapter 18 of the Listing Rules, the text of which are set out in Appendix II to the Circular.

The mineral resource estimated under JORC Code as of 30 November 2012 for the North Konawe Nickel Project is summarised as: at a cut-off grade of ore bodies at 1.0% nickel, the measured, indicated and inferred mineral resources are approximately 85.8 million tonnes with average grades of 1.51% nickel and 0.09% cobalt; approximately 182.2 million tonnes with average grades of 1.35% nickel and 0.08% cobalt; and approximately 83.1 million tonnes with average grades of 1.26% nickel and 0.070% cobalt, respectively.

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As stated in the Letter from the Board, according to the existing mining policy of the governmental authorities of Indonesia, the export of nickel laterite ore is prohibited from 1 January 2014. Therefore, the Directors confirmed that the following mining plan was developed and would be carried out by the Project Companies:

Year	2013	2014	2015	2016	2017	2018	.....	2032
Ore Production (Kt)								
(wet)	1,500	2,000	2,000	2,000	4,000	4,000	.....	4,000

As stated in the Letter from the Board, the Project Companies plan to produce 1,500,000 tonnes of ore for exporting overseas for the year 2013. After 2014, the Project Companies will establish laterite nickel smelters in Indonesia in order to carry out local smelting in Indonesia as a result of the recent export ban in relation to raw ores. For details, please refer to the sub-paragraph headed “B. Recent export ban in relation to raw ores” under the paragraph headed “3. Indonesia Regulation” under the section headed “Principal factors considered” in this letter.

The Project Companies plan to construct a shaft furnace operation with an annual output of 40,000 tonnes nickel metal. The planned production schedule is summarized as:

Year	2013	2014	2015	2016	2017	.....	2032
Nickel Metal (t)	0	10,000	20,000	30,000	40,000	.....	40,000
Wet Ore (Kt)	0	1,000	2,000	3,000	4,000	.....	4,000

The North Konawe Nickel Project will require a total investment of approximately US\$245.0 million, with approximately US\$143.0 million being invested in mining and approximately US\$102.0 million in smelting. Substantially all the capital expenses of the Project Companies will be financed by its own cash flow. The total investment of approximately US\$245.0 million will be funded either by internal resources such as profit generated by the Project Companies given that Project Companies have started operating and will be generating cash flow since 2013, or external resources such as bank loans. In case the aforementioned two resources do not provide enough funds to support the needs of development of Project Companies, City Globe, Denway Development and the other shareholders of the Project Companies may consider to make capital injection to the Project Companies on a pro rata basis, and under such circumstances, City Globe and Denway Development will make the capital injection on behalf of the other shareholders of the Project Companies. Please refer to the paragraph headed “3.4 Other Information” in the Letter from the Board for the details regarding the capital injection arrangement among City Globe, Denway Development and other shareholders of the Project Companies.

According to the Letter from the Board, the occurrence and mining methods of laterite nickel resources determine that the mining of the mine will have greater effects on the topsoil disturbance, including mining land, waste dumps and stockyards and roads for mining. The tropical rainforest climate and genesis of the deposit in the mine also determine that it would be easier to carry out rehabilitation work after mining of such resources. In order to mitigate the effects of mining on environment, significant attention should be paid to the control of surface water which is vital and important during mining process. As advised by the Directors, in order to reduce the impacts of mining on environment, the Company will take the following measures

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during mining process: (i) strengthening the control of topsoil, so as to improve soil conservation , water conservation , and fertilizer maintenance, thus reducing the loss of soil nutrients; (ii) strengthening the control of surface water, and enhancing water drainage and dewatering; and (iii) adopting inverted pits mining method, conducting rehabilitation work while mining, so as to reduce the impacts on environment and decrease the mining cost.

As advised by the CSA Global, the environmental risk of poorly managed land disturbance, rehabilitation and site closure will not have material negative impact on the mining process of the Project Companies. As advised by the Directors, in order to comply with the abovementioned measures to reduce the potential environmental risk, the Company will engage professionals for monitoring the status of the topsoil and to perform under the environmental policy. As further advised by the Directors, the Company is very experienced in inverted pits mining method and complying with relevant environmental protection policies as they have dealt with similar situations in their past records. Thus, we concur with the view of the Directors that the Company is able to minimize the impact of mining on environment during mining process.

We have reviewed the Valuation Report and the Competent Person's Report and we note that there is no material variance on the data of ore production adopted in the Valuation Report and the Competent Person's Report identified.

Financial information of Northeastern Lion

According to the Letter from the Board, as at the date of the Circular, KP and KKU have not yet commenced business since their respective incorporation, and they have not yet generated any revenue or profit. KS has started to operate since April 2012.

According to the Letter from the board and based on the unaudited combined management accounts prepared by Northeastern Lion in accordance with IFRS, the net loss before and taxation and extraordinary items 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 loss before taxation and extraordinary items	9.2	25.7
Unaudited loss after taxation and extraordinary items	9.2	25.7

According to Letter from the Board, based on the unaudited combined management account prepared by Northeastern Lion in accordance with IFRS, the total asset value and the net asset value as at 30 September 2012 were approximately RMB591.0 million and RMB253.4 million, respectively. According to the Valuation Report, the valuation of the subject of the Northeastern Lion Acquisition being the 70% equity interest in Northeastern Lion as at September 2012 is approximately RMB390.0 million, the detail of which is set out in the Appendix I to the Circular. In addition, based on our interview with and the representation of the Directors, the Directors confirmed that they did not identify any material outstanding contingent liabilities of the Project Companies as at the Last Practicable Date.

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Other information of the Project Companies

According to the Letter from the Board, Hanking Group acquired 75% equity interest in the Project Companies from P.T. Bumi Makmur Selaras and Geological Team No. 308 of Yunnan Nonferrous Metals Geological Bureau respectively with a total consideration of approximately RMB320.0 million in 2009. As at 30 September 2012, RMB228 million has been paid with an amount of approximately RMB92.0 million remaining outstanding. Further, Hanking Group is required to make a maximum contribution of approximately RMB680.0 million on behalf of the other shareholders of the Project Companies in the event of capital increase going forward. The capital increase will be subject to the needs of the Project Companies and will not affect the shareholding structure of the Project Companies. As at 30 September 2012, approximately RMB30.0 million has already been contributed by Hanking Group on behalf of the other shareholders of the Project Companies. Based on the representation of the Directors, we understand that the rationale behind such arrangement was being the segregation of duties for each party to fully utilize their respective strengths to maximise their contributions as the shareholders to the Project Companies: Hanking Group to provide funds and mining management expertise, while P.T. Bumi Makmur Selaras to provide coordination for external public relationships in Indonesia, and Geological Team No. 308 of Yunnan Nonferrous Metals Geological Bureau to provide exploration technical support.

For the purpose of and in connection with the Northeastern Lion Acquisition, Hanking Group, P.T. Bumi Makmur Selaras, Geological Team No. 308 of Yunnan Nonferrous Metals Geological Bureau and Denway Development entered into a novation agreement on 25 November 2012, pursuant to which Hanking Group transferred by novation to Denway Development all of its rights, liabilities, duties and obligations under and in respect of each of the Old Agreements (as appropriate).

For the purpose of and in connection with the Northeastern Lion Acquisition, Hanking Group, P.T. Bumi Makmur Selaras, Geological Team No. 308 of Yunnan Nonferrous Metals Geological Bureau and City Globe entered into a novation agreement on 25 November 2012, pursuant to which Hanking Group transferred by novation to City Globe all of its rights, liabilities, duties and obligations under and in respect of each of the Old Agreements (as appropriate).

As stated in the Letter from the Board, the aforementioned novation agreements were entered into to simplify and clarify the transaction structure of Northeastern Lion Acquisition, which only involve the rights, liabilities, duties and obligations under and in respect of each of the Old Agreements. As stated in the Letter from the Board, according to the novation agreements, Denway Development and City Globe will be responsible for paying the outstanding consideration amounting to approximately RMB92.0 million and the maximum contribution of approximately RMB650.0 million on behalf of the other shareholders of the Project Companies. Since City Globe and Denway Development are wholly-owned subsidiaries of Northeastern Lion, of which 30% equity interest will be held by Hanking Group and 70% equity interest will be held by the Company upon completion of the Northeastern Lion Acquisition, Hanking Group and the Company will bear the capital commitment proportionate to their shareholding in any event of capital increase of the Project Companies. In this regards, the Directors consider that the novation agreements are fair and reasonable. We concur with the Directors' view that the novation agreements are fair and reasonable on the basis that (i) the objective of novation agreement is to simplify and clarify the transaction structure of Northeastern Lion Acquisition; and (ii) the Directors confirmed us that no duty or liability of Hanking Group which is not under the Old Agreement being transferred to Denway Development and City Globe. The Directors further advise us that the Company did not involve in the negotiations of the novation agreements.

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After entering into the aforementioned novation agreements, Denway Development and City Globe will be responsible for paying the outstanding consideration with an amount of approximately RMB92.0 million. For details of the expected cash outflow of Northeastern Lion for the capital commitment, please refer to the sub-paragraph headed “C. Effect on gearing and working capital” under the paragraph headed “4. Possible financial effects of the Northeastern Lion Acquisition on the Group” in this letter under the section headed “Principal factors considered”. We note that it is considered as a cash outflow item in the cash flow projection adopted in the Valuation Report.

Based on the interview with and the representation from the Directors, the Directors confirmed that Denway Development and City Globe will become the non-wholly owned subsidiaries of the Group upon the Completion and they will be responsible for the abovementioned capital commitment. According to our discussion with and based on the representation of the Valuer and the Directors, the Valuer and the Directors confirmed that the estimated utilization amount of the capital commitment pursuant to the Old Agreements has been taken into account in the Valuation Report. For details, please refer to the sub-paragraph headed “C. Valuation” under the paragraph headed “2. The Share Purchase Agreement” under the section headed “Principal factors considered” of this letter.

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 Share Purchase Agreement and the transactions contemplated thereunder, we have considered the following principal factors and reasons:

1. Reasons and the benefits of the Northeastern Lion Acquisition

According to the Letter from the Board, as disclosed in the Annual Report that the Company has the strategy of diversifying mining resources and internationalization, the Northeastern Lion Acquisition will be beneficial to the Company’s expansion strategy into nickel mines business. According to the Annual Report, we note the Company has indicated that it is an established strategy of the Group to seek for international development in the exploration of the mining projects of iron ores or other quality metals overseas. The Directors are of the view that nickel is widely used in the fields of consumable, military, transportation, aerospace, marine industry and construction industries. Many countries, including the PRC, have considered nickel as a strategic resource. Due to the importance of nickel, the Company considers the Northeastern Lion Acquisition as a strategic investment.

The Directors advise us that one of the reasons for the Company to expand into nickel ore mining business in Indonesia is the prospect of the industry. According to the Letter from the Board, approximately 61% of the world’s nickel is used in production of stainless steel, which is one of the fastest growing segments of the steel sector in China and the world. According to the Twelfth Five-year Plan for the Steel Industry issued by the Ministry of Industry and Information Technology of the PRC on 7 December 2011, the annual consumption of stainless steel is expected to reach approximately 16.0 million tonnes by 2015, representing a compound annual growth rate (“CAGR”) of approximately 11.2% from approximately 9.4 million tonnes in 2010. Therefore, the Company has determined to choose nickel as the potential mineral resources to be developed. The Directors advised that, based on their understanding on nickel mineral resources from their study of industry information

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such as the industry report provided by Hatch Ltd., the available reserves have been declining sharply due to exploitation of nickel sulphide ores through the years yet without a major breakthrough in exploration of new nickel sulphide resources in the recent two decades. Currently, a crisis is looming over the global nickel sulphide mineral resources, and the traditional nickel sulphide mines are experiencing higher difficulty in exploitation due to the increasing mining depth. Therefore, the global nickel industry has shifted its development focus to abundant laterite nickel resources at more competitive costs. As advised by the Directors, the Company has determined to develop nickel business in Indonesia is based on their understanding that Indonesia is being one of the major owners and producers of laterite nickel resources in the world in terms of resources, infrastructure and other conditions, which is in line with our understanding on the laterite nickel and nickel industry according to the review of the industry report prepared by Hatch Ltd..

According to the Letter from the Board, the Company has exercised considerable care in selecting the potential sellers of nickel ore, and has considered many different factors including price, reserve and location. The location of the nickel resources with minimum cost has a crucial effect on the profitability of the acquisition. Due to the above-mentioned factors, the Company has previously rejected many potential sellers at a very preliminary stage. According to our discussion with and the information provided by the Company, the Directors advise us that, based on their assessment on the potential targets at the very preliminary stage, the Company noted that most of the potential targets were still at the very beginning of exploration stage with no comprehensive mining certificates being obtained, therefore, the Directors advise us that they did not conduct any further assessment nor detailed due diligence on other potential targets which were at the very preliminary stage and the respective counterparties had been rejected by the Company or had not approached the Company thereafter. In this regards, the Company are of the view that these potential targets were not considered as the alternative offers to the Company. Further advised by the Directors, the nickel resources involved in the Northeastern Lion Acquisition are rich, (the measured and indicated nickel resources and the inferred nickel resources of the Project Companies reached approximately 3.8 million tonnes and 1.0 million tonnes respectively) and the price is relatively low. Furthermore, among the Project Companies, KS has started exporting nickel from the fourth quarter of 2012 and KKU is also expected to start exporting nickel from 2013. Therefore, the Company believes it is the best opportunity to make the Northeastern Lion Acquisition at this time and chose to acquire the New Business from the Controlling Shareholders. Additionally, a nickel smelter with annual production capacity of 40,000 tonnes will be completed by the end of 2016, the Directors are of the view that it is a precious opportunity for the Company to enter into the market of nickel, which will help the Company diversify mining resources, expand the business scope and enlarge the scale as well as become an international mining company (details of which will be further disclosed in the Competent Person's Report in the Circular).

According to the Letter from the Board, one of the Project Companies, KS, has already commenced mining, selling laterite nickel and will gradually expand its mining capacity. Based on the representation of the Directors and our discussion with Indonesia local counsel of the Project Companies, Indonesia has been encouraging foreign capital to develop its resources with a number of laws to protect foreign investment. Despite certain policies unfavourable to foreign investors, which are discussed in the Letter from the Board, the Directors believe that the policy environment as a whole is the incentive for foreign capital in local resource development. In addition, the North Konawe Nickel Project is in the initial operation, which is expected to be further expanded upon the

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Completion by the Company and to contribute sales revenue in 2013. Meanwhile, the Directors advised us that the Group has started to prepare for its nickel business operation in the future. According to the Letter from the Board, the Company acquired a laterite nickel ore smelter as well as a base for staff training and continuing improvement of the alchemical technique for laterite nickel ore in the PRC. In addition, the Company possesses an alchemical technique for laterite nickel mining and metallurgy, which can be applied in Indonesia and has economic feasibility. Based on our interview with and the representation from the Directors, the Directors advised us that the Group was mainly focusing on the iron ore mining and the processing and sales of iron ore concentrates recently. The Directors advise that their techniques and experiences in iron ores business can be applied in the development of other metals mining projects. In order to diversify the Group's business into nickel related area, the Directors are of the view that the abovementioned acquisition of an existing laterite nickel ore smelter and related business in the PRC is the most efficient way for the Group to train up its technicians and obtain the relevant experiences in nickel ore processing which can provide competent management and technical teams for the Group's nickel business in Indonesia in the future. The Directors believe that the Northeastern Lion Acquisition will provide the Company with a precious opportunity to invest in the overseas mining business with comparatively lower risk. The Company believes that the Northeastern Lion Acquisition will be complementary to the Company's existing business and will further enhance the Group's mineral resources and operations as a whole.

According to the Letter from the Board, KP is located South East Sulawesi, which serves as an important location point for nickel laterite deposit in Indonesia. It is currently on a preliminary stage of exploration. Hanking Group acquired KP with a consideration of approximately RMB90.0 million, and had an obligation to make maximum contribution of approximately RMB180.0 million to KP as capital increase on behalf of the other shareholders based on the development needs of KP. While the Company plans to give priority to development of laterite nickel deposit in KS and KGU in the first several years as KS and KGU have abundant resources with much mature conditions, the Company will reinforce the exploration on KP so as to gain more resources. As at the date of this circular, there is no definitive development plan for KP for the foreseeable future.

As advised by the Directors that KP was not considered in the Consideration or included in the Valuation Report or Competent Person's Report due to its preliminary stage of exploration. We have reviewed the management account of KP as at 30 September 2012 provided by the Company and we note that the net asset value of KP was approximately Rp 27.2 billion as at 30 September 2012. As further discussed with the Directors, they are not aware of any contingent liabilities in their due diligence for the Project Companies.

According to the Letter from the Board, based on the foregoing, the Directors are of the view that the transactions contemplated under the Share Purchase Agreement are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole. The Directors further confirm us they are of the view that the Northeastern Lion Acquisition is in the ordinary and usual course of business of the Group as the Company expects that nickel business will be another principal business of the Group in the future.

Taking into account of (i) the Company has the strategy of diversifying mining resources and internationalization; (ii) the nickel ore reserve of the Project Companies (please refer to the subparagraph headed "B. Basis of consideration of Northeastern Lion Acquisition" under the paragraph

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headed “2. The Share Purchase Agreement” in this section for our assessment on the Competent Person’s Report); and (iii) diversification of the categories of ores of the Group is an existing Group’s strategy as stated in the Annual Report and the Group has started to prepare for its nickel business operation as one of its principal business activities in the future, we concur with the Directors’ view that, although the vendor of Northeastern Lion Acquisition is being an associate of the Controlling Shareholder, the Northeastern Lion Acquisition will be able to be complementary to the Company’s existing business and will be able to further enhance the Group’s mineral resources and operations as a whole and in the ordinary and usual course of business of the Group.

2. The Share Purchase Agreement

In order to assess the fairness and reasonableness of the principal terms and the Consideration, we have (i) reviewed and discussed with the Directors the principal terms of the Share Purchase Agreement, (ii) discussed with the Directors the basis of the Consideration; (iii) reviewed the Competent Person’s Report and the valuation of the subject of the Northeastern Lion Acquisition being the 70% equity interest in Northeastern Lion prepared by Savills, an independent valuer (“**Equity Valuation**”).

A. Principal terms of the Share Purchase Agreement

According to the Letter from the Board, pursuant to the Share Purchase Agreement, if the Company, Northeastern Lion and the Project Companies suffer from any penalties to be imposed by any government authorities in relation to any legal defects with regard to Northeastern Lion and the Project Companies, Evergreen Mining has undertaken to indemnify the Company for any losses incurred.

We have reviewed the principal terms of the Share Purchase Agreement and discussed with the Directors. The Directors confirm that the terms of the Share Purchase Agreement were determined by the parties involved in the Northeastern Lion Acquisition after arm’s length negotiations.

B. Basis of the consideration of the Northeastern Lion Acquisition

According to the Letter from the Board, the Consideration was arrived at based on normal commercial terms after arm’s length negotiation between the parties to the Share Purchase Agreement, after taking into account, among others, (i) the prospect of the nickel ore industry; (ii) the volume and quality of the existing nickel resources possessed by the Project Companies; (iii) the historical costs contributed by Hanking Group to the Project Companies; and (iv) other relevant factors (e.g. the rights and obligations of Northeastern Lion to be assumed by the Group after the Completion).

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Based on the abovementioned basis, the Directors advise us that, in calculation of the Consideration they have considered and made reference to:

- (i) regarding the prospect of the nickel ore industry, as advised by the Directors, the Company was going to focus on the nickel related products market in the PRC in the future. The Directors consider that nickel is widely used in over 300,000 products for consumer, industrial, military, transportation/aerospace, marine and architectural applications. It is mostly used as an alloying metal along with chromium and other metals in the production of stainless and heat-resisting steels. Around 61 per cent of nickel in the world is used to manufacture stainless steels. According to the Stainless Steel Council of China Special Steel Enterprise Association (“中國特鋼企業協會不銹鋼協會”), the apparent consumption volume of stainless steel in the PRC was approximately 9.14 million tonnes for the 9 months ended 30 September 2012, representing an increase of approximately 13.0% or approximately 1.1 million tonnes as compared with the same period previous year. According to the Twelfth-Five years Plan for the Steel Industry (“鋼鐵工業「十二五」發展規劃”) issued by the Ministry of Industry and Information Technology of the PRC dated 7 December 2011, the expected annual consumption volume of stainless steel will be approximately 16.0 million tonnes in 2015, representing a CARG of approximately 11.2% as compared to the annual consumption volume of stainless steel of approximately 9.4 million tonnes in 2010. In this regard, the Directors believe that the Northeastern Lion Acquisition can achieve the Group’s strategy of diversification of mining resources and will be in a better position to capture the expected increase in market demand in long run.
- (ii) in assessing the volume and quality of the existing nickel resources owned by the Project Companies, the Company engaged CSA Global to undertake an independent technical assessment of the exploration, geology, resources/reserves estimate, mining, metallurgical and processing plant, and environmental permitting and approvals of laterite nickel projects of the Project Companies. As confirmed by the Directors and according to the Letter from the Board and Competent Person’s Report, the Competent Person’s Report was prepared to the standard of and was considered by CSA Global to be a Competent Person Mineral Resource Report under the guidelines of the JORC and Code for Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Report (“**Valmin Codes**”) and the requirement of Chapter 18 of the Listing Rules. We have reviewed the Competent Person’s Report and discussed with representative of the CSA Global regarding to the information of the Competent Person’s Report. We didn’t identify any material issue which will have material negative impact on the fairness, reasonableness and completeness of the assumptions adopted in the Competent Person’s Report. For details of the Competent Person’s Report, please refer to Appendix II to the Circular.

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- (iii) in accessing the historical costs contributed by Hanking Group to the Project Companies, we have discussed with the Directors of the Company. Based on our interview with and the representation from the Directors, we understand that, up to 30 September 2012, Hanking Group held approximately 75% equity interest in the Project Companies through Northeastern Lion. The Consideration mainly represents 70% of Hanking Group's investments paid for the Project Companies plus expected returns from the Hanking Group's investments and financial assistance provided to the Project Companies for the year from 2010 to 2012 (i.e. 3 years) of which the expected rate of return was made reference to 3 to 5 years lending rate of the People's Bank of China as at 30 September 2012. We have reviewed the calculation of the Consideration and the interest rate of 3 to 5 years lending of financial institutions extracted from the People's Bank of China provided by the Company with no material issue noted.
- (iv) according to the Letter from the Board, among others, we understand that City Globe and Denway Development have outstanding capital commitment in total of approximately RMB650.0 million as at the date of the Circular. As confirmed by the Directors, it is forecasted that the Group will make further capital injection to Northeastern Lion after the completion of Northeastern Lion Acquisition in order to fulfill the deemed duties for the said capital commitment. The Directors and the Valuer confirm that this capital commitment has been considered in the Consideration to the vendor as well as the Valuation Report.
- (v) According to the Letter from the Board, Hanking Group acquired 75% equity interest in the Project Companies from independent third parties respectively with a total consideration of approximately RMB320.0 million in 2009. As at 30 September 2012, approximately RMB228.0 million has been paid with an outstanding amount of approximately RMB92.0 million. Now, the Company will acquire 52.5% in the Project Companies at a consideration of approximately RMB311.8 million. As advised by the Directors, Hanking Group has installed construction assets for the operation of the Project Companies and obtained relevant certificates for ordinary business of the Project Companies upon the acquisition of 75% equity interest in the Project Companies since 2009. According to the unaudited combined management account of Northeastern Lion as at 30 September 2012 provided by the Company, the total book value of the fixed assets, construction in progress and intangible assets was approximately RMB477.0 million. In this regard, the Directors are of the view that Consideration is fair and reasonable.

Taking into account of the above factors, the Directors are of the view that the principal terms of the Share Purchase Agreement are on normal commercial terms and fair and reasonable and the Northeastern Lion Acquisition is in the interest of the Company and the Shareholders as a whole.

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C. Valuation

We note that the Company has engaged Savills as the competent evaluator to provide an opinion on the Equity Valuation as at 30 September 2012 (the “**Valuation Date**”) in order to allow us, 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 RMB390.0 million based on the fair value of the expected income of the Project Companies attributable to Northeastern Lion as at the Valuation Date. As advised by the Directors, the Company has not made reference to the Valuation Report when determining the Consideration.

We have reviewed the Valuation Report and note that the Valuation Report is prepared in accordance with Chapter 18 of the Listing Rules and the guidelines set out in the Valmin Code. We note that the Equity Valuation is prepared on the cash flow projection under income approach which calculates the fair value of expected discounted cash flow from the operating activities of the Project Companies minus the expected cash outflow for the settlement of debts and capital commitment in the future. We have discussed with the Valuer and the Company in respect of the principal assumptions and methodology adopted in the preparation of the Equity Valuation with no significant issue noted. As confirmed by the Valuer, the assumptions of the nickel ore reserves adopted in the Valuation Report are based on the mining information of the Competent Person’s Report and selling prices of mineral products of the Project Companies are estimated with reference to the industry report issued by Hatch Ltd.

According to the Valuation Report, the Equity Valuation is in amount of approximately RMB390.0 million which represents a premium of approximately RMB78.2 million when compared to the Consideration. Based our discussion with and the representation of the Valuer and the Company, there is no material misstatement which will have material impact on the fairness, reasonableness and completeness of the assumptions adopted in the assessment of the Consideration identified.

Conclusion:

Taking into account of i) the terms of the Share Purchase Agreement is determined by the parties involved in the Northeastern Lion Acquisition after arm’s length negotiations; (ii) prospect of the nickel ore industry and the volume and quality of the existing nickel resources possessed by the Project Companies with reference to the Competent Person’s Report; and iii) Equity Valuation according to the Valuation Report accounted for a premium of approximately RMB78.2 million of the Consideration; we concur with the Directors’ view that the principal terms of the Share Purchase Agreement (including the Consideration) are fair and reasonable, on normal commercial terms and in the interest of the Company and its Shareholders as a whole.

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3. Indonesia Regulation

A. *Divestment Requirements*

According to the Letter from the Board, foreign shareholdings to be divested must be offered to certain Indonesia entities, public and private, as appropriate according to the Divestment Requirements.

According to the Letter from the Board, as at the date of the Circular, 16.5% equity interest of KP, KS and K KU is held by Indonesian shareholders respectively. Considering the issue dates of their IUPs, the foreign shareholdings in KP, KS and K KU have to be reduced from 83.5% to no more than 80% by 11 March 2016, 22 December 2014 and 14 December 2014, respectively. According to the shareholders agreement entered into by City Globe and other shareholders of KP, and the shareholders agreement entered into by Denway Development and other shareholders of KS and K KU, in the event that GR23/2010 takes effect and applies to the Project Companies, the shareholders of the Project Companies other than City Globe and Denway Development would have to reduce their foreign shareholding in the Project Companies before the reduction by City Globe and Denway Development. In the case of KP, KS and K KU, after the Completion, the Company will not have to divest its shareholding until at least March 2017, December 2015 and December 2015 respectively. In light of the above, the Directors are of the view that the Divestment Requirements will not have material adverse effect on the Northeastern Lion Acquisition.

According to the Letter from the Board, under the Company Law, the required quorum for holding a general meeting of shareholders of an Indonesian-incorporated company is the shareholders representing at least 50% of the total number of shares that carry voting rights at such meeting. The number of votes required to pass an ordinary resolution at a general meeting of shareholders of an Indonesian-incorporated company is 50% or more of the votes cast at the meeting. The quorum requirement and voting thresholds can be amended by including higher thresholds in the articles of association of an Indonesian-incorporated company, in the meanwhile some higher thresholds are required under the Company Law for certain matters in specific circumstances. In the event that the interest of the Company in the Project Companies may fall below 50% due to the Divestment Requirements, the Company may procure the Project Companies to amend their respective articles of association to set higher thresholds for quorum requirement and voting thresholds with an aim to providing more protection to minority shareholders.

As advised by the HHP, companies listed on the Indonesian Stock Exchange which have foreign shareholders are not currently required to comply with the Divestment Requirements. In correspondence to the development of the Project Companies, the Company might consider the listing plan of the Project Companies on the Indonesian Stock Exchange in due course. As advised by the Directors, other options to deal with the Divestment Requirements include disposal of the equity interest of the Project Companies at a fair and reasonable price no less than the equivalent equity price in the Valuation Report to a third party determined by the Company on a willing basis, which would incur no loss to the interests held by the Company in the Project Companies. Furthermore, the Divestment Requirements provide that foreign

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shareholders may retain up to 49% interests. Even in a scenario that Denway Development and City Globe had to reduce their interests in the Project Companies to 49%, the Company will still ensure them to remain as the largest shareholders to exercise de facto control over the Project Companies. As further advised by the Directors, we understand that the Company does not foresee any legal impediment in Indonesia regarding listing in Indonesia or the disposal to third parties at a fair and reasonable price no less than the equivalent equity price in the Valuation Report. Based on the discussion with the Directors and advised by the Indonesian legal counsel of the Project Companies, we understand that the shareholders of Denway Development and City Globe are not restricted to identify and choose the potential buyers in Indonesia for the disposal of shares of the Project Companies in the future to in order to fulfill the Divestment Requirements before the ending of the fifth year after the start of production. In this regard, we understand the Directors are of the view that the Divestment Requirements may not have material negative impact on operation of the Group in long run and the aforementioned options can mitigate the risks of the Divestment Requirements with the objective to protect the interest of the Company. Meanwhile, as at the date of this Circular, no definitive plan has been formed in relation to the above because the Directors believe that it is in the best interest of the Company and the Shareholders as a whole to keep the maximum flexibility and less likeliness to cause unnecessary obstacle for the normal business of the Project Companies for now. The Company will start to consider and make plans to deal with the Divestment Requirements after the Completion. An announcement will be published as soon as practicable should there be any further update in this regard. Based on the abovementioned representation of the Directors and the Indonesian local counsel of the Project Companies, we understand that the aforesaid options to deal with the Divestment Requirements can maintain the Company's controlling power on the Project Companies and the decision power to choose and decide the buyers of its shares before the deadline, we concur with the Directors' view that those options can mitigate the risks of the Divestment Requirements with the objective to protect the interest of the Company. According to the Letter from the Board, a discount rate of 19% has been adopted in the Valuation Report which included additional 1% of specific risk discount related to the local political risk according to valuation practice and the Valuer's experience. Furthermore, based on our interview with and the representation of the Directors and the Valuer, we understand that the Directors and the Valuer have considered the political factors of Indonesian laws and regulations including the Divestment Requirements as stated above in the assessment of the Equity Valuation and the Directors are of the view that the Divestment Requirements does not have material negative impact on the fairness and reasonableness of the Consideration.

B. Recent export ban in relation to raw ores

According to the HHP, the Government policy of encouraging further value-adding to mineral exports has existed for some time in Indonesia and is reflected in a series of laws and regulations since 1990s. The MEMR7/2012 has the effect of banning exports of raw ore from 6 May 2012. The provision banning exports of raw ore from 6 May 2012 has now been amended by a new provision which says that raw ore can be exported after the IUP holder becomes a "Registered Mining Product Exporter". This registration will only apply for companies holding

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IUPs till 12 January 2014. Once the IUP holder has become a Registered Mining Product Exporter, it is still necessary to obtain the Per-Shipment Recommendation and Mining Product Export Approval for each proposed shipment of mineral ores.

According to the HHP, KS, KP and K KU have been confirmed as Registered Mining Product Exporters. Currently, the Mining Product Export Approval of KP and K KU have expired on 25 September 2012 and KS has obtained a new Mining Product Export Approval which is valid until 8 April 2013. As such, KP and K KU have to renew both the Per-Shipment Recommendation and the Mining Product Export Approval before each proposed shipment of mineral ores and KS has to renew its Mining Product Export Approval after its expiration. As advised by the Directors, the IUPs of KS, KP and K KU have been added to the “Clean and Clear List” maintained by the Directorate General of Minerals and Coal, the Per-Shipment Recommendation and the Mining Product Export Approval will be obtained or extended through standard procedures of the relevant governmental regulator in Indonesia from time to time.

According to the Letter from the Board, the registration for Registered Mining Product Exporter will only be applicable to companies holding IUPs till 12 January 2014. According to the current laws and regulations in Indonesia, after 12 January 2014, the export of raw ore will be banned. To mitigate the uncertainty of further laws and regulations to be issued after 12 January 2014, the Project Companies have made plans to establish laterite nickel smelters in Indonesia to add values to laterite nickel to be produced by them and thus to meet the aforementioned requirements. In this regard, the Directors are of the view that the risk of this issue is low. The Valuer has taken into account the related capital and refinery cost in the Valuation Report.

As advised by the Directors, the Project Companies have made plans to establish laterite nickel smelters in Indonesia to add values to laterite nickel to be produced by them and thus to meet the above mentioned requirements in order to mitigate the uncertainty of further laws and regulations to be issued after 12 January 2014. As confirmed by the Directors and HHP, the processed nickel mineral is not subject to this export ban. In this regard, the Directors are of the view that the recent export ban in relation to raw ores will have no impact on the ordinary operation of the Project Companies as well as the Group in the long run. For details of the expansion plan proposed by the Company, please refer to the paragraph headed “Information regarding the Project Companies” in the Letter from the Board. In addition, based on our review of the Valuation Report and our interview with the Directors and the Valuer, we understand the establishment of the laterite nickel smelters in Indonesia has been taken into account in the assessment of the Equity Valuation. For details of the Valuation Report, please refer to Appendix I as to the Circular.

In light of the above, we are of the view that although abovementioned Indonesian regulations constitute some restrictions on the future development of the Group in Indonesia, the Company has started to impose certain actions to minimize the risks and to retain its controlling power over the Project Companies and those factors has been taken into account in

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the Consideration. Therefore, we are of the view that those Indonesian regulations will not have any material adverse impact on the fairness and reasonableness of the Consideration and the operations of the Project Companies as well as the Group in long run.

4. Possible financial effects of the Northeastern Lion Acquisition on the Group

A. *Effect on net assets value*

The Company shall effectively hold 52.5% equity interest in KP, KS and K KU, respectively, immediately upon the Completion. 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. According to the unaudited combined management account of the Northeastern Lion, the net asset value of the Project Companies is approximately RMB253.4 million as at 30 September 2012. As stated in the Valuation Report, the Equity Valuation of approximately RMB390.0 million is higher than the Consideration of approximately RMB311.8 million. In light of the abovementioned, the Directors consider that the Northeastern Lion Acquisition will not have any material negative impacts on the net assets position of the Group upon the completion of Northeastern Lion Acquisition.

B. *Effect on earnings*

As stated in the Letter from the Board, Northeastern Lion recorded an unaudited loss after taxation and extraordinary items for each of the two years ended 31 December 2011 of approximately RMB9.2 million and RMB25.7 million, respectively, in accordance with IFRS. However, according to the cash flow projection provided by the Company, we note the Directors forecast that the Project Companies can generate operating profit with positive cash inflow from operating activities during the forecast periods. In this regard, the Directors expect that Northeastern Lion Acquisition can make positive contribution to the Group and may be able to enhance the future earnings capability of the Group in long run.

C. *Effect on gearing and working capital*

As advised by the Directors, the bank balance and cash, and unutilized banking facilities of the Group as at 31 December 2012 was approximately RMB578.0 million and RMB614.0 million respectively. As stated in the Letter from the Board, the Consideration of RMB311.8 million will be settled entirely by cash funded by internal resources of the Company. The Directors are of the view that the payment of the Consideration will not have material impact on the Group's operation in short run since the Consideration of approximately RMB311.8 million is just accounted for approximately 53.9% of the Group's cash and bank balance of approximately RMB578.0 million as at 31 December 2012. At the Completion Date, the Company shall pay RMB45.0 million to the vendor and the Company may at its discretion pay up the outstanding consideration to the vendor within the thirty six months after the completion of Northeastern Lion Acquisition.

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According to the Letter from the Board, as at 30 September 2012, there are outstanding shareholder loans with a total amount of approximately RMB139.0 million due from City Globe and Denway Development to Hanking Group. As advised by the Directors, it is expected that the shareholder loans will be settled by the Project Companies in 2013.

According to the Letter from the Board, Hanking Group acquired 75% equity interest in the Project Companies from independent third parties respectively with a total consideration of approximately RMB320.0 million in 2009. As at 30 September 2012, approximately RMB228.0 million has been paid with an outstanding amount of approximately RMB92.0 million. Further, Hanking Group is required to make a maximum contribution of approximately RMB680.0 million on behalf of the other shareholders of the Project Companies in the event of capital increase going forward. The capital increase will be subject to the needs of the Project Companies. As at 30 September 2012, approximately RMB30.0 million has already been contributed by Hanking Group on behalf of the other shareholders of the Project Companies. According to the Letter from the Board, for the purpose of the Northeastern Lion Acquisition, Hanking Group has transferred by novation to Denway Development and City Globe all of its rights, liabilities, duties and obligations, including the abovementioned outstanding consideration and the capital commitment, under and in respect of the Old Agreements in respect of the Hanking Group's acquisition of the Project Companies in 2009.

We have reviewed and discussed with the Directors and the Valuer on the principal assumptions of the cash flow projection adopted in the Valuation Report. We have not carried out any independent verification of the information provided to us.

Based on our interview with and representation from the Directors, we understand the Directors forecast that Denway Development and City Globe will pay the outstanding consideration under the Old Agreement of approximately RMB92.0 million in 2013 by additional funding derived from capital contribution from Northeastern Lion after the Completion and the Directors advised us that the Company will mainly use i) cash on hand of which the balance is approximately RMB578.0 million as at 31 December 2012; and ii) banking facilities from China Development Bank of approximately RMB600.0 million which is expected to be obtained by May 2013 to provide the required funding to Northeastern Lion depending on the working capital level of the Company during the respective period. The Directors confirm that they do not identify any difficulty to obtain the required funds from the respective bank as at the Latest Practicable Date. We note that this potential cash outflow has been considered by the Directors and the Valuer in the Equity Valuation.

Based on our interview with and the representation from the Directors, regarding the capital commitment of approximately RMB650.0 million for the Project Companies, we understand the Directors forecast that Denway Development and City Globe are going to contribute approximately RMB80.0 million and approximately RMB40.0 million in 2013 and 2014, respectively, and the other remaining balances are expected to be contributed from 2028 onwards. The Directors expect that the capital commitment contributed by Denway Development and City Globe in 2013 and 2014 will be funded by additional capital contribution from Northeastern Lion in the respective periods and the Directors advised us that the Company will use its available funds and/or banking facilities on hands to provide the

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required funding to Northeastern Lion depending on the working capital level of the Company during the respective period. The capital commitment forecasted to be contributed from 2028 onwards will be funded by Denway Development and City Globe from their forecasted dividend income received from the Project Companies during the relevant periods. We note that this potential cash outflow has been considered by the Directors and the Valuer in the Equity Valuation.

Assuming that the Consideration of RMB311.8 million will be fully paid by the Company on the Completion Date and the Company is required to contribute further capital investment in Northeastern Lion for Northeastern Lion to support Denway Development and Globe City's payment of outstanding consideration and capital commitments at abovementioned scheduled, the Directors consider that the Group will mainly use its cash available on hands and needs not make any additional loans to pay for the Consideration and the Directors are of the view that, although the Group's cash level will be decreased in short run, Northeastern Lion Acquisition will not have any material adverse impact on the gearing and working capital position of the Group in long run.

In light of the above, we concur with the views of Directors that the Northeastern Lion Acquisition will not have any material adverse impact on the financial position of the Group in long run as the Project Companies are forecasted to have cash inflow from operating activities in long run.

RECOMMENDATION

Having taking into account the principal factors and reasons as discussed above, we consider that the Share Purchase Agreement are on normal commercial terms and fair and reasonable and the Northeastern Lion Acquisition is in the ordinary and usual course of business of the Group and 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 Share Purchase 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 Directors

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EA LICENCE: C-023750
savills.com

10 December 2012

Our Ref.:

Dear Sirs,

RE: VALUATION OF THE FAIR VALUE OF 70% EQUITY INTERESTS IN NORTHEASTERN LION LIMITED

In accordance with your engagement and on behalf of China Hanking Holdings Limited, we have prepared the valuation of the fair value of 70% equity interests (the "Asset") in Northeastern Lion Limited (the "Company") as at 30 September 2012 (the "Valuation Date").

PURPOSE OF VALUATION AND DEFINITION OF VALUE

This valuation is intended to express an independent opinion on the fair value of 70% equity interests in Northeastern Lion Limited as at the Valuation Date for circular purpose. The valuation is conducted in accordance with Chapter 18 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Valmin Code of Australasian Institute of Mining and Metallurgy.

According to the International Accounting Standards ("IAS"), fair value is the "amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction".

PROJECT PROFILE

Overview

Northeastern Lion Limited is a company incorporated in the British Virgin Islands engaged in mining and smelting operations. It owns 75% equity interests in the project of laterite nickel mines at North Konawe Regency in Indonesia, which includes two mining permits (No. 372 and No. 398A), a proposed power plant, a proposed smelter, a temporary dock and other auxiliary facilities. The project is located at North Konawe

Regency, South East Sulawesi, Indonesia, with convenient access to Kendari, the capital of South East Sulawesi. Both of the mining permits are issued by local government of North Konawe Regency. The mining permit No. 372 is held by PT Karyatara Konawe Utara Company (KKU) with a site area of 3,119 hectares, and the mining permit No. 398A is held by PT Konutara Sejiati Company (KS) with a site area of 1,923 hectares. According to its plan, the project's mining output of 1.5 million tonnes in 2013 will be entirely used for external sales, and from 2014 onwards all mining output will be used for self smelting.

Ore Reserve

(based on JORC standard)

Block	Resource categorisation	Grade range	Resources ('000t)	Average grade			Metal content	
				Ni (%)	Co (%)	TFe (%)	Ni (t)	Co (t)
D	Measured	1.0-1.4%	14,601	1.19	0.07	33.80	173,749	9,928
		>1.4%	18,082	1.82	0.08	28.95	329,276	14,285
		Sub-total	32,683	1.54	0.07	31.12	503,025	24,213
	Indicated	1.0-1.4%	46,115	1.17	0.07	31.24	537,704	29,975
		>1.4%	24,551	1.68	0.07	28.96	411,719	16,695
		Sub-total	70,666	1.34	0.07	30.45	949,423	46,670
	Inferred	1.0-1.4%	34,825	1.14	0.07	32.74	396,656	25,422
		>1.4%	7,822	1.68	0.08	28.78	131,495	6,180
		Sub-total	42,647	1.24	0.07	32.01	528,151	31,602
	Measured + indicated	1.0-1.4%	60,716	1.17	0.07	31.85	711,453	39,903
		>1.4%	42,633	1.74	0.07	28.96	740,995	30,980
		Sub-total	103,349	1.41	0.07	30.66	1,452,448	70,883
E	Measured	1.0-1.4%	5,504	1.17	0.07	31.90	64,567	3,798
		>1.4%	2,974	1.68	0.06	25.79	49,870	1,814
		Sub-total	8,478	1.35	0.07	29.76	114,437	5,612
	Indicated	1.0-1.4%	10,711	1.16	0.06	28.83	123,928	6,748
		>1.4%	4,283	1.71	0.06	24.50	73,365	2,398
		Sub-total	14,994	1.32	0.06	27.59	197,293	9,146
	Measured + indicated	1.0-1.4%	16,216	1.16	0.07	29.87	188,495	10,546
		>1.4%	7,257	1.70	0.06	25.03	123,235	4,212
		Sub-total	23,472	1.33	0.06	28.38	311,730	14,758

Block	Resource categorisation	Grade range	Resources ('000t)	Average grade			Metal content	
				Ni (%)	Co (%)	TFe (%)	Ni (t)	Co (t)
K West	Measured	1.0-1.4%	20,761	1.18	0.09	47.42	244,560	17,854
		>1.4%	23,896	1.80	0.12	40.91	430,376	29,632
		Sub-total	44,657	1.51	0.11	43.94	674,935	47,486
	Indicated	1.0-1.4%	46,383	1.17	0.09	39.93	543,603	42,672
		>1.4%	25,833	1.72	0.11	37.04	445,359	27,383
		Sub-total	72,215	1.37	0.10	38.89	988,962	70,055
	Inferred	1.0-1.4%	5,136	1.16	0.10	36.29	59,634	5,136
		>1.4%	304	1.49	0.09	29.44	4,521	259
		Sub-total	5,441	1.18	0.10	35.91	64,155	5,395
	Measured + indicated	1.0-1.4%	67,143	1.17	0.09	42.24	788,163	60,526
		>1.4%	49,729	1.76	0.11	38.90	875,734	57,014
		Sub-total	116,872	1.42	0.10	40.82	1,663,897	117,541
K East	Indicated	1.0-1.4%	16,020	1.16	0.07	32.05	186,312	11,695
		>1.4%	8,310	1.67	0.07	29.75	138,776	5,900
		Sub-total	24,330	1.34	0.07	31.26	325,088	17,595
	Inferred	1.0-1.4%	9,695	1.13	0.06	28.20	477,582	25,917
		>1.4%	1,848	1.62	0.06	28.36	373,660	15,716
		Sub-total	11,543	1.21	0.06	28.23	139,707	7,161

VALUATION METHODOLOGY

Considering that the cost approach is suitable for mines in exploration or early development stage, cost approach is not adopted for the valuation as the Company's mines are in mining stage with sound feasibility and operational information available. Considering that sufficient comparable transaction cases are required for the use of the market approach regarding comparable transaction time, scale of mine, mineral varieties, ore grade, geographical and geological factors, market approach is not adopted for the valuation due to the lack of sufficient comparable transaction cases. Income approach is appropriate for the valuation as the Company's mines are in mining stage with sound feasibility and operational information available.

Discounted Cash Flow Method

We adopted the discounted cash flow (DCF) method under the income approach for valuation of the Asset. According to the DCF method, the valuation of the subject asset is derived from the present values that are discounted from the future estimated net cash flows expected to be generated by the subject asset. The theoretical formula of the DCF method can be expressed as: Fair value of an asset = Sum of present values discounted from net cash flows expected to be generated by the asset each year. In estimating net cash flows, the forecast data including mining output, selling price, investment cost, operating cost and smelting cost should be taken into consideration.

Mining Output

Year	2013	2014	2015	2016	2017	2018	.....	2032
Mining Output (Mt)	1,500	2,000	2,000	2,000	4,000	4,000	.....	4,000

(Source: technical report issued by CSA Global Pty Ltd.)

Selling Price

Year	2013	2014	2015	2016	2017	2018	.....	2032
Price of 15% nickel (RMB)	100,427	100,427	103,440	106,543	109,739	113,031	.....	170,970

(Source: industry report issued by Hatch Ltd.)

Sales Revenue

Year	2013	2014	2015	2016	2017	2018	.....	2032
Sales (mil RMB)	628.50	1,004.27	2,068.80	3,196.29	4,391.77	4,523.52	.....	6,842.23

Smelting and Ore Processing

Year	2013	2014	2015	2016	2017	.....	2032	
Nickel content (T)		0	10,000	20,000	30,000	40,000	.....	40,000
Ore consumption (kt)		0	1,000	2,000	3,000	4,000	.....	4,000

(Source: technical report issued by CSA Global Pty Ltd.)

Investment Cost

Unit: US\$ million

Year	2013	2014	2015	2016	2017	2018	2019
Mining	36	0	0	23	2	0	0
Smelting	17	35	31	13	6	0	0
Total	53	35	31	36	8	0	0
Year	2020	2021	2022	2023	2024	2025	2026
Mining	0	21	0	0	21	0	0
Smelting	0	0	0	0	0	0	0
Total	0	21	0	0	21	0	0
Year	2027	2028	2029	2030	2031	2032	TOTAL
Mining	0	21	0	0	21	0	143
Smelting	0	0	0	0	0	0	102
Total	0	21	0	0	21	0	245

(Source: technical report issued by CSA Global Pty Ltd.)

Operating cost

Unit: US\$ per tonne

Direct cost	Field mining	5.02
	Transportation	0.64
	Dock stockpiling	0.08
	Loading	2.41
	Other	0.63
Taxes	Resource tax	3.02
	Export tariff	6.43
Depreciation and amortisation	Amortisation (WIUP and land expropriation)	0.86
	Depreciation	1.30
Cash cost	Operating cost (export)	18.25
	Operating cost (self-use)	9.32
Total cost	Operating cost (export)	20.4
	Operating cost (self-use)	11.48
Mining management expenses		2.38

(Source: technical report issued by CSA Global Pty Ltd.)

Smelting Cost

Smelting cost is US\$10,450/t nickel metal. (Source: technical report issued by CSA Global Pty Ltd.)

Weighted Average Cost of Capital

The discount rate adopted for the valuation is 19%. In calculating the discount rate, we took 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:

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

where,

Re = Cost of equity

Rd = Cost of debt

We = Weight of equity value in enterprise value

Wd = Weight of debt value in enterprise value

T = Corporate tax rate

In calculating the discount rate, we applied the Capital Asset Pricing Model (CAPM), using the following formula:

Cost of equity (Re) = Risk-free interest rate + Equity beta x Market risk premium + Size premium + Specific risk premium

- Risk-free rate is approximately 0.74%, based on the yield of 10-year Hong Kong Exchange Fund Bills & Notes;
- Betas of 3 comparable companies are 1.491 from Western Areas (WSA.ASX), 1.313 from ERAMET (ERA.FP), and 1.033 from China Nickel Resources Hldgs (2889.HK), based on Bloomberg;
- Market risk premium is 11.86%, based on Bloomberg;
- Size premium is 6%, based on Ibbotson Associates;
- Specific risk premium is 2%, based on the practice of industry and valuer's experience;

Sensitivity Analysis

Sensitivity Analysis	Fair value of the 70% equity interests in the Company (RMB)
Discount Rate	
18%	450,000,000
19%	390,000,000
20%	330,000,000
Selling Price of 15% nickel (RMB)	
95,406 (-5%)	150,000,000
100,427	390,000,000
105,448 (+5%)	630,000,000
Total mining cost (US\$ per tonne ore)	
19.4 (-5%)	400,000,000
20.4	390,000,000
21.4 (+5%)	370,000,000
Smelting cost of per tonne of nickel (US\$ per tonne ore)	
9,928.5 (-5%)	560,000,000
10,450	390,000,000
10,972.5 (+5%)	210,000,000

OTHER CONSIDERATIONS

In arriving at the fair value, we have considered all relevant factors regarding the Asset and the Company's business operations. The basic factors include:

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

We have relied upon the aforesaid information in forming our opinion on the fair 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 information provided to us by the

Company which is material to the valuation. We have also been advised by the Company that no material facts have been omitted from the information provided. We have also made relevant enquires 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 fair value of 70% equity interests in Northeastern Lion Limited as at 30 September 2012: RENMINBI THREE HUNDRED AND NINETY MILLION (RMB390,000,000).

For and on behalf of

Savills Valuation and Professional Services Limited

Paul Hung

MRICS ASA MAusIMM

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

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:

- Data including mine reserve, annual production volume, investment cost, operating cost and smelting cost for the project are based on the technical report issued on 9 November 2012 by CSA Global Pty Ltd.;
- Selling prices of mineral products of the project are estimated with reference to the industry report issued on 30 November 2012 by Hatch Ltd.;

- Risk-free rate adopted for the valuation is approximately 0.74%, based on the yield of 10-year Hong Kong Exchange Fund Bills & Notes;
- Long term growth rate adopted for the valuation is approximately 3%, based on the average CPI of PRC in the past 10 years;
- Betas of 3 comparable companies are 1.491 from Western Areas (WSA.ASX), 1.313 from ERAMET (ERA.FP), and 1.033 from China Nickel Resources Hldgs (2889.HK), based on Bloomberg.

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 Asset, and this issue should be within the scope of work of the Company's legal adviser. During our valuation, we assumed that the Asset 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 that, as the Company considered, 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.

Date: 30 November 2012
Report No: R459.2012

Independent Technical Report

CHINA HANKING HOLDINGS LTD

**Technical Assessment of Laterite Nickel Projects
Southeast Sulawesi Province, Indonesia**

By

Bielin Shi

PhD MSc MAusIMM MAIG

Mick Elias

BSc (Hons) FAusIMM(CP)

For:

China Hanking Holdings Limited
Via Hanking Australia Pty Ltd
Suite 1, 188 Adelaide Tce,
Perth, WA 6004,
Australia

Approved:



Mick Elias
Principal Consultant - Nickel

Executive Summary

China Hanking Holdings Ltd (“Hanking”, “the Company” or “the Client”) commissioned CSA Global Pty Ltd (CSA) to undertake an independent technical assessment of the exploration, geology, resources/reserves estimate, mining, metallurgical and processing plant, and environmental permitting and approvals of the laterite nickel projects (“North Konawe Nickel Project”) located in North Konawe Regency in Southeast Sulawesi Province, Indonesia. CSA was required to provide an Independent Technical Assessment Report (“Report” or “ITR”) for potential equity investors and possible future shareholders so that they could review the proposed laterite nickel project operations.

In forming its views, CSA has relied to a large extent on data provided in a report previously produced by SRK Consulting China Ltd (SRK) dated April 2012 for Hanking Group. Supporting data supplied directly to CSA by Hanking was also used. CSA has not independently verified the accuracy of this information but has seen no reason to believe that it is materially inadequate or unreliable.

Summary of Principal Objectives

The principal objective of this Report is to provide the Company and The Stock Exchange of Hong Kong Limited (“HKEx”) with an independent expert report suitable for inclusion in documents either for the proposed listing on the main board of the HKEx or acquisition by a company already listed on the HKEx.

Outline of Work Program

The work program involved the following two phases:

- **Phase 1:** Review of information provided, including site visit information conducted by SRK from 13 to 18 November 2011 to the North Konawe Nickel Mine site and the proposed site for the shipping port, metallurgical plant and power plant which are planned to be built, in North Konawe Regency, Southeast Sulawesi Province, Indonesia, discussions with Company employees, and analysis carried out by SRK of external check samples for verification; and
- **Phase 2:** Analysis of the data provided by Hanking and generated by CSA, compilation of a draft report, and finalisation the Report after consideration of the Client’s feedback.

Overall Results

The North Konawe Nickel Project, including two mining licences (No. 372 and No. 398A); one proposed power plant for electricity supply; one proposed metallurgical plant for producing ferro-nickel alloy; one temporary harbor for transportation of nickel ore and ferro-nickel

alloy; and other supporting facilities, is located in Northern Konawe Regency, Southeast Sulawesi Province, Indonesia. The properties are relatively easily accessed from Kendari, the capital city of Southeast Sulawesi Province.

Both mining licences were issued for the North Konawe Nickel Project by Decree of the Pj Regent North Konawe. The mining permit No. 372 covering an area of 3,119 hectares (ha) was issued to PT Karyatara Konawe Utara (KKU) and the mining permit No. 3898A with an area of 1,923 ha was issued to PT. Konutara Sejati (KS).

According to the existing Indonesian Government mining policy, the export of Nickel Laterite ore is prohibited effective January 1, 2014. Therefore, the following mining plan was developed.

Year	2013	2014	2015	2016	2017	2018	.....	2032
Ore Production (kt) (wet)	1500	2000	2000	2000	4000	4000	.....	4000

Hanking Group plans to produce 1,500,000 t of ore for exporting overseas. After 2014, Hanking Group will have to carry out local smelting. Additionally, the ore production for exporting overseas could be increased subject to any changes in Indonesian Government export regulations.

Both mines are designed as open pit mines. The open-pit bench height is designed at 10 m, safety berms should be 5 m to 10 m wide, bench slope angle is no steeper than 37° and the ultimate slope angle should not exceed 30°. Bulldozing, excavator loading and truck transportation are proposed to realise an average stripping ratio of 0.13, an average mining dilution of 4%, and average mining recovery rate of 96%.

For ore processing, according to the Hanking feasibility study report issued by the Design Institute, Hanking Group plans to construct a shaft furnace operation with an annual output of 40,000 tons nickel metal.

As of 31 January 2012, the Company employed a total of 109 staff, which includes 43 in the Mining Department, 4 in the Engineering Department, 10 in the Technical Department, 9 in the Safety Department, 6 in the Exploration Department, 22 in the Administration Department, 4 in the Social Development Department, and 11 in the Kendari Office.

Infrastructure already completed, and/or under construction appears to be sound and capable of supporting the proposed project's Operational Licences and Permits. The Company has committed to and prepared relevant measures of a greening program at the mines and the proposed plants to improve dust control, waste water and sewage treatment.

Operational Licences and Permits

CSA has sighted copies of the two Mining Business Licences – called *Izin Usaha Pertambangan* (IUPs) in Indonesia that have been issued for the North Konawe Nickel Project, one for the PT. Karyatama Konawe Utara (KKU) and the other for the PT. Konutara Sejati (KS). These were both issued by the PT. Regent North Konawe in December 2009, and

expire in December 2029. CSA notes that the common standard conditions for the North Konawe Nickel Project IUPs include the following key technical items:

- The companies have the right to implement the project 'Production Operation' which is defined as including 'construction, production, processing, purification and transportation and sales'.
- The companies have the right to utilise the general facilities and infrastructure for IUP Production Operation activity.
- The companies must appoint a 'head of technical mine' (mining technical manager) who will be responsible for the IUP production operation, and the mining environmental, health and safety management.
- The companies must submit the initial RKAB (annual project work program and budgets) to the Head of the Regent of North Konawe not more than 60 (sixty) working days after the issuance of the IUP. The follow up RKAB's are to be submitted in November of each year.
- The companies must submit a 'reclamation plan' and 'post mining plan', but no dates are provided for this requirement.
- The reclamation warranty (rehabilitation guarantee) is to be assigned before commencement of production.
- A mining closure security (post-mine guarantee) is to be established.
- The companies must submit the RPT (mine closure plan) two years before the end of production activities.
- The companies must provide the agreed compensation to the 'right's holder of the land and forest enforcement' that has been disturbed from IUP production operation.
- The companies are required to construct all relevant project related infrastructure, including transport (ports, railways, roads, etc), communications, power/water supply facilities, and accommodation and social support facilities (including waste treatment facilities).

Two Borrow and Use Permits that have been issued for the North Konawe Nickel Project, one for the KKU IUP and one for the KS IUP. These were issued by the Minister of Forestry in October and November 2011 respectively, and both expire in December 2029. The common standard conditions for the North Konawe Nickel Project Borrow and Use Permits include the following key technical items:

- The companies have the right, to undertake logging for clearing (subject to payment of relevant, taxes, state revenues, and compensation) and to construct and operate the nickel ore mining facilities within the specified areas only.
- The companies must maintain the boundaries of the permit areas and undertake rehabilitation of forest land that is no longer being utilised.

- The companies must report the '*usage/utilisation of the forestry area borrowed*' (i.e., the area of forest cleared) to the Minister of Forestry every six months.
- Extensions to the Borrow and Use Permits will not be granted automatically but can be granted if the permit holder demonstrates that the permitted area is still being utilised for the purpose of nickel ore mining operation/production. An application to extend a permit is to be submitted six months before the permit's expiration date.

Geology and Mineralogy

Regionally the North Konawe Nickel Project area is located at the southern end of an ophiolite belt running from central Sulawesi Island to the southeast. Ultramafic rocks are widely distributed, mainly represented by serpentinite, peridotite, harzburgite, and dunite. The upper zones of the ultramafics are mostly serpentinised and lateritic nickel ores formed by intensive tropical weathering of olivine-rich ultramafic rocks. Sulawesi Island has an abundance of nickel laterite resources, and the Langgikima and Wiwirano areas on the island's southeast peninsula are largely covered by nickel-bearing laterite.

Three layered mineralised zones of nickel laterites are defined in the Project. Block D in the KS mining concession contains 12.72 square kilometres (km²) of laterites, including a nickel mineralised area covering about 10 km². A total area of about 22 km² are covered by laterites in the KCU mining concession amongst which about 18 km² are defined as nickel mineralisation Blocks E and K; and the mineralised zone of Block K can be further divided into western and eastern zones.

Stratigraphically the North Konawe Nickel Project area is characterised by limonitic cover, saprolite and bedrocks from the surface to depth. The Limonitic cover on the surface is mainly composed of limonite Quaternary soil clay residuals, while typical gossan is found in the Block K area. The Saprolite, consisting of weathered and altered ultramafics, is the most important nickel ore bearing zone, and is further divided into upper, middle and lower zones according to the grade of the original rocks. The bedrocks are predominantly slightly weathered and fresh ultramafics such as peridotite, harzburgite and dunite. The nickel-rich laterites are hosted between thin surface soils and the ultramafic bedrocks. Generally there is no distinct boundary between the mineralised bodies and host rocks.

Tropical weathering (lateritisation) is a prolonged process of chemical weathering which produces a wide variety in the thickness, grade, chemistry and ore mineralogy of the resulting soils. Overall the lateritic nickel ores are hosted in the Limonitic Zone and the underlying Saprolite Zone with depths varying from a few metres up to about 80 m. By applying a cut-off grade at 1.0% nickel (Ni), the average thicknesses of the defined ore bodies at Blocks D, E and K are about 14 m, 8 m and 19 m, respectively. The average grades of samples collected within the three orebodies are about 1.5% Ni, 1.3% Ni and 1.4% Ni, respectively. Generally, the layered orebodies cover a total area of about 28 km², where the Block D covers 10 km², Block E covers about 3 km², Block K's Western Zone covers 9.5 km², and K's Eastern Zone covers 5 km².

Ore phase analysis of the North Konawe Nickel Project indicates that about 78.5% of the total nickel is borne by nickel silicate minerals, while the nickel oxide hosts approximately 8.7% of the total nickel contents.

Exploration

The North Konawe Nickel Project's detailed exploration was conducted from 2007 to 2009 by Brigade 308, a China based institute specialising in geological exploration of non-ferrous minerals. The exploration was conducted following Chinese specifications for mineral exploration, and to make the work and reports in line with international standards. The JORC Code was also used as a reference during the exploration and resource estimation.

Generally exploration in the North Konawe Nickel Project area was conducted using three grids, spaced at 400 m × 400 m, 200 m × 200 m, and 100 m × 100 m. The first grid (400 m × 400 m) was applied for an overall investigation of the laterite, and further detailed exploration was followed up by progressively denser drilling grids including shallow wells.

Shallow wells were excavated with a section radius of 0.9 m, and depths were surveyed every 10 m. Drilling began with outside diameters at 130 millimetres (mm) or 110 mm at surface; and ended at 91 mm at depth. All the core diameters were larger than 75 mm. Generally the core recovery rate exceeded 85% for mineralised intervals, and the average recovery was greater than 95%. A down-hole survey was conducted for each borehole and shallow well and digital mapping was completed using industrial standard software.

A total of 803 drillholes were completed with overall drilling length of 18,857 m, along with 234 shallow wells/holes with a total length of 2,132 m. The exploration data are mainly derived from a total of 22,484 primary samples, which includes 18,860 drilling core samples with an average length of 1.0 m, and 3,624 channel samples ranging about 0.5 to 1.0 m long taken from the shallow holes.

Drilling samples with 75 mm sized or larger diameters, and channel samples with sectional size approximately 10 centimetres (cm) × 3cm were photographed, logged, and prepared following standardised procedures. The pulverised pulps of the primary samples were dispatched to Brigade 308's laboratory, a Chinese government certified laboratory, in Yunnan Province, China, for chemical analysis.

All primary samples were assayed with X-ray fluorescence (XRF) spectrometry and the inductively coupled plasma atomic emission spectrometry (ICP-AES). The basic components determined in the primary samples are Ni, Co, TFe, magnesium oxide (MgO), aluminium oxide (Al₂O₃), silica oxide (SiO₂) and chromium oxide (Cr₂O₃). In order to further examine the chemical composition of the ore, nine additional elements or compounds have been analysed: calcium oxide (CaO), manganese oxide (MnO), sulphur (S), phosphorus (P), fluorine (F), copper (Cu), lead (Pb), zinc (Zn), and arsenic (As).

The internal laboratory check was performed by Brigade 308; 2,090 samples (about 10% of the total exploration samples collected in North Konawe) were re-assayed. The external check was conducted by Kunming Testing Centre in Kunming, China with 1,050 samples (about 5% of the total samples collected in North Konawe). Both the internal and external checks show the relatively high performance of the chemical assays. CSA believes that the

results of both internal and external checking samples are acceptable. The analytical quality complies with Chinese National Analytical Standards.

The results of verification for 439 duplicate samples by SRK (2011) show good consistency for both nickel and cobalt values between the original analytical results returned from Brigade 308's laboratory and the external agency, ALS Group branch laboratory in Guangzhou, China. Both values are within the reasonable and acceptable limits. CSA believes that the original database used by Brigade 308 to estimate the nickel resource is sound and reliable.

Based on reviewing the deposit geology, drilling and sampling data, and procedures and parameters used for the estimation of mineral resources, and CSA's data validation for the two mines, CSA is of the opinion that the mineral resources estimated under the 1999 Chinese mineral resource system for the two mines by Brigade 308 conform to the equivalent JORC Code Mineral Resource categories (A comparison of the Chinese and JORC systems is provided in Appendix II). The economic portion of the Measured and Indicated Resources can accordingly be used to estimate Proved and Probable Ore Reserves.

Mineral Resource Estimation

The resource estimation of the North Konawe Nickel Project was conducted by Brigade 308 in 2009. Ordinary Kriging, Inverse Distance Square (IDS) and block methods were applied in the resource estimation. Resource categorisation and definition were conducted with Micromine and in line with Chinese standards and JORC Code classification. The following parameters were adopted for resource estimation.

- Cut-offs for mineralised zones 0.7% Ni;
- Cut-offs for ore bodies 1.0% Ni;
- Minimum industrial grade 1.0% Ni;
- Minimum mineable thickness 1.0 m; and
- Maximum band thickness 3.0 m

Based on the databases provided by Hanking, CSA has conducted Mineral Resource estimates for Blocks D, E and K of the lateritic nickel projects. The Mineral Resources have been classified and reported in accordance with The 2004 Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code). Resource classification is based on confidence in the mapping, geological interpretation, drill spacing and geostatistical measures. It is CSA's opinion that the current resource models provide robust global estimates of the in situ mineralisation in Ni, Co, TFe, MgO, Al₂O₃, SiO₂ and Cr₂O₃. CSA's current Mineral Resources have been reported above cut-off ranges of 1.0 – 1.4% Ni and above 1.4% Ni. The Mineral Resource estimate under JORC Code as of 30 November, 2012 for the nickel project is summarised in the following table.

At a cut-off grade of ore bodies at 1.0% Ni, the Measured, Indicated and Inferred Mineral Resources are 85.82Mt with average grades of 1.51% Ni and 0.09% Co; 182.2 Mt with average grades of 1.35% Ni and 0.08% Co; and 83.10 Mt with average grades of 1.26% Ni

and 0.070% Co, respectively. Only the Measured and Indicated Mineral Resources are suitable for Ore Reserve estimation and mine planning.

Mineral Resource Category	Grade Range	Tonnage ('000t)	Average Grade			Contained Metal	
			Ni (%)	Co (%)	TFe (%)	Ni (t)	Co (t)
Measured	1.0-1.4%	40,866	1.18	0.08	40.46	482,875	31,581
	>1.4%	44,952	1.80	0.10	35.10	809,522	45,731
	Subtotal	85,818	1.51	0.09	37.65	1,292,397	77,311
Indicated	1.0-1.4%	119,229	1.17	0.08	34.51	1,391,548	91,089
	>1.4%	62,977	1.70	0.08	32.07	1,069,218	52,376
	Subtotal	182,205	1.35	0.08	33.67	2,460,766	143,465
Inferred	1.0-1.4%	65,872	1.15	0.07	31.64	754,531	47,212
	>1.4%	17,232	1.68	0.07	27.17	289,213	11,704
	Subtotal	83,104	1.26	0.07	30.71	1,043,744	58,917
Measured + Indicated	1.0-1.4%	160,095	1.17	0.08	36.03	1,874,423	122,670
	>1.4%	107,929	1.74	0.09	33.33	1,878,740	98,106
	Subtotal	268,024	1.40	0.08	34.94	3,753,163	220,777

The information in this report which relates to Mineral Resource estimates is based on information compiled by Dr Bielin Shi and Mr Mick Elias, full time employees of CSA Global, and Members of the Australasian Institute of Mining and Metallurgy. Dr Shi and Mr Elias have sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as Competent Persons as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Dr Shi and Mr Elias consent to the reporting of this information in the form and context in which it appears.

CSA notes that the resources estimated in the table above contain high grade resources (Ni grades >1.80%). The following table lists the high-grade resources estimated at cut-off grades of 1.60% Ni and 1.80% Ni. As of 30 November, 2012, at cut-off grade of 1.60% Ni, it includes approximately 28.75 Mt of Measured Resource with average grades of 1.71% Ni and 0.09% Co; 33.18 Mt of Indicated Resource with average grades of 1.88% Ni and 0.08% Co; and 4.49 Mt of Inferred Resource with average grades of 1.88% Ni and 0.07% Co.

Mineral Resource Category	Cut-off Grade	Tonnage ('000t)	Average Grade		Contained Metal	
			Ni (%)	Co (%)	Ni (t)	Co (t)
Measured	1.60%	28,749	1.71	0.09	491,106	25,345
Indicated		33,181	1.88	0.08	624,370	26,690
Inferred		4,492	1.88	0.07	84,461	3,232
Measured + Indicated		61,929	1.80	0.08	1,115,476	52,034
Measured	1.80%	16,709	2.17	0.09	362,955	15,724
Indicated		16,154	2.09	0.08	336,865	12,630
Inferred		2,082	2.11	0.07	43,844	1,474
Measured + Indicated		32,863	2.13	0.09	699,820	28,354

It should be noted that at the higher cut-off grades of 1.60% Ni and 1.80% Ni, grade continuity parameters will be quite different to those applying at the lower cut-off grade of 1.0% Ni. In light of this, resource classification might have to be re-evaluated.

In addition, in the Limonitic zone, Brigade 308 has estimated about 129 Mt of limonite with average grades of 48.84% TFe and 0.77% Ni. Due to time constraints, CSA has not done verification work on these Limonite resource numbers.

Mining

According to the existing Indonesian Government mining policy, the export of Nickel Laterite ore is prohibited effective January 1, 2014. Therefore, the following mining plan was developed:

Year	2013	2014	2015	2016	2017	2018	.....	2032
Ore Production (kt) (wet)	1500	2000	2000	2000	4000	4000	.....	4000

Hanking Group plans to produce 1,500,000 t of ore for exporting overseas. After 2014, Hanking Group will have to carry out local smelting. Additionally, the ore production for exporting overseas could be increased subject to any changes in Indonesian Government export regulations.

Ore Reserve Estimation

Ore Reserves were estimated by Brigade 308 and MCC 2012 within the mining licence areas of Hanking's nickel projects, based on a mining recovery rate of 96% and dilution rate of 4% for open-pit mining and other modifying factors cited in the mining feasibility study (MFS). As of 31 January, 2012, the Ore Reserves were estimated as shown in the following table. The Ore Reserves tabulated are based on Brigade 308's Mineral Resource estimates that

differ from CSA's, and have not been re-estimated by CSA. However, the total Ore Reserves estimated by Brigade 308 and MCC are not expected to differ materially from those that will be estimated by CSA.

Resource Category	Grade Range	Tonnage ('000t)	Average Grade			Metal Contained	
			Ni (%)	Co (%)	TFe (%)	Ni (t)	Co (t)
Proved	1.0-1.4%	35,563	1.17	0.079	39.21	415,237	28,060
	>1.4%	39,287	1.61	0.095	34.95	631,300	37,230
	Subtotal	74,850	1.4	0.087	38.46	1,046,537	65,290
Probable	1.0-1.4%	108,726	1.14	0.073	33.96	1,242,911	79,313
	>1.4%	63,259	1.6	0.079	32.17	1,013,679	49,931
	Subtotal	171,984	1.31	0.075	33.31	2,256,590	129,244
Proved + Probable	1.0-1.4%	144,289	1.15	0.074	35.26	1,658,148	107,373
	>1.4%	102,546	1.6	0.085	33.24	1,644,979	87,160
	Subtotal	246,834	1.34	0.079	34.41	3,303,128	194,533

The contained high-grade Ore Reserve (at cut-off grades of 1.60% Ni and 1.80% Ni) was estimated by Brigade 308 and MCC based on a set of modifying factors. As of 31 January, 2012, at a cut-off grade of 1.60% Ni, the Proved and Probable Ore Reserves were 22.72 Mt with average grades of 1.80% Ni and 0.096% Co, and 31.07 Mt with average grades of 1.82% Ni and 0.081% Co, respectively.

CSA advises that at the higher cut-off grades of 1.60% Ni and 1.80% Ni, grade continuity parameters will be quite different to those applying at lower cut-off grades. In light of this, reserve classification, dilution and recovery factors might have to be re-evaluated.

Processing

According to the Hanking feasibility study report issued by the Design Institute, Hanking Group plans to construct a shaft furnace operation with an annual output of 40,000 tons nickel metal. The planned production schedule is summarized as:

Year	2013	2014	2015	2016	2017	.....	2032
Nickel Metal (t)	0	10,000	20,000	30,000	40,000	.....	40,000
Wet Ore (kt)	0	1000	2000	3000	4000	.....	4000

Project construction stages are shown as following:

	Project	2013	2014	2015	2016
shaft furnace	First 10,000 t Ni	████████████████████			
	Second 10,000t Ni		████████████████████		
	Third 10,000t Ni			████████████████████	
	Fourth 10,000t Ni				████████████████████

Occupational Health and Safety

The North Konawe Nickel Project has been assessed in accordance with a series of decrees and/or regulations instituted by the relevant Indonesian government Departments and Hanking Group subsidiary companies. Annual Operating Permits (AOP), Emergency Response Plans (ERP) and documented Occupational Health and Safety (OHS) management systems/procedures for each subsidiary company have been prepared. Established employees are provided with updated training every year or every second year depending on the employee's experience level.

Operational Costs

Unit costs for mining are listed in the following table.

		unit: US\$/t
Direct Costs	Ground mining	5.02
	transportation	0.64
	Port Stock pile	0.08
	shipping	2.41
	other	0.63
Taxation	Resource Tax	3.02
	Export Tax	6.43
Depreciation	License and Permits	0.86
	depreciation	1.30
Cash costs	Production (export)	18.25
	production (self-use)	9.32
Total Costs	Production (export)	20.40
	production (self-use)	11.48
Mining management costs		2.38

Unit costs for smelting is estimated as US\$10, 450/t nickel metal contained in ferro-nickel alloy.

Capital Costs

The projects will require a total investment of US\$245 M, of which US\$143M is for mining and US\$102M total investment is for smelting. Annual investments are summarized as follows. Details of the investment plan are listed in the following table (in million US\$).

Year	2013	2014	2015	2016	2017	2018	2019
Mining	36	0	0	23	2	0	0
Smelting	17	35	31	13	6	0	0
Sub-Total	53	35	31	36	8	0	0
Year	2020	2021	2022	2023	2024	2025	2026
Mining	0	21	0	0	21	0	0
Smelting	0	0	0	0	0	0	0
Sub-Total	0	21	0	0	21	0	0
Year	2027	2028	2029	2030	2031	2032	Total
Mining	0	21	0	0	21	0	143
Smelting	0	0	0	0	0	0	102
Sub-Total	0	21	0	0	21	0	245

Environmental and Social

AMDAL's for KKU (i.e., two AMDAL's – one for the mining operations and one for the port operations) and for KS (i.e. one AMDAL for the mining operations) have been prepared and lodged.

In addition, environmental approvals relating to the previous AMDAL's and IUPs set up under previous companies which have been amalgamated into KKU and KS have been compiled. CSA has been informed that KKU and KS have stated that the approvals for the new amalgamated AMDAL's have yet to be issued by the Regent of North Konawe, but that this is expected to occur during the first half of 2012.

CSA notes that the AMDAL's for KKU (mining operations and port operations) and for KS (mining operations), have been compiled in accordance with the relevant Indonesian national laws, regulations and decrees (each AMDAL provides a comprehensive list of the relevant legislation). However, for CSA to fully verify that these AMDAL's comply with Indonesian national requirements, CSA will need to sight and review the approvals for these documents (i.e. the Validation of AMDAL Documents).

The sources of inherent environmental and social risks are project activities that may result in potential environmental and social impacts. The significant inherent environmental and social risks for the North Konawe Nickel Project are:

- Land disturbance, rehabilitation and site closure;

- Water management (i.e., stormwater/surface water drainage – including any mine dewatering);
- Waste rock stockpiling/waste rock dump management;
- Dust management;
- Land contamination (i.e. hydrocarbon storage and handling); and
- Social aspects (i.e. local community interactions).

Based on the review of the proposed management measures within the project AMDAL's, it appears that the environmental and social risks for the North Konawe Nickel Project are generally being addressed well. However, CSA notes that to fully conform to internationally recognised environmental management guidelines and practices, the relevant designs and operational procedures/programs need to be developed and implemented, and incorporated into the overall project operations.

Risk Analysis

Mining is a relatively high risk industry. In general, the risk may decrease from exploration, development, to production stage. The Company's projects are production projects and risks exist in different areas. CSA has considered various technical aspects which may affect the feasibility and future cash flow of the project, and a risk assessment is summarized in following table.

Risk Issue	Likelihood	Consequence	Overall
Geology and Resource			
Lack of Significant Resource	Unlikely	Moderate	Low
Lack of Significant Reserve	Unlikely	Moderate	Low
Significant Unexpected Faulting	Unlikely	Moderate	Low
Mining			
Significant Production Shortfalls	Possible	Moderate	Medium
Significant Geological Structures	Possible	Moderate	Medium
Excessive Surface Subsidence	Unlikely	Minor	Low
Poor Mine plan	Unlikely	Moderate	Low
Poor Road Transportation/safety	Possible	Moderate	Medium
Ore Processing			
Lower Yields	Possible	Minor	Low
Lower Recovery	Possible	Minor	Low
Higher Production Cost	likely	Moderate	Medium
Lower Plant Reliability	likely	Moderate	Medium
Environmental Risk			
Poorly Managed Land disturbance, Rehabilitation and Site Closure	Certain	Moderate	Medium
Water Management below Standards (tailings/mine water and storm-water)	Possible	Moderate	Medium
Lack of Waste Rock Stockpiling/Dump Management	Possible	Moderate	Medium
Inadequate Tailings Storage (TSF design, construction and operation)	Possible	Moderate	Medium
Lack of Dust Management	Likely	Moderate	Medium
Land Contamination (hydrocarbon storage and handling)	Likely	Moderate	Medium
Capital and Operating Costs			
Project Timing Delays	Possible	Moderate	Medium
Capital Cost Increases	Possible	Moderate	Medium
Inadequate Capital Costs - Ongoing	Possible	Moderate	Medium
Operating Costs Underestimated	Possible	Moderate	Medium

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List of Abbreviations

%	Per cent
0	Degrees, either of temperature or angle of inclination
ARD	Acid Rock Drainage
ASL	Above sea level
AusIMM	Australasian Institute of Mining and Metallurgy
Brigade 308	No. 308 Brigade of Yunnan Nonferrous Geological Bureau
c.o.g	Cut-off grade, the minimum grade of a mineral in a deposit which is able to be mined and processed economically
cm	centimetre
CSA	CSA Global – Resource Industry Consultants
CSIRO	The Commonwealth Scientific and Industrial Research Organisation
deposit	Earth material of any type, either consolidated or unconsolidated, that has accumulated by some natural process or agent
E	East
EHS	Environmental Health and Safety Guidelines
EIA	Environmental Impact Assessment
EMMP	Environmental Management and Monitoring Plan
EPB	Environmental Protection Bureau
EPFI	Equator principles financial institutes
EPR	Emergency response plan
EPs	Exploration Permits
Fe	The chemical symbol of iron
g	gram
g/t	Grams per tonne
Hanking Group	PT. Konutara Sejati, China Hanking Industrial Group Co. Limited
HKEx	Stock Exchange of Hong Kong Limited
IFC	International Financial Corporation
IPO	Initial Public Offering
Indicated Mineral Resource	That part of a resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuous but are spaced closely enough for continuous to be assumed
Inferred Mineral Resource	That part of a resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuous. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings, and drill holes which may be limited or of uncertain quality and reliability
JORC Code	Joint Ore Reserves Committee Code

JORC Committee	Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia
kg	kilogram, equivalent to 1,000 grams
km	kilometres, equivalent to 1,000 metres
km ²	square kilometres
kV	kilovolts – equivalent 1,000 volts
kW	Kilowatt, equivalent to 1,000 watt
kWhr	Kilowatts per hour
Listing Rules	Rules which apply to Listing of Securities on the HKEx
m	metre(s)
m ²	square metre(s)
m ³	cube metre
M	million
Measured Mineral Resource	That part of a resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes
MFS	mine feasibility study
Micron	1/1,000 of a millimetre
MLR	Ministry of Land and Resources
mm	millimetre(s)
Mt	million tonne (s)
Mtpa	million tonnes per annum
MW	Megawatt, equivalent to 1,000,000 watt
N	North, also the chemical symbol for Nitrogen
NE	Northeast
NEE	North East East
NE-NNE	Northeast-North Northeast
NS	North-South
NW	Northwest
pa	Per annum
pH	A measure of the acidity or alkalinity of a solution, numerically equal to 7 for neutral solutions, increasing with increasing alkalinity and decreasing with increasing acidity. The pH scale commonly in use ranges from 0 to 14
PPE	personal protective equipment
PQ size core	85mm diameter
PRC	People's Republic of China

Probable Ore Reserve	The economically mineable part of an indicated, and in some circumstances measured, resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and government factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified
Proved Ore Reserves	The economically mineable part of a measured resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and government factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Also referred to as recoverable proved reserve.
QA/QC	Quality Assurance/Quality Control
RKEF	Rotary kiln Electric Furnace
RMB	Renminbi, the legal currency of China, also known as Yuan
RMB/t	Renminbi per tonne
ROM	run of mine – meaning the ore as it leaves the mine, before any processing
RQD	Rock Quality Designation, a standard for comparing rock strength characteristics
S	South, also the chemical symbol for sulphur
SE	South East
SRK	SRK Consulting China Ltd
SW	southwest
SWCP	Soil and water conservation plan
t	tonne
TFe	total iron
The Company	PT. Konutara Sejati, China Hanking Industrial Group Co. Limited
tpa	tonnes per annum
tpd	tonnes per day
TSF	Tailings Storage Facility
USD	United States dollars
Valmin Code	Code for Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Report
W	west

1 Introduction

CSA Global Pty Ltd ("CSA") has been commissioned by China Hanking Holdings Ltd ("Hanking", "the Company" or "the Client") to independent technical assessment of the exploration, geology, resources/reserves estimate, mining, metallurgical and processing plant, and environmental permitting and approvals of the laterite nickel projects ("North Konawe Nickel Project") located in North Konawe Regency in Southeast Sulawesi Province, Indonesia.

The principal objective of this Report is to provide the Company and The Stock Exchange of Hong Kong Limited ("HKEx") with an independent expert report suitable for inclusion in documents either for the proposed listing on the main board of the HKEx or acquisition by a company already listed on the HKEx.

This report has been prepared to the standard of and is considered by CSA to be a Competent Persons Mineral Resource Report under the guidelines of the JORC and Valmin Codes. The Valmin Code is the code adopted by the Australasian Institute of Mining and Metallurgy (AusIMM) and the Australian Institute of Geoscientists (AIG), and the standard is binding upon all AusIMM and AIG members. The Valmin Code incorporates the JORC Code for the reporting of Mineral Resources and Ore Reserves. This report is not a Valuation Report and does not express an opinion as to the value of mineral assets or tenements involved, nor to the 'fairness and reasonableness' of any transactions between the Company and any other parties.

In forming its views, CSA has relied to a large extent on data provided in a report previously produced by SRK Consulting China Ltd (SRK) dated April 2012 for Hanking Group. Supporting data supplied directly to CSA by Hanking was also used. CSA has not independently verified the accuracy of this information but has seen no reason to believe that it is materially inadequate or unreliable.

CSA is responsible for this report as part of the prospectus document, and declares that it has taken all reasonable care to ensure that the information contained in this report is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

This report contains references to JORC reportable estimates of mineralisation for ore bodies at Blocks D, E and K of the Laterite Nickel projects in Southeast Sulawesi, Indonesia. CSA believes that the current Mineral Resource models provide robust global estimates of the in situ mineralisation of Ni, Co, TFe, MgO, Al₂O₃, SiO₂ and Cr₂O₃ in the projects.

1.1 Background and Briefing

CSA was commissioned by Hanking to review and report all relevant technical aspects of the two laterite nickel mines in North Konawe Regency, Southeast Sulawesi Province, Indonesia. The mining permits are partially owned by the Company's two subsidiary mining companies.

Details of the two mining licences are described in Section 4 of this report and copies of the original mining licences are shown in Appendix 1.

Hanking has two subsidiary mining companies, PT. KONITARA SEJATI and PT. KARYATAMA KONAWE UTARA. Both companies are incorporated in Indonesia and 75% owned by Hanking. In November 2009, Hanking signed a *Cooperation Proposal for Lateritic Nickel Ore Deposit Development* with these two companies and made its initial investment; since then Hanking Group has owned a 75% share of the mine. PT Bumi Makmur Selaras (an Indonesian company which owned nine (9) exploration licences in North Konawe Regency covering a total area of 163.42 km² including the current license areas and several others) owns 16.5%, and the remaining 8.5% ownership is held by Brigade 308. Each subsidiary company wholly owns the laterite nickel mines. The proposed target group structure is shown on China (Error! Reference source not found.).



Figure 1-1. Proposed Target Group Structure

1.2 CSA Independence

Neither CSA nor any of the authors of this report have any material present or contingent interest in the outcome of this report, nor do they have any pecuniary or other interest that could be reasonably regarded as being capable of affecting their independence or that of CSA.

CSA’s fee for completing this Report is based on its normal professional daily rates plus reimbursement of incidental expenses. The payment of that professional fee is not contingent upon the outcome of the report. CSA has no beneficial interest in the outcome of the technical assessment and believes that the outcome is not relevant to affecting its independence.

1.3 Information basis of this report

CSA has derived the technical information which forms the basis of its Report on information provided by Hanking, , and in particular a report previously produced by SRK Consulting China Ltd (SRK) dated April 2012 for Hanking Group. CSA has supplemented this information where necessary with information from its own extensive regional geological database. However, where discrepancies arise and no alternative comments are provided, data and interpretations provided by Hanking prevail in this report. The past exploration history for these tenements has been derived from previous explorer's reports, as provided by Hanking. CSA has not conducted its own independent searches.

CSA is not professionally qualified to opine upon and/or confirm that Hanking has 75% control of the underlying tenements and/or has any unresolved legal matters relating to any transfer of ownership or associated fees and royalties. CSA has therefore assumed that no legal impediments regarding the relevant tenements exist and that Hanking Group has legal rights to all underlying tenements as purported. Assessing the legal tenure and right to prospects of Hanking is the responsibility of legal due diligence conducted by entities other than CSA.

Initial resource estimation of the North Konawe Nickel Project was conducted by Brigade 308 in 2009, under the guidelines for the Chinese "Evaluation of Mining Rights", as administered by the Chinese Ministry of Land and Resources ("MOLAR"), and in accordance with "Standard GB/T17766-1999 - Reserve Classification of Solid Ore Resources". Ordinary Kriging, Inverse Distance Square (IDS) and block methods were applied in the resource estimation. Resource categorisation and definition were conducted with Micromine and in line with Chinese standards and JORC Code classification.

Based on the databases provided by Hanking, CSA has produced its own Mineral Resource estimates for Blocks D, E and K of the Laterite Nickel projects. These Mineral Resources have been classified and reported in accordance with The 2004 Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code). Resource classification is based on confidence in the mapping, geological interpretation, drill spacing and geostatistical measures. It is CSA's opinion that the current resource models provide robust global estimates of the in situ mineralisation of Ni, Co, TFe, MgO, Al₂O₃, SiO₂ and Cr₂O₃ in the projects.

1.4 CSA and Authors

CSA Global Pty Ltd (CSA) is an Australian-owned company providing geological and mining consulting services to the mineral resource sector. The organisation is well resourced with established offices in Perth, Brisbane, Darwin, Jakarta and Horsham in the UK and has undertaken work for a number of substantial international mining houses. CSA comprises a team of technical professionals dedicated to providing excellence of service in their field of expertise. The CSA's independence is ensured by the fact that it holds no equity in any project. This permits CSA to provide its clients with conflict-free and objective recommendations on crucial judgment issues. CSA has a demonstrated track record in undertaking independent assessments of resources and reserves, project evaluations and audits, Competent Persons Reports, independent audits and independent feasibility evaluations to bankable standards on behalf of exploration and mining companies and

financial institutions worldwide. This report was prepared by consultants sourced from the CSA office in Perth (Australia). These consultants are specialists in the fields of Economic Geology, Project Analysis and Due Diligence, and Resource Evaluation.

Dr Bielin Shi (PhD, MSc, MAusIMM, MAIG) – Principal Geologist

Dr Shi is a geologist with high level experience in economic and mining geology, resource estimation and applied geostatistics. Bielin has worldwide operational expertise in exploration and mine projects and has worked on commodities including Iron Ore, Gold, Copper, Lead & Zinc, Tin, Nickel-Cobalt, PGM, Bauxite and Coal, across geological and resource modelling. Bielin is a full member of the Australasian Institute of Mining and Metallurgy, and has extensive experience in the provision of Independent Technical Assessments (ITA) and Competent Persons Reports (CPR) for Initial Public Offerings (IPO) and other documents on the Australian Stock Exchange (ASX), Hong Kong Stock Exchange (HKSE), Toronto Stock Exchange (TSX) and London Stock Exchange's Alternative Investment Market (AIM). Dr Shi is fluent in Chinese and English. He conducted the field-based assessment of Hanking' mineral assets and is the primary author for this report.

Mick Elias (BSc (Hons), FAusIMM) - Principal Consultant

Mr Elias is widely experienced (30 years) in all aspects of nickel resource development in both laterites and sulphides, from project generation and evaluation, exploration planning and management, development studies, open cut and underground mine geology, resource/reserve estimation, and resource economics. International experience includes Cuba, Indonesia, Philippines, New Caledonia and Brazil. Mr Elias conducted the Peer Review for this report.

Gerry Fahey (BSc (Hons), MAIG) – Director/Principal Consultant

Mr Fahey has expertise in mining geology and resource and project evaluation, feasibility studies, company advice on JORC and NI 43-101 reporting and Independent Geologist Reports. Other expertise includes the development and implementation of onsite mining dilution and operator training workshops as well as mentoring and training for mine geologists and technicians. His experience is in base metals, gold, porphyry copper, industrial minerals and more recently in data management systems. Mr Fahey has completed numerous ITAs and CPRs for Initial IPOs and other documents on the ASX and TSX. He was a former board member of Australian Institute of Geosciences and is currently a member of the Joint Ore Reserve Committee (JORC). Mr Fahey conducted the Peer Review for this report.

1.5 Warranties

Hanking has represented in writing to CSA that full disclosure has been made of all material information and that, to the best of their knowledge and understanding, such information is complete, accurate and true.

1.6 Consents

CSA consents to this Report being included, in full, in documents for the purpose of the proposed listing on the main board of HKEx or acquisition by a company already listed on the HKEx, in the form and context in which the technical assessment is provided, and not for any other purpose.

1.7 Indemnities

As recommended by the Valmin Code, Hanking has provided CSA with an indemnity under which CSA is to be compensated for any liability and/or any additional work or expenditure resulting from any additional work required:

- which results from CSA's reliance on information provided by Hanking , or;
- which relates to any consequential extension workload through queries, questions or public hearings arising from this Report.

1.8 Forward Looking Statements

Estimates of mineral resources, ore reserves and mine and processing plant production are inherently forward looking statements, which being projections of future performance will necessarily differ from actual performance. The errors in such projections result from inherent uncertainties in the interpretation of geologic data, variations in the execution of mining and processing plans, in the ability to meet construction and production schedules due to many factors including weather, availability of necessary equipment and supplies, fluctuating prices and changes in regulations.

The possible sources of error in forward looking statements are addressed in more detail in the appropriate sections of this Report. Also provided in the report are comments on the risks inherent in the different areas of mining and processing operations.

2 Location, Access, Climate and Physiography

2.1 Location and Access

The Project is located in southeast Sulawesi Island, Indonesia. Administratively the area of Hanking Group's laterite nickel project belongs to the North Konawe Regency of Southeast Sulawesi Province, Indonesia. The Sulawesi Island is one of the four larger Sunda islands (a group of islands that form part of the Malay Archipelago) of Indonesia. It is situated between the Borneo and Maluku Islands. The approximate geographical coordinates of the project area are longitude 122°11'E to 122°23'E and latitude 3°11'S to 3°27'S. The properties are relatively easily accessed from the city of Kendari (**Figure 2-1**).



Figure 2-1. General Locality Map.

Sulawesi Island is surrounded by Borneo to the west, the Philippines to the north, Maluku to the east, and Flores and Timor to the south. It has a distinctive shape, dominated by four large peninsulas: the Semenanjung Minahassa; the East Peninsula; the South Peninsula; and the Southeast Peninsula which consists mainly of Southeast Sulawesi. The central part of the island is ruggedly mountainous, such that the island's peninsulas have traditionally been remote from each other, with better connections by sea than by road. Three bays dominate the island: Gulf of Tomini, Gulf of Tolo, and the Gulf of Boni, while the Strait of Makassar borders the western side of the island.

Southeast Sulawesi Province has no major highway connecting it to the rest of the island; the primary transportation link is a ferry across the Gulf of Boni between Watampone (Boni) in South Sulawesi and the port of Kolaka. Driving to the mine site takes approximately 4 hours from Kendari, the capital city of the province, which is about 82 km (direct distance) southeast of the project area and is connected to other Indonesian cities via domestic civil air lines. Except for a portion of road which is paved, the road from Kendari to the project site is a dirt road; its condition is generally usable, but not good, particularly during the rainy season.

2.2 Topography and Climate

The local topography is characterised by low mountains with intermountain basins and plains. In the basins and plains, the elevations vary from about 45 m to 80 m above sea level (ASL); however the mountain peaks reach from 500 m up to more than 800 m ASL.

The project area is located in a tropical rainforest climate. Like most equatorial Pacific regions, the weather is very humid and temperatures vary from about 18 degrees Celsius (°C) to 35°C with an annual average temperature of about 28°C.

Rainfall in Southeast Sulawesi varies across the region. The project area is generally classified as a “wet region” with a total rainfall of more than 2,000 mm annually. Most of the precipitation falls during the monsoon season from December to July; this period is called the “rainy season”, while the “dry season” occurs from August to November.

2.3 Local Economy

There are three towns administered by North Konawe in the project area: Langgikima, Wiwirano, and Lasolo. According to the decennial census which took place in 2010, the population in Southeast Sulawesi Province is about 2.23 million and most of the population lives either on Buton Island off the south coast of Sulawesi, or in and around Kendari. The main ethnic groups in South East Sulawesi are the Tolaki, Buton, and Muna, along with some less populous groups.

Generally the licence area is characterised by a lack of industrial development. Farming and fishing are the main industries in the region.

3 Licences and Permits

3.1 Business Licences

The business licences for the PT. Karyatama Konawe Utara (KKU) and PT. Konutara Sejati (KS) are presented in **Table 3-1**.

Table 3-1: Business Licences for KKU and KS

Project	North Konawe Nickel Project
Business Licence No.	391/1/IP/I/PMA/2011
Issued To	Pt. Karyatama Konawe Utara (KKU)
Issued By	Chief of Investment Coordinating Board, Deputy of Investment Services
Issue Date	Jun. 22, 2011
Expiry Date	No expiry
Business Activities	Nickel Ore Mining
Type of Goods/Service	Nickel Operation Production
Project	North Konawe Nickel Project
Business Licence No.	388/1/IP/I/PMA/2011
Issued To	Pt. Konutara Sejati (KS)
Issued By	Chief of Investment Coordinating Board, Deputy of Investment Services
Issue Date	Jun. 21, 2011
Expiry Date	No expiry
Business Activities	Nickel Ore Mining
Type of Goods/Service	Nickel Operation Production

3.2 Mining Licences

The Indonesian National Law on *Mineral and Coal Mining (No.4 of 2009)* ('Mining Law'), can issue mining licences under the following three categories:

- Mining Business Licence – an *Izin Usaha Pertambangan (IUP)* is a general mining licence issued to specific companies for conducting mining business activities within the mining area of a Wilayah Usaha Pertambangan (WUP) (a Commercial Mining Business Area or WUP – a mining area for larger scale mining);
- Special Mining Business Licence – an *Izin Usaha Pertambangan Khusus (IUPK)* is a licence issued to specific companies for conducting mining business activities within the mining area of a specific Wilayah Pencadangan Negara (WPN) (a State Reserve Area or WPN – a mining area reserved for the national strategic interest); or

- People's Mining Licence – an *Izin Pertambangan Rakyat* (IPR) is a licence granted to Indonesian citizens/invertors only for conducting mining business of a limited size and investment, within the mining area of a Wilayah Pertambangan Rakyat (WPR) (a People's Mining Area or WPR – a mining area for small scale local mining).

Two IUPs have been issued for the North Konawe Nickel Project, one for KKU and the other for KS. The details for these IUPs are summarised in **Table 3-1**.

Table 3-2: North Konawe Nickel Project IUPs

Project	North Konawe Nickel Project
IUP No.	Decree of North Konawe Regent, No.372 Year 2009
Issued To	Pt. Karyatama Konawe Utara (KKU)
Issued By	Pj. Regent North Konawe
Issue Date	Dec. 14, 2009
Expiry Date 1	Dec. 14, 2029
Area (ha)	3,119
Purpose	Open pit, ferrous mineral (nickel ore)

Project	North Konawe Nickel Project
IUP No.	Decree of North Konawe Regent, No.398A Year 2009
Issued To	Pt. Konutara Sejati (KS)
Issued By	Pj. Regent North Konawe
Issue Date	Dec. 22, 2009
Expiry Date 1	Dec. 22, 2029
Area (ha)	1,923
Purpose	Open pit, ferrous mineral (nickel ore)

Note: 1 can be extended twice for up to 10 years each time

CSA notes that the extension of IUPs is regulated through Article 45 of the 'Government Regulation Number 23 of 2010 (PP No. 23 Tahun 2010) Concerning Implementation of Mineral and Coal Mining Business Activities'. In particular Article 45 states the following in respect to extensions for IUPs:

- Applications for extensions of the Production Operation Mining Permits shall be submitted to the competent Minister, governors, or regents/mayors no earlier than 2 (two) years and at the latest 6 (six) months prior to expiration of the Mining Permits.
- Applications for extensions of the Production Operation Mining Permits shall be accompanied by at least:
 - an area map and coordinates;

- a receipt of payment for the last 3 (three) years dead rents and production royalties;
- a report on the final production operation activities;
- an environmental management report;
- working plans and budget; and
- balance sheets of resources and reserves.
- • Cost for the extension of IUP divided into 2 sections :
 - formal cost : approximately IDR 50.000.000 and,
 - informal cost :approximately IDR 500.000.000.

CSA further notes that the common standard conditions for the North Konawe Nickel Project IUPs include the following key technical items:

- The companies have the right to implement the project's production operation which is defined as including 'construction, production, processing, purification and transportation and sales'.
- The companies have the right to utilise the general facilities and infrastructure for IUP Production Operation activity.
- The companies must appoint a 'head of technical mine' (mining technical manager) who will be responsible for the IUP production operation, and the mining environmental, health and safety management.
- The companies must submit the initial RKAB (annual project work program and budgets) to the Head of the Regent of North Konawe not more than 60 (sixty) working days after the issuance of the IUP. The follow up RKABs are to be submitted in November of each year.
- The companies must submit a 'reclamation plan' and 'post mining plan', but no dates are provided for this requirement.
- The reclamation warranty (rehabilitation guarantee) is to be assigned before commencement of production.
- A mining closure security (post-mine guarantee) is to be established.
- The companies must submit the RPT (mine closure plan) two years before the end of production activities.
- The companies must provide the agreed compensation to the 'right's holders of the land and forest enforcement' that has been disturbed from IUP production operation.
- The companies are required to construct all relevant project related infrastructure, including transport (ports, railways, roads, etc.), communications, power/water supply facilities, and accommodation and social support facilities (including waste treatment facilities).

CSA recommends that prior to finalising this ITR report for listing purposes, the Hanking Group provide any current project development/operational documentation that has been compiled to meet the above IUP technical items to CSA for review.

3.3 Forestry Borrow and Use Permits

The other key project development permits for Indonesia are the 'Borrow and Use Permits' for forest areas. These are administered through the *Law on Forestry (No.41 1999)* and the *Government Regulation (No. 24 2010) – regarding utilisation of forest areas*, and are issued by the Minister of Forestry.

Two Borrow and Use Permits have been issued for the North Konawe Nickel Project, one for each of the IUPs (i.e., one each for KKU and KS). The details for these Borrow and Use Permits are summarised in **Table 3-3**.

Table 3-3: Borrow and Use Permits

Project	North Konawe Nickel Project
Borrow and Use Permit No.	Decree of the Forestry Minister No:SK.613/MENHUT-II/2011
Issued To	Pt. Karyatama Konawe Utara (KKU)
Issued By	Minister of Forestry of the Republic of Indonesia
Issue Date	Oct. 25, 2011
Expiry Date	Dec. 14, 2029
Area (ha)	998.8
Purpose	Production operation of nickel ore and supporting facilities on the area of production forest

Project	North Konawe Nickel Project
Borrow and Use Permit No.	Decree of the Forestry Minister No:SK.622/MENHUT-II/2011
Issued To	Pt. Konutara Sejati (KS)
Issued By	Minister of Forestry of the Republic of Indonesia
Issue Date	Nov. 02, 2011
Expiry Date	Nov. 22, 2029
Area (ha)	970.71
Purpose	Production operation of nickel ore and supporting facilities on the area of production forest

CSA notes that the common standard conditions for the North Konawe Nickel Project Borrow and Use Permits include the following key technical items:

- The companies have the right within the specified areas, to undertake logging for clearing (subject to payment of relevant, taxes, state revenues and compensation) and to construct and operate the nickel ore mining facilities.

- The companies must maintain the boundaries of the permit areas and undertake rehabilitation of forest land that is no longer being utilised.
- The companies must report the 'usage/utilisation of the forestry area borrowed' (i.e., the area of forest cleared) to the Minister of Forestry every six months.
- Extensions of the Borrow and Use Permits are not automatic but can be granted if the permit holder demonstrates that the permitted area is still being utilised for the purpose of nickel ore mining operation/production. Applications to extend the permits are to be submitted by six months before the permit expiration date.

CSA recommends that prior to finalising the ITR report for listing purposes, the Hanking provide any current project development/operational documentation that has been compiled to meet the above Borrow and Use Permits technical items to CSA for review.

4 Geological and Mineral Inventory Assessment

Laterites are soil types rich in iron and aluminium, formed in hot and wet tropical areas. Nearly all laterites are rusty-red due to the presence of iron oxides. They develop by intensive and long-lasting weathering of the underlying parent rock. Tropical weathering (laterisation) is a prolonged process of chemical weathering which produces a wide variety in the thickness, grade, chemistry and ore mineralogy of the resulting soils.

Besides being a major source of iron and aluminium ores, laterites also are a major source of nickel. Lateritic nickel ore deposits are surficial, weathered rinds formed on ultramafic rocks which comprise approximately 70% of the continental world's nickel resources. Lateritic nickel ores are formed by intensive tropical weathering of olivine-rich ultramafic rocks. Indonesia is one of the world's largest producers of nickel laterite.

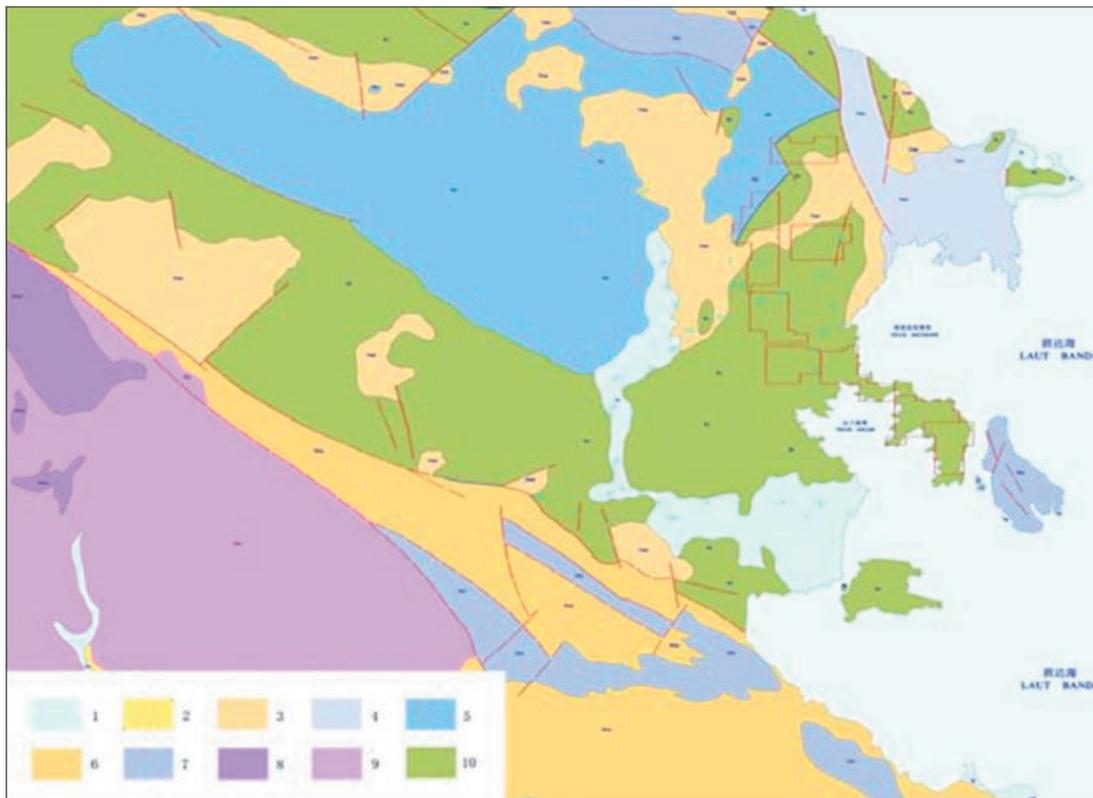
4.1 Regional Geology

According to plate reconstructions, Sulawesi Island is believed to have been formed by the collision of terranes from the Asian Plate (forming the west and southwest) with the Australian Plate's northern orientational subduction (forming the southeast and Banggai), and from island arcs previously in the Pacific (forming the north and east peninsulas). The widely distributed mafic/ultramafic rocks associated with tectonic and magmatic activities in the later Cretaceous provided an advanced basis for the formation of nickel laterite. Ore genesis was also accelerated by the long-term weathering common in equatorial regions.

The project area is located at the southern end of an ophiolite belt running from central to Southeast Sulawesi Island (see Figure 4-1). Regional strata are dominated by continental marginal clastic rocks, sandy and silty rocks, argillite, and limestone. These clastic rocks with Tertiary limestone and the intrusive massif form the island's most important geological features, the mountains. The Quaternary series constructed the alluvial plains near the mountains and along the coasts. The lithological legend for the regional map shown in Figure 4-1 is detailed in **Table 4-1**.

Table 4-1: Regional Stratigraphical Lithologies

Number	Lithology
1	Quaternary alluvium and sediments
2	Quaternary conglomerate and sandstone
3	Tertiary sandstone, conglomerate and mudstone
4	Tertiary limestone
5	Interbedded shale and argillaceous limestone, with occasional chert
6	Sandstone, shale, phyllite, slate, limestone and siltstone
7	Limestone, shale, sandstone, slate and marl
8	Marble
9	Schist, gneiss, phyllite and slate
10	Peridotite, dunite, gabbro and serpentinite

**Figure 4-1: Simplified Regional Geological Map of Southeast Sulawesi**

Regional tectonic features are characterised by faults and fractures. A majority of faults on the island are oriented northwest (NW) and stretch from tens of kilometres up to several hundred kilometres. The major faults are cut by numerous small northeast (NE) orientated faults and fractures.

Regional magmatic activities are intrusive and extrusive occurrences of mafic and ultramafic rocks. Ultramafic rocks are predominately banded in the NE direction in the central and marginal parts of the Island, with rock massif outcrops from several to a thousand square kilometres (km²). At the marginal zones of ultramafic massifs, intrusions of diorite and

gabbro are commonly observed. The ultramafic massifs are also composed of peridotite, harzburgite, and serpentinite; and serpentinisation can be easily observed.

The exposed surfaces or tops of the ultramafic rocks were weathered and altered, forming brown-reddish and purplish-red clay. Thick layers of lateritic weathering crusts cover the slopes. It should be noted that most parts of the ophiolite Suite areas shown in **Figure 4-2** are covered by lateritic weathering crusts.

Typical alterations to the original rocks include silicification, serpentinisation, limonitisation and chloritisation. Metamorphic rocks such as phyllite, schist, marble, slate and gneiss are discovered in the western part of the region (see **Figure 4-1**).

Sulawesi Island hosts abundant laterite nickel resources; and in its Southeast Peninsula, several exploration grants and mining concessions are currently operated by local and overseas companies.

4.2 Local Geology

The Hanking Group Nickel Laterite Project is located in the central-eastern part of Sulawesi Island's Southeast Peninsula, where widely distributed ultramafic massif and lateritic weathering crusts constitute the basic features of the local geology.

Following the geological exploration undertaken by No. 308 Brigade of Yunnan Nonferrous Geological Bureau in China ("Brigade 308"), three deposits were delineated into three exploration licence areas, specifically: Blocks D, E and K. The mining concessions of KS and K KU are operated by the Hanking Group. KS covers most areas of Block D and K KU covers all areas of Block E and K. As shown in **Figure 4-2**, the three deposits are situated west of Matarape Bay (Teluk Matarape); Blocks E and K are relatively close together, with Block E slightly west of Block K; and Block D is situated to the south of the other two.

4.2.1 Stratigraphy

In the project area, Tertiary clastic rocks are distributed in the northwestern and northeastern parts of the project area; while Quaternary series rock cover the intermountain basins and plains. Ultramafic rock massifs comprise peridotite, harzburgite, dunite, gabbro, pyroxenite, and serpentinite. Near the surface, serpentinisation of these rocks can be commonly observed. The tops of the ultramafic massifs have been weathered and are covered by reddish clay and soil, while occasional fresh outcrops of ultramafic rocks are distributed in local zones of steep slopes or trenches. The cover of lateritic weathering crust hosts of the nickel laterite.

In the KS Mining Concession area ("KS Project"), the Quaternary series rock are distributed in the northern and eastern parts, and weathered peridotite with reddish clay is found in the central and western parts. Most of the concession area is occupied by nickel and iron enriched laterite, which overly the bedrocks with depths varying from a few to tens of metres (see **Figure 4-3**).

The geology of the K KU mining concession ("K KU Project") including Block K in the east and Block E in the west is shown as **Figure 4-4**. Most areas of Block K are covered by nickel

enriched laterites, and the rest is occupied by ultramafic rocks and the Quaternary series rocks. It is worth noting that in the northwestern part of Block K, a considerable gossan deposit has been discovered. Analytical results of nickel samples show that the average iron grade of the gossan is as high as 50% TFe. Generally, the lithology of Block E is characterised by iron-rich clay and the Quaternary alluvium in the central and central-southern part; nickel-rich laterites in the eastern part; conglomerate, sandstone, and argillite in the northern part; shale, limestone, and chert as well as ultramafics in the northwestern part.



Figure 4-2: Local Geology of the Laterite Nickel Projects

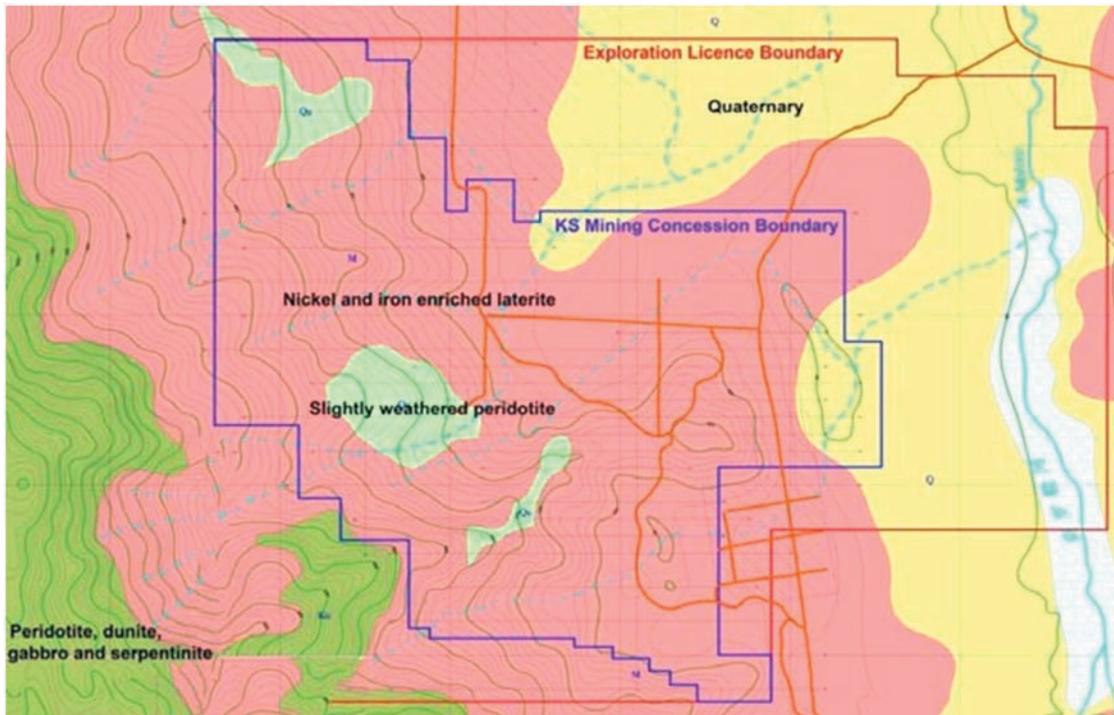


Figure 4-3: Topographical and Geological Map of Block D of KS Project

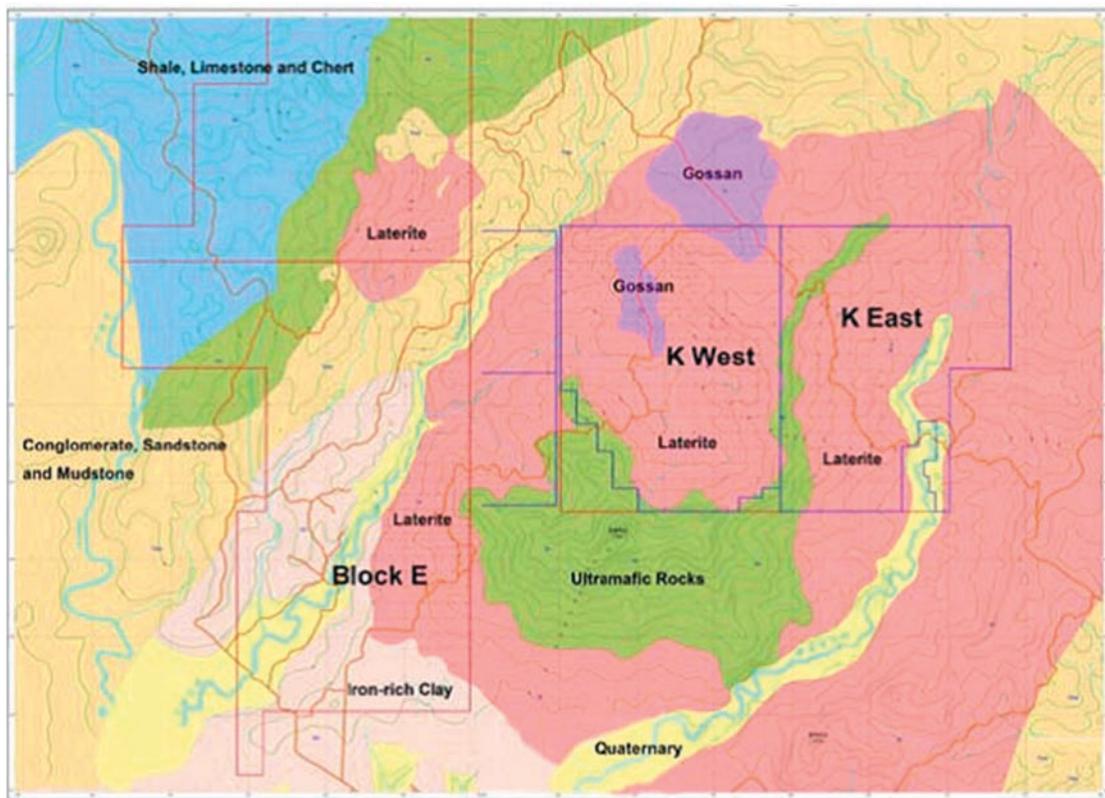


Figure 4-4: Topographical and Geological Map of Block E and K of KKK Project

4.2.2 Structure

Although affected by the regional tectonics, the local structure is not complicated as there are no obvious major folds and/or faults found in the project area. Some small fault and fold structures can be observed, but they are not believed to be closely associated with the lateritic deposit formation.

4.2.3 Metamorphism, Alteration and Weathering

The ultramafic and mafic rocks in the project area have experienced and are experiencing metamorphism, alteration and weathering. Serpentinisation is common. The reddish clay covering ultramafic rocks indicates strong factors of metamorphism, leaching and weathering. Typical gossan overlying the lateritic deposit is another indicator of weathering and oxidisation.

4.3 Mineralisation and Characteristics

4.3.1 Mineralised Zones

As shown in **Figure 4-5** and **Figure 4-6**, three mineralised zones of lateritic nickel are defined in the Project. Block D in the KS Project covers an area of 12.72 square kilometres (km²) of laterite which includes a nickel mineralised area of about 10 km². A total of about 22 km² are covered by laterite in the KKU Project amongst which are about 18 km² of nickel mineralisation defined as Blocks E and K; the mineralised zone of Block K can be further divided into western and eastern zones (see **Figure 4-4**).

The thickness of lateritic mineralised zones below an overburden layer 0 to 1.5 m thick varies from a few metres up to 80 m in the project areas. In the mineralised zone of Block D, the laterite’s thickness is in the range of 0 to 50 m, and in Block E, the maximum thickness is about 30 m. In Block K this number increases to 80 m. **Figure 4-5** shows the distribution of mineralised zones and their thickness variations.

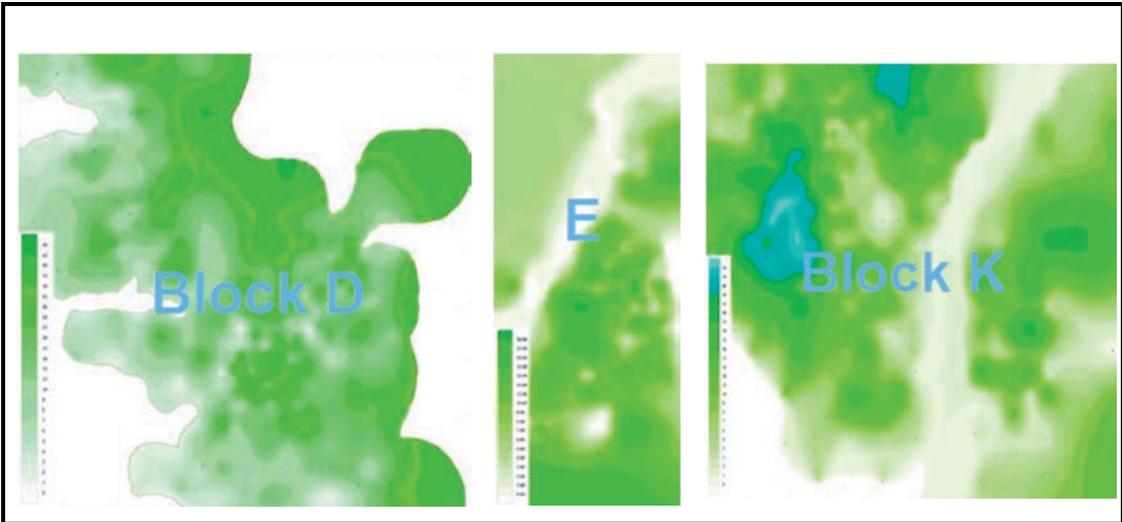


Figure 4-5: Mineralised Zones and Thickness of Laterite -Laterite thickness increases from the white (0m) to light green, to the dark green and then the blue (80m)

4.3.2 Mineralisation Characteristics

The nickel mineralised zones are hosted in layers between the surface soil and the bedrock. The strata at mineralised area can be classified into three main zones as listed below from surface to depth.

Limonitic Zone:

Top cover in the mining concessions comprises rusty-red or brownish-red residual laterite which is dominated by surface soil and clay. This zone is generally limonitic, with local distribution of gossan outcrops. The limonite and surface soil in the upper zone contain a certain proportion of nickel, but the grade is relatively low (on average less than 0.7%). In the lower zone, the clay and residual laterite are relatively nickel-enriched, with average grades greater than 1.0% (up to 1.5% in local zones); the lower zone is one of the mineralised layers of nickel laterite. Block D in the KS Project and Block E in the KKU Project are developed with relatively thin zones of top soil covers, compared to Block K in the KKU Project, where thick gossan and limonitic clays cover the underlying mineralised zone. **Figure 4-6** shows typical weathered and limonitic features of this zone.

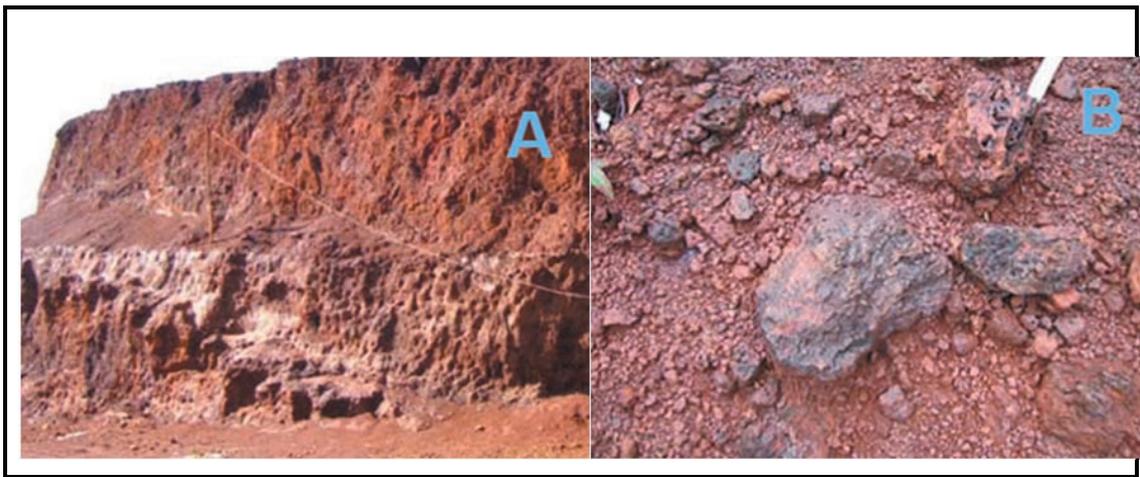


Figure 4-6: Weathered and Limonitic Features of the Limonite Zone: A-top cover of clay and gossan; B-surface limonite (Block K)

Saprolitic Zone

Saprolite forms beneath the limonitic zone, which is largely composed of altered/weathered olivine-rich ultramafic bedrock. As the weathering and altering grades decrease from the upper to lower zones, the colour, hardness, structure and texture of rocks in this zone vary by depth and location; and three subsidiary zones were delineated according to these aspects. In the upper part of the saprolitic zone, some of the original rocks have been totally weathered and altered to become brown clays similar to surface soil; in the lower part of this zone some of the ultramafics are partly weathered and retain the features of the original rock (see **Figure 4-7**).

The saprolite hosts the most nickel laterite ores, and the upper part of this zone is also a cobalt-rich layer. In the upper and middle saprolitic zones, the nickel grade is relatively high, varying from 0.07% to 5.84%; and cobalt is enriched in these zones with grades in the range of 0.01% to 1.50%. Generally, the nickel grade decreases with increasing depth from the

lower saprolite towards the bedrock; in the lower saprolite it varies from 0.19% to 4.42% Ni, according to the sample results. Cobalt grades in the lower saprolite are from 0.01% to 0.80% Co.



Figure 4-7: Typical Mineralised Features of Saprolite Zone: Sa - upper Saprolite, clay of totally weathered and altered ultramafics; Sb - heavily weathered and altered ultramafics; Sc – partly weathered and altered ultramafics

Bedrock

The predominant bedrocks in the mineralised zones are peridotite and harzburgite. Dunite is also occasionally distributed and serpentinisation can be observed in these rocks. Light-green veinlets of nickel silicate occur in some areas. According to analyses of samples taken from the bedrock, the nickel grade in the primary peridotite averages about 0.25 % Ni, while in local zones with joints the nickel grade is much higher.

A stratigraphic column of these mineralised zones and the thickness of each mineralised layers in the deposit area are presented in **Table 4-2** and **Table 4-3**, respectively.

Table 4-2: Stratigraphical Column and Characteristics of Mineralised Zones

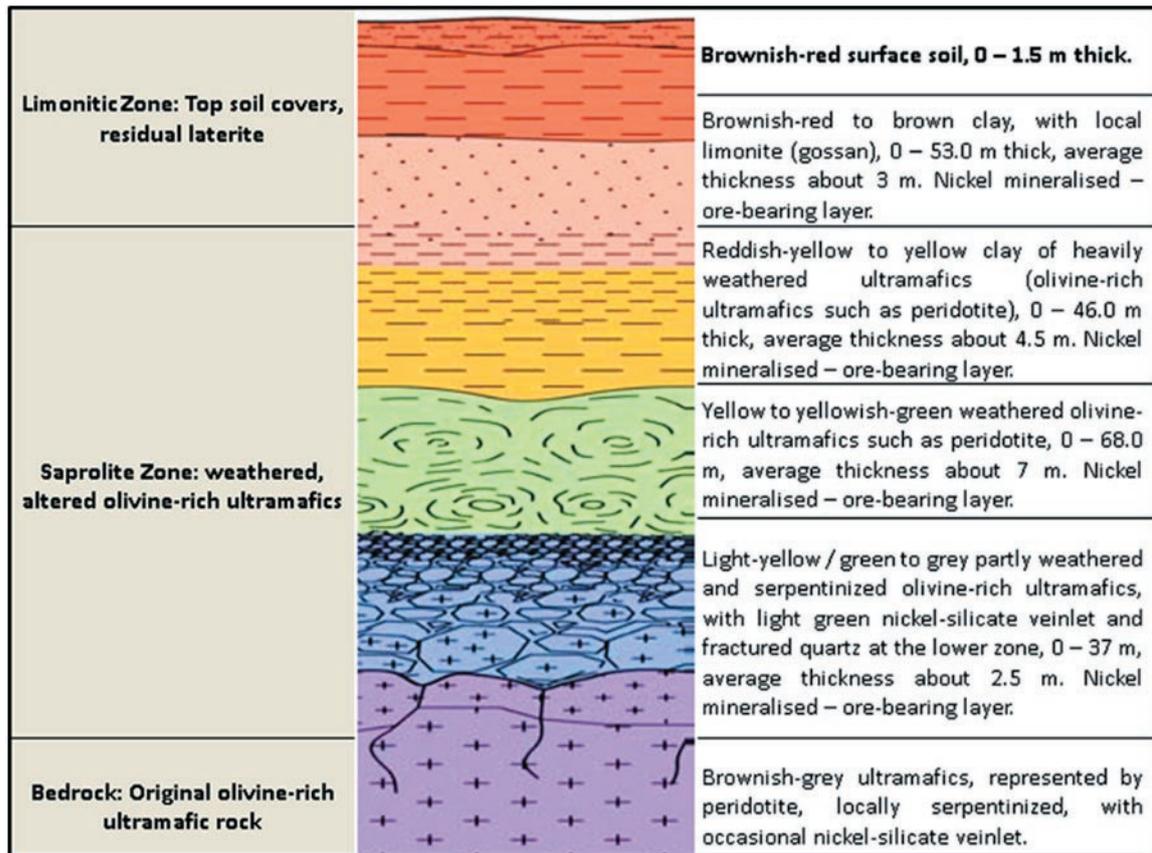


Table 4-3: Layered Thickness of the Nickel Laterisation*

Block	Limonite (gossan)		Residual Laterite		Upper Saprolite		Middle Saprolite		Lower Saprolite	
	Aver	Max	Aver	Max	Aver	Max	Aver	Max	Aver	Max
D	-	-	1.9	12	6.5	29.6	4.4	37	3.9	37.6
E	-	-	1.6	16	3.2	20.3	5.7	27.2	2.3	19.7
K	4.5	14	4.2	53	5.5	46	9.8	68	1.3	18

* "Aver." denotes "Average", "Max" denotes "Maximum", the unit of all numbers is metre

Brigade 308 has completed investigations of nickel and cobalt grades at different locations in the mineralised zones, and details of their statistical results are shown in **Table 4-4**.

Table 4-4: Nickel and Cobalt Grades in Different Layers

Blocks	Element	Average	Quaternary	Gossan	Limonitic Zone	Upper Saprolite	Middle Saprolite	Lower Saprolite	Bedrock
D ¹	Ni %	1.18	0.44		1.05	1.34	1.61	1.23	0.35
	Co %	0.06	0.04	-	0.07	0.1	0.08	0.03	0.01
E ²	Ni %	0.91	0.76		0.85	1.07	1.27	0.85	0.34
	Co %	0.05	0.05	-	0.06	0.08	0.07	0.03	0.01
K ³	Ni %	1.2	0.67	0.39	0.85	1.12	1.56	1.43	0.45
	Co %	0.08	0.05	0.03	0.06	0.09	0.11	0.04	0.02

¹ Based on results of 7,424 samples, ² Based on results of 3,333 samples, ³ Based on results of 10,397 samples.

4.3.3 Ore Bodies

The statistics of the nickel grades in Blocks D, E and K mineralised zones show that most of the sample grades fall in the range of 0.7% to 1.8% Ni. Brigade 308 has delineated three ore bodies within the mineralised zones based on a cut-off grade of 1.0% Ni.

Cross-sections show that the nickel mineralisation in the mineralised zones is of good continuity and in a horizontal plane the orebodies cover most parts of the mineralised zones. Spatially, the cut-off grade allows inclusion of almost all parts of the Upper and Middle Saprolitic Zone, as well as parts of the Lower Saprolitic Zone and Lower Limonitic Zone (see **Figure 4-8**).

Block D

Based on a cut-off grade of 1.0% Ni, the defined laminated orebody at Block D covers almost all distributed areas of laterite, with a horizontal area of about 10 km², (4,400 m long by 1,700 to 3,000 m wide); the ore body is mainly hosted in the Upper and Middle Saprolitic Zone, with part of the laterite in the Limonitic Zone, within an elevation range of 50 to 320 m ASL. The ore body's thickness varies and is predominantly affected by the weathering grade of the bedrock and the development of the lateritic weathering crust, as well as local topography.

The thickness of the defined orebody varies from 1.0 m to 45.0 m with an average of 14.44 m, which is consistent and close to the thickness of mineralised laterite as shown in **Figure 4-5** in Section 4.3.1. The average Ni grade of the orebody is about 1.5%.

It is worth mentioning that in the KS Project area the nickel grade of Block D gradually decreases from the Middle and Lower Saprolite down towards the semi-weathered peridotites and fresh bedrocks; therefore there is no distinct boundary between the ore body and floor host rocks. The roof host rocks are represented by clays with nickel grades less than 1.0% Ni.

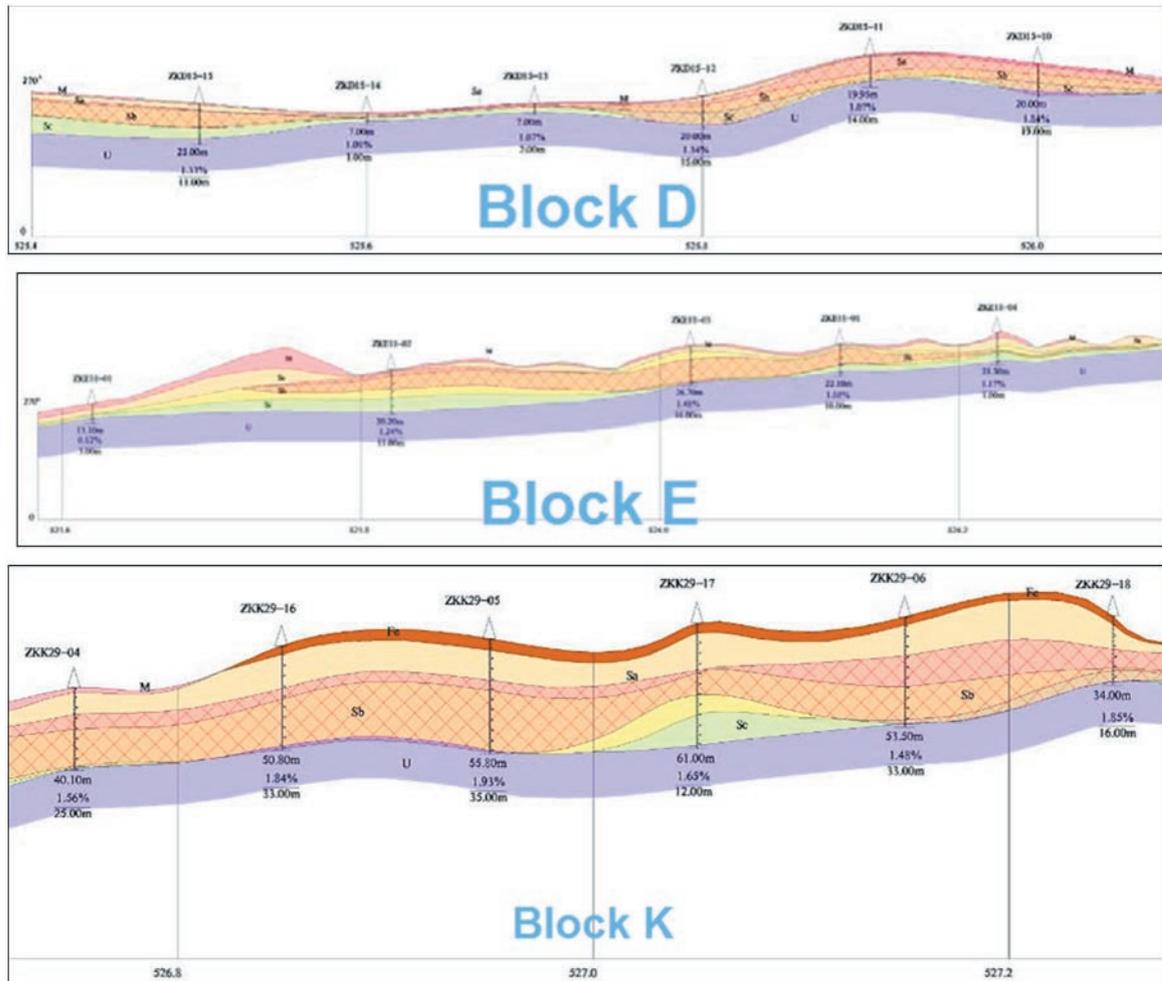


Figure 4-8: Typical Cross Sections of Block D, E and K

(from top to bottom are Cross-sections #15, #18, and #29 at Blocks D, E and K, respectively. M – Limonitic Zone with residual laterites, Fe – gossan, Sa – Upper Saprolitic Zone, Sb – Middle Saprolitic Zone, Sc – Lower Saprolitic Zone, U – Bedrock)

Block E

Based on a cut-off grade of 1.0% Ni, the ore body at Block E is defined as laminated, covering almost all distributed areas of laterites, with a horizontal area of about 3 km². In the north – south (NS) direction, it extends for about 3,000 m and the width varies from about 400 m in the northern and southern ends to approximately 2,000 m at the centre of the orebody. The defined orebody is mainly hosted in the Upper and Middle Saprolitic Zone, with a part of the laterite hosted in the Limonitic Zone, within an elevation range of 100 to 250 m ASL. The ore body's thickness varies and is affected predominantly by the weathering grade of the bedrock and the development of the lateritic weathering crust, as well as local topography.

The thickness of the defined ore body at Block E varies from about 1 m to 36 m with an average of 8.4 m; this is consistent and close to the thickness of the mineralised laterite as shown in **Figure 4-5** in Section 4.3.1. The average Ni grade of the orebody is about 1.3%.

Block K

In the western and eastern parts of Block K’s mineralised zone, two ore bodies are defined at a cut-off grade of 1.0% Ni. The two ore bodies are laminated, and occupy almost as the same areas as the mineralised laterites distribution. There is a barren gap about 300 m wide between the two orebodies, K West and K East.

The K West orebody is about 3,300 m long in the NS direction, and about 2,500 – 3,000 m wide from west to east, covering about 9.5 km². Spatially the ore body is hosted between 150 and 550 m ASL. The ore body ranges between 1 m and 78.3 m thick (the maximum depth of the mineralised weathered crust is 83.3 m), with an average thickness of about 19 m. The average grade of the K West orebody is about 1.4% Ni.

The K East ore body is about 3,700 m long in the NS direction, and about 1,000 m – 1,500 m wide from west to east, covering about 5 km². Spatially the ore body is hosted between 130 and 420 m ASL. The ore body ranges from 1 m to 45 m thick with an average thickness of about 12 m. The average grade of the K East orebody is about 1.3% Ni.

Figure 4-9 shows the defined orebodies in a horizontal projection and the grade’ distribution.

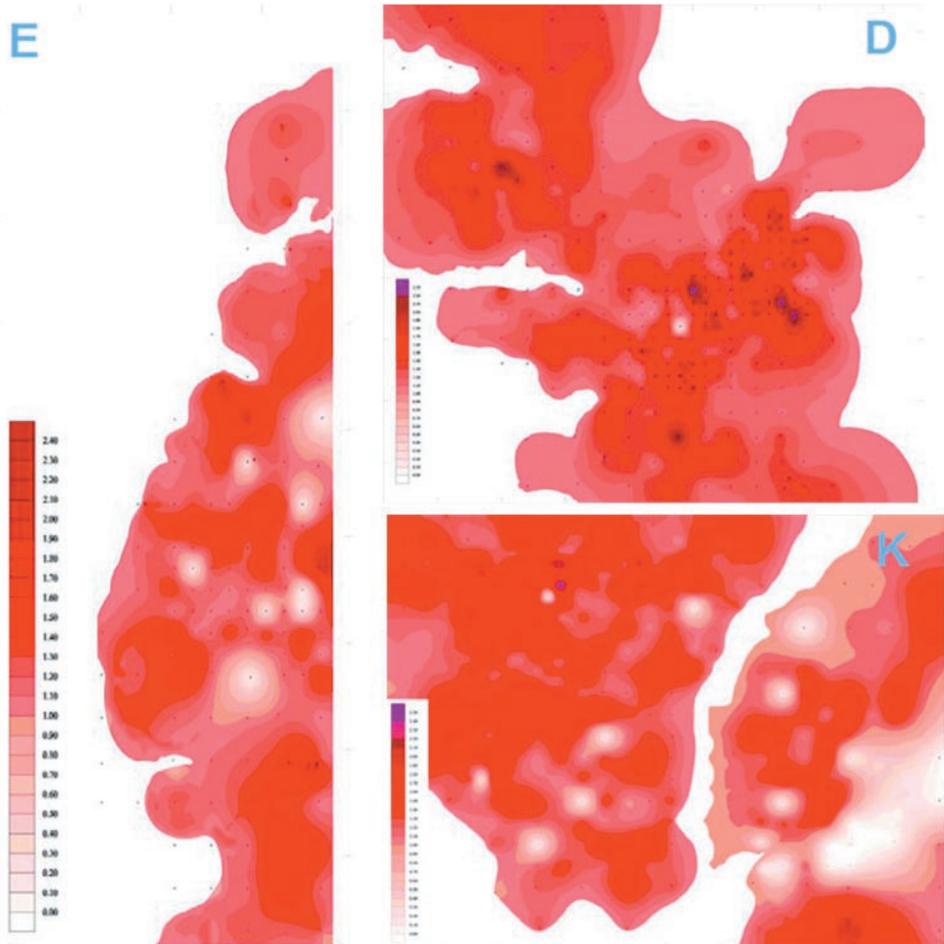


Figure 4-9: Defined Orebodies and Nickel Grade Distribution (at 1.0% Ni of Cutoff off)

4.4 Ore Mineralogy

4.4.1 Ore Type

Lateritic nickel ores are formed by intensive tropical weathering of olivine-rich ultramafic rocks such as dunite, peridotite and komatiite and their serpentinised derivatives; and serpentinite, which consists largely of the magnesium silicate serpentine and contains approximately 0.3% Ni (based on the nickel grade in fresh bed rock of the Project). This initial nickel content is strongly enriched in the course of lateritisation. Two kinds of lateritic nickel ore have to be distinguished: limonite types and silicate types.

Limonite type (or oxide type) laterite is highly enriched in iron due to very strong leaching of magnesium and silica. It consists largely of goethite and contains 0.5% to 2% nickel incorporated in the goethite. Absence of the limonitic zone in the ore deposits is due to erosion. Of the three Blocks D, E and K, limonitic characteristics are obvious in Block K's upper zones.

Silicate type (or saprolite type) nickel ore formed beneath the limonitic zone. It contains generally 1.0% - 2.5% nickel and consists largely of Mg-depleted serpentine in which nickel is incorporated. In pockets and fissures of the serpentinite rock green garnierite may be present in minor quantities, with very high nickel content. It is bound in newly formed phyllosilicate minerals. All the nickel in the silicate zone is leached downwards (absolute nickel concentration) from the overlying goethite zone.

Phase analysis of 18 samples collected in the Project area indicates that about 78.5% of the total nickel is hosted in nickel silicate minerals; while the nickel oxide hosts 8.7% of the total nickel contents (**Figure 4-10**).

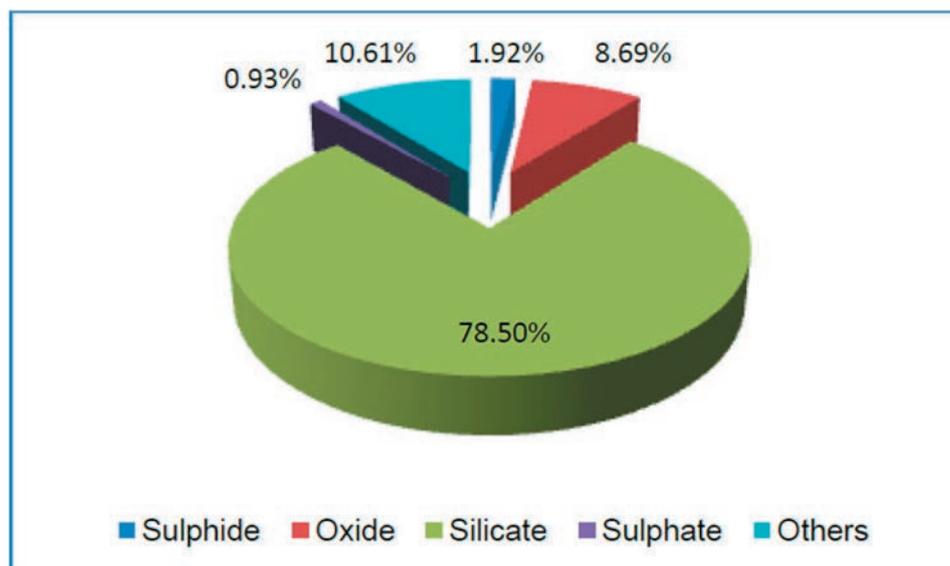


Figure 4-10: Nickel Occurrences and Proportions in Various Ore Types

4.4.2 Minerals

Generally the lateritic ores of the KS and KCU Projects are hosted in the Limonitic Zone (top cover) and Saprolitic Zone.

In the **Limonitic Zone**, the minerals are represented predominantly by limonite, and commonly observable minerals include goethite, hematite, bauxite, serpentine and chromite. Minor amounts of kaolin, olivine, montmorillonite, and secondary quartz are distributed in the limonitic zone as well.

In the **Saprolitic Zone**, the major minerals are serpentine, chlorite, olivine, limonite, and talc, while the minor minerals include chromite, goethite, hematite, pyroxene, amphibole and montmorillonite. Other gangue minerals include secondary quartz, a few clay minerals and secondary carbonate. There are also occasional occurrences of pyrite, chalcopyrite, and pentlandite in the Saprolitic Zone.

4.4.3 Chemical Composition

Brigade 308 laboratory performed primary assays of all exploration samples collected from 2007 to 2009. The analysed compositions for all samples are nickel (Ni), cobalt (Co), total iron (TFe), magnesium oxide (MgO), aluminium oxide (Al₂O₃), silica oxide (SiO₂) and cadmium oxide (Cr₂O₃). To further study the chemical compositions of the ore, nine additional elements or compounds have been analysed: calcium (CaO), manganese oxide (MnO), sulphur (S), phosphorus (P), fluorine (F), copper (Cu), lead (Pb), zinc (Zn) and arsenic (As). Table 4-5 presents details of the nickel ore's chemical compositions (grade ≥ 1.0% Ni) according to the sample results.

Table 4-5. Chemical Compositions of Lateritic Ore

Ore Block	Samples	Ni %	Co %	TFe %	MgO %	Al ₂ O ₃ %	SiO ₂ %	Cr ₂ O ₃ %	CaO %
D	4,958	1.48	0.076	32.6	8.92	7.71	20.85	2.18	0.54
E	3,095	1.46	0.076	31.3	7.1	10.04	22.1	1.99	0.485
K	6,497	1.53	0.109	42.2	4.07	7.43	12.79	2.91	0.365
Ore Block	Samples	MnO %	S %	P (ppm)	F (ppm)	Cu (ppm)	Pb (ppm)	Zn (ppm)	As (ppm)
D	1,066	0.71	0.14	163	143.6	102.4	30.1	352.6	7.6
E	359	0.688	0.18	175	128	126.6	14.3	317.2	1.7
K	1,809	0.868	0.15	211	121.1	125.3	17.3	402.9	2.2

4.4.4 Ore Texture and Structure

As most of the ores are weathered and altered from the original rocks, the features presented in laterites ores are secondary texture and structure. The ores are characterised by coarse and intermediate grained, soil to clay texture, as shown in **Figure 4-11**; some bulky ores are mixed with the saprolite as well.

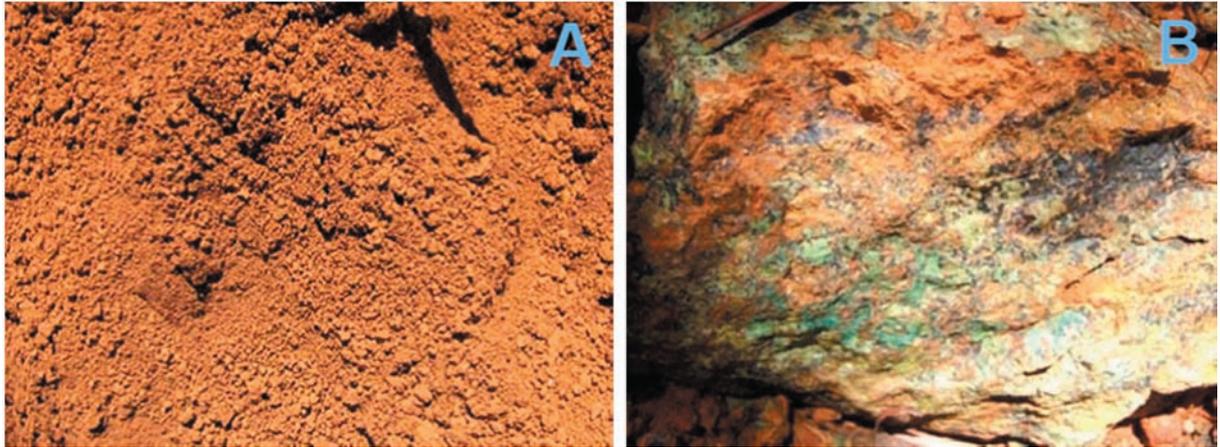


Figure 4-11: Typical Lateritic Ore Texture: A – coarse grained soil-like texture; B – bulk ores mixed in Saprolite Zone

The structures of the ores usually present with fractured, metasomatic cellular, or gelatinous (cementated) features (see **Figure 4-12**).



Figure 4-12: Cellular and Gelatinous Ore Structure: A – alveolate (cellular) Ore structure; B – cementated ore structure

4.4.5 *Host Rock and Waste Rock*

The nickel-rich laterites are hosted between thin surface soils and ultramafic bedrocks. Generally there is no distinct boundary between the mineralised bodies and host rocks. The iron enriched gossan could be utilised as well. There are no obvious waste rocks or barren gaps in the defined mineralised zone. At the top of the laterites, there are several metres of limonitic clays (top soil) which may have nickel grades generally less than 1.0 %; currently these clays are regarded as the waste materials.

4.5 Exploration, Sampling, Analytical Procedures and Quality Control

4.5.1 Exploration Background

Little data regarding historical exploration is available before the year 2000, except for a topographical map of 1:50,000 Scale and a regional geological map of 1:250,000 scale compiled by the Indonesian Geology Survey Research Centre in 1992 and 1993, respectively. Previously almost the whole North Konawe Region was under an exploration grant operated by two companies, Pt Antam (Persero) Tbk (“Antam”), and Inco. Some shallow wells and boreholes completed by Antam around 2000 are found in the Project area.

In August 2007, Brigade 308 contracted with PT Bumi Makmur Selaras, an Indonesian company which owned nine (9) exploration licences in North Konawe Regency covering a total area of 163.42 km² including Blocks D, E, and K and several others, and commenced investigation and exploration in these areas (formal exploration started in October 2007). In December 2008, field exploration on the deposits (including the current Project area) was completed and two exploration reports for Block D and Blocks E, K, and L (L is a neighbouring block north of E) were submitted in May 2009. CSA's exploration and resource assessment in this section aims to provide an independent review of the work conducted by Brigade 308.

4.5.2 Exploration Quality Assurance and Quality Control

As stated by Brigade 308, a total of 803 drillholes with overall length of about 18,857 m were completed in the Project area (Blocks D, E, and K) during the first stage of exploration (October 2007 – December 2008). Other major exploration works conducted by Brigade 308 in the Project area include 234 shallow wells with a total of length of about 2,132m; and geological and topographical mapping, as well as a hydrogeological survey. A list of the major investigative and exploration works completed by Brigade 308 for this Project is shown below (Table 4-6).

Table 4-6: Main Exploration Workload Completed by No. 308 Brigade

Item	Unit	Block	
		D	E and K
1:2,000 topographic survey	km ²	13.13	10.14
Engineering survey and positioning	point	349	666
1:10,000 geological mapping	km ²	28	23
1:2,000 geological mapping	km ²	5	7
Shallow well	metre	555.4 (46 wells)	1,576.35 (188 wells)
Drilling	metre	6,835 (319 holes)	12,022 (484 holes)
Sampling - shallow well	piece	570	3,054
Drill core sampling	piece	6,855	12,005
Bulk density sampling	piece	50	41

The exploration was conducted following Chinese specifications for mineral exploration, and, as stated by Brigade 308, to make the work and reports in line with international standards, the JORC Code (2004 Edition) was also used as a reference during the exploration and resource estimation.

Generally exploration in the Project was conducted with three types of grids, spaced at 400 m × 400 m, 200 m × 200 m and 100 m × 100 m, respectively. The first grid (400 m × 400 m) was applied for an overall investigation of the laterite, and further detailed exploration followed using progressively denser drilling grids (including shallow wells).

Shallow wells were excavated with a section radii of 0.9 m, and the depth was surveyed every ten metres. Drilling commenced with outside diameters of 130 millimetres (mm) or 110 mm; and finished with 91 mm diameters. All the cores taken have diameters greater than 75 mm. Generally the core recovery rates exceeded 85% and for mineralised intervals the average recovery rate exceeded 95% (see **Figure 4-13**). The survey was conducted for each drilling hole and shallow well and industrial-standard software was used to generate the digital maps.



**Figure 4-13: Drill Cores Showing Relatively Good Recoveries of Mineralised Intervals
(photos courtesy of Brigade 308)**

4.5.3 *Sampling, Sample Preparation and Analytical Procedures*

Drill core samples were taken continuously every one metre and the shallow well samples were taken every 1.0 m using the channel method with sectional size about 3 cm × 10 cm. Bulk density samples were taken in the limonitic and saprolitic zones. Photography and logging of each core were completed before sampling.

Sample preparation was performed in the exploration camp by Brigade 308 following the standard procedures of roasting, weighting, crushing, splitting and pulverising. Coarse rejects and duplicate samples were well stowed and kept in the warehouses.

About 50 grams (g) of each sample was despatched to Brigade 308's Laboratory in Yunnan, China, for chemical assaying. The X-ray fluorescent spectrometry and Inductively Coupled Plasma - Atomic Emission Spectrometry (ICP-AES) methods were applied for the primary assaying of Ni, Co, TFe, MgO, SiO₂, Al₂O₃ and Cr₂O₃.

4.5.4 *Quality of Assay Data*

The Internal laboratory check was performed by Brigade 308 and 2,090 samples (about 10% of the total numbers of exploration samples taken in North Konawe) were re-assayed. The

external check was conducted by Kunming Testing Centre in Kunming, China, using 1,050 samples (about 5% of the total samples collected in North Konawe). Both the internal and external checks reflect the relatively high performance of the chemical assays.

As reported by Brigade 308, the standard samples and duplicates were used to conduct quality control (QC) for the sample assaying. A minor flaw CSA noticed was that no blank samples were applied in the QC protocol for the sample preparation, although this procedure was followed in the Chinese exploration standards as stated by Brigade 308.

4.6 Estimation and Reporting of Resource under Chinese Code

4.6.1 Cutoffs

The resource estimation for this Project was conducted by Brigade 308 in 2009. The following parameters were adopted for resource estimation:

Cut-offs for mineralised zones	0.7% Ni;
Cut-offs for orebodies	1.0% Ni;
Minimum industrial grade	1.0% Ni;
Minimum mineable thickness	1.0 m; and
Maximum band thickness	3.0 m

4.6.2 Resource Category

Brigade 308 used Micromine in the resource estimation of Blocks D, E and K, and both the Block Method and Ordinary Kriging were applied. The resource categorisation was performed by assessing the level of geological confidence. Generally, resource blocks classed as Chinese categories 331, 332, and 333 were defined with exploration grids of 100 m × 100 m, 200 m × 200 m and 400 m × 400 m, respectively (see **Figure 4-14** and **Figure 4-15**).

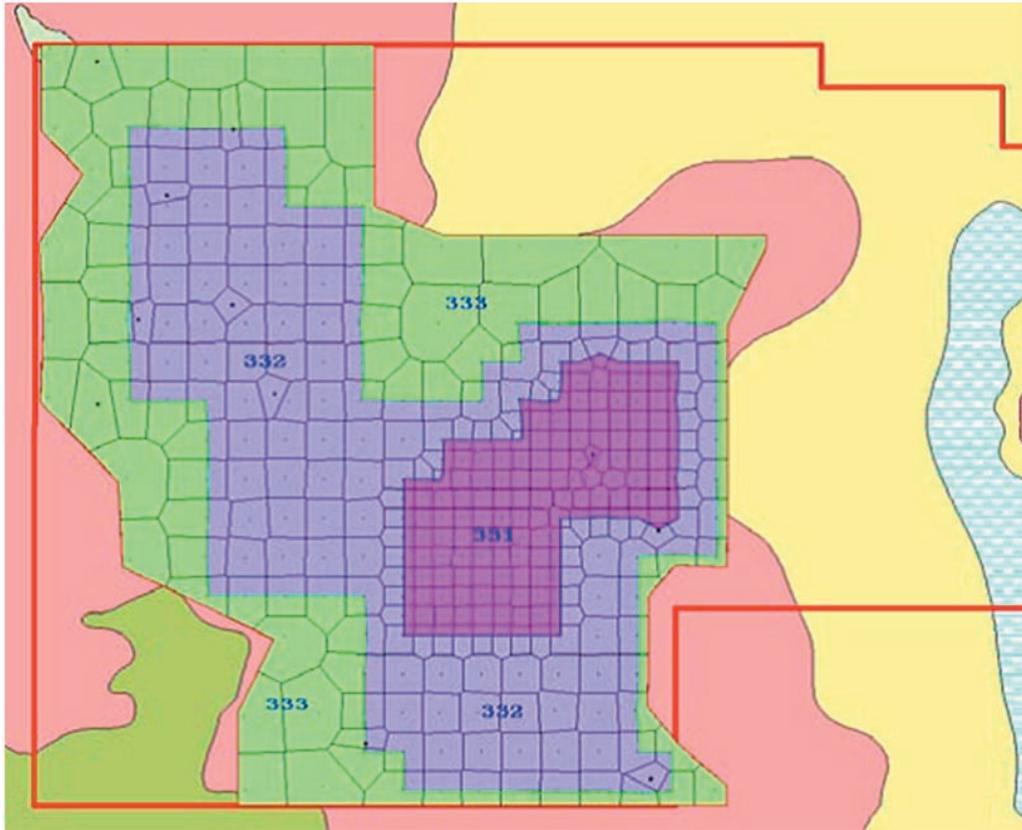


Figure 4-14: Resource Category of Block D



Figure 4-15: Resource Category of Block E and K

4.6.3 Results of Resources Estimation

The details of the resource estimation for Blocks D, E, and K as reported by Brigade 308 are shown in **Table 4-7**.

Table 4-7: Resource Summary of Blocks D, E and K, as of 31 January 2012 – Chinese Code

Blocks	Resource Category	Grade Range	Tonnage ('000t)	Average Grade			Metal Contained	
				Ni (%)	Co (%)	TFe (%)	Ni (t)	Co (t)
D	331	1.0-1.4%	12,120	1.23	0.071	34.61	149,472	8,610
		>1.4%	16,470	1.65	0.076	29.61	271,257	12,446
		Subtotal	28,590	1.47	0.074	31.73	420,729	21,055
	332	1.0-1.4%	41,970	1.19	0.064	31.37	497,481	26,997
		>1.4%	23,350	1.67	0.07	29.91	389,229	16,371
		Subtotal	65,320	1.36	0.066	30.85	886,710	43,368
	333	1.0-1.4%	41,260	1.15	0.078	35.24	472,825	32,193
		>1.4%	10,890	1.64	0.077	29.01	179,138	8,405
		Subtotal	52,150	1.25	0.078	33.94	651,963	40,598
	331 + 332	1.0-1.4%	54,090	1.2	0.066	32.1	646,953	35,607
		>1.4%	39,820	1.66	0.072	29.79	660,486	28,817
		Subtotal	93,910	1.39	0.068	31.12	1,307,439	64,423
E	331	1.0-1.4%	5,250	1.19	0.07	32.49	62,467	3,686
		>1.4%	1,460	1.53	0.07	29.43	22,370	1,022
		Subtotal	6,710	1.26	0.07	31.83	84,837	4,708
	332	1.0-1.4%	8,400	1.18	0.061	29.14	98,724	5,157
		>1.4%	4,350	1.69	0.062	26.12	73,694	2,687
		Subtotal	12,750	1.35	0.061	28.11	172,418	7,844
	333	1.0-1.4%	3,350	1.16	0.06	28.5	38,857	2,009
		>1.4%	640	1.62	0.051	25.69	10,298	327
		Subtotal	3,990	1.23	0.059	28.05	49,155	2,336
	331 + 332	1.0-1.4%	13,650	1.18	0.064	30.43	161,191	8,843
		>1.4%	5,810	1.65	0.064	26.95	96,064	3,709
		Subtotal	19,460	1.32	0.064	29.39	257,255	12,552
K West	331	1.0-1.4%	18,250	1.21	0.093	47.26	220,600	16,933
		>1.4%	21,420	1.7	0.118	42.01	363,977	25,313
		Subtotal	39,670	1.47	0.107	44.43	584,577	42,246
	332	1.0-1.4%	43,800	1.19	0.091	41.49	522,472	39,813
		>1.4%	28,940	1.68	0.099	38.26	486,909	28,531
		Subtotal	72,740	1.39	0.094	40.2	1,009,381	68,344
	333	1.0-1.4%	12,790	1.16	0.099	37.93	148,974	12,701
		>1.4%	4,350	1.68	0.102	36.13	73,073	4,413
		Subtotal	17,140	1.3	0.1	37.47	222,047	17,114
	331 + 332	1.0-1.4%	62,050	1.2	0.092	43.19	743,072	56,746
		>1.4%	50,360	1.69	0.107	39.86	850,886	53,844
		Subtotal	112,410	1.42	0.099	41.69	1,593,958	110,590
K East	332	1.0-1.4%	14,730	1.19	0.072	31.75	176,022	10,651
		>1.4%	6,720	1.58	0.066	29.91	106,084	4,422
		Subtotal	21,450	1.32	0.07	31.17	282,106	15,073
	333	1.0-1.4%	10,980	1.15	0.068	30.68	126,034	7,487
		>1.4%	2,760	1.61	0.061	29.76	44,388	1,672
		Subtotal	13,740	1.24	0.067	30.5	170,422	9,159

4.7 Mineral Resource/Reserve Estimation under JORC Code

4.7.1 Mineral Resource/Ore Reserve - JORC Code Classification System

A mineral resource is defined in the JORC Code as an identified in-situ mineral occurrence from which valuable or useful minerals may be recovered. Mineral resources are classified as Measured, Indicated or Inferred according to the degree of confidence in the estimate:

- A Measured resource is one which has been intersected and tested by drill holes or other sampling procedures at locations which are close enough to confirm continuity and where geoscientific data are reliably known;
- An Indicated resource is one which has been sampled by drill holes or other sampling procedures at locations too widely spaced to ensure continuity, but close enough to give a reasonable indication of continuity and where geoscientific data are known with a reasonable level of reliability; and
- An Inferred resource is one for which geoscientific evidence from drill holes or other sampling procedures is such that continuity cannot be predicted with confidence and where geoscientific data may not be known with a reasonable level of reliability.

An ore reserve is defined in the JORC Code as that part of a Measured or Indicated Mineral Resource which could be mined and from which valuable or useful minerals could be recovered economically under conditions reasonably assumed at the time of reporting. Ore reserve figures incorporate mining dilution and allow for mining losses and are based on an appropriate level of mine planning, mine design and scheduling. Proved and Probable Ore Reserves are based on Measured and Indicated Mineral Resources, respectively. Under the JORC Code, Inferred Resources are deemed to be too poorly delineated to be transferred into an Ore Reserve category, and therefore no equivalent possible ore reserve category is recognised or used.

The general relationships between Exploration Results, Mineral Resources and Ore Reserves under the JORC Code are summarised in **Figure 4-16**. The Ore Reserves are quoted as comprising part of the total Mineral Resource rather than the Mineral Resources being additional to the Ore Reserves quoted. The JORC Code allows for either procedure, provided the system adopted is clearly specified. In this report, all of the Ore Reserves are included within the Mineral Resource statements.

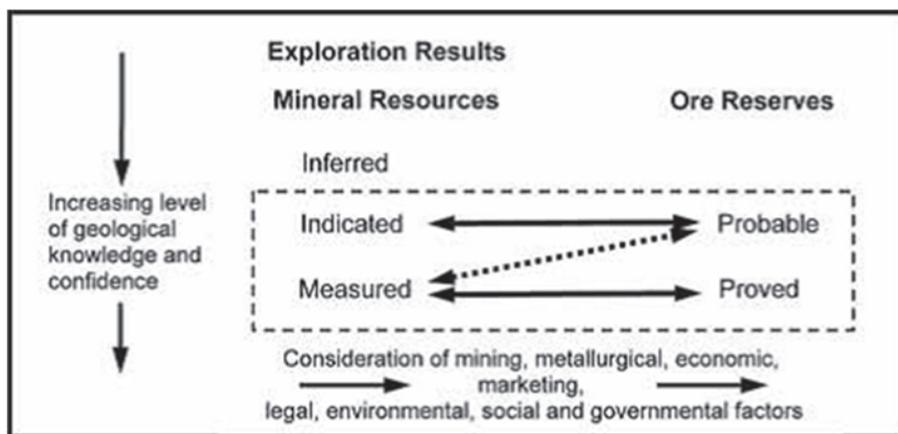


Figure 4-16: Schematic of Mineral Resources and Their Conversion to Ore Reserves

4.7.2 Sample Verification

During the site visit to the Project SRK visited the sample storage and laboratory in the camp. It was noted that almost all the duplicate samples were well kept in storage. SRK selected a total of 439 duplicate pulp samples for verification. These samples were sent to the ALS Chemex Group laboratory in Guangzhou, China. The check samples results led to the classification of categories 331 and 332 resources in Blocks D, E and K (Table 4-8).

Table 4-8: Results from the Check Samples

Block	Sample	Resource Category		Total Samples
		JORC Code	Chinese Code	
D	142	Measured	331	194
	52	Indicated	332	
E	45	Measured	331	72
	27	Indicated	332	
K west	132	Measured	331	174

Nickel

The nickel comparison between SRK's check samples results and the original assays are illustrated in Figure 4-16. A relative deviation (RD) between two comparable samples results is defined as the ratio (quotient) of the difference of the two numbers and their average grades. Out of a total of 439 comparable assays, 12 samples have RDs greater than 10%, accounting for only about 2.73% of the total check samples. Comparable double assays of the rest (over 97%) of the total check samples present very good consistency of the sample assaying in nickel grades. Both values are within the reasonable and acceptable limits. It is believed that the data indicate a reliable resource estimate for nickel by brigade 308.

Cobalt

Most of check sample results for cobalt show a highly degree of consistency with the original assays; generally the RD of the two assays are within 10% as well (as shown in Figure 4-17).

It is believed that the cobalt check samples reflect reliable performance by the original assays.

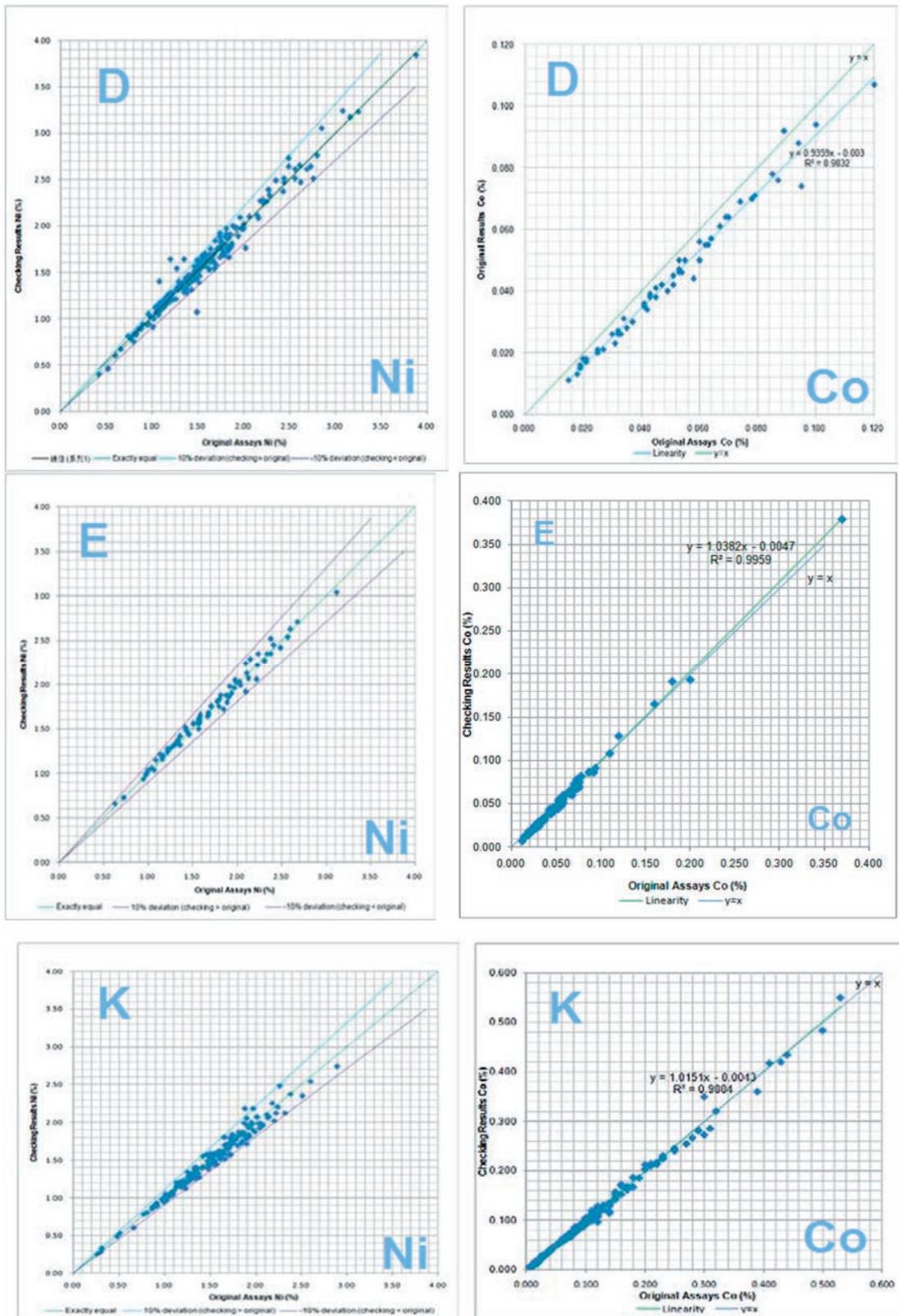


Figure 4-17: Scatter Plots of Original and Verification Samples Assay Results

4.7.3 Mineral Resource Estimation

Based on the databases provided by Hanking, CSA has conducted Mineral Resource estimates for Blocks D, E and K of the lateritic nickel projects. The Mineral Resources have been classified and reported in accordance with The 2004 Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code). Resource classification is based on confidence in the mapping, geological interpretation, drill spacing and geostatistical measures. It is CSA's opinion that the current resource models provide robust global estimates of the in situ mineralisation in Ni, Co, TFe, MgO, Al₂O₃, SiO₂ and Cr₂O₃. CSA's current Mineral Resources have been reported above cut-off ranges of 1.0 – 1.4% Ni and above 1.4% Ni. A full summary of the resources is shown in **Table 4-9**. The Measured and Indicated Mineral Resources can be used for Ore Reserve estimation and mine planning if the modifying factors allow such a conversion.

Table 4-9: Mineral Resource Summary of Block D, E and K, as 30 November 2012 – JORC Code

Blocks	Category	Grade Range	Tonnage ('000t)	Average Grade			Metal Contained	
				Ni (%)	Co (%)	TFe (%)	Ni (t)	Co (t)
D	Measured	1.0-1.4%	14,601	1.19	0.07	33.80	173,749	9,928
		>1.4%	18,082	1.82	0.08	28.95	329,276	14,285
		Subtotal	32,683	1.54	0.07	31.12	503,025	24,213
	Indicated	1.0-1.4%	46,115	1.17	0.07	31.24	537,704	29,975
		>1.4%	24,551	1.68	0.07	28.96	411,719	16,695
		Subtotal	70,666	1.34	0.07	30.45	949,423	46,670
	Inferred	1.0-1.4%	34,825	1.14	0.07	32.74	396,656	25,422
		>1.4%	7,822	1.68	0.08	28.78	131,495	6,180
		Subtotal	42,647	1.24	0.07	32.01	528,151	31,602
	Measured + Indicated	1.0-1.4%	60,716	1.17	0.07	31.85	711,453	39,903
		>1.4%	42,633	1.74	0.07	28.96	740,995	30,980
		Subtotal	103,349	1.41	0.07	30.66	1,452,448	70,883
E	Measured	1.0-1.4%	5,504	1.17	0.07	31.90	64,567	3,798
		>1.4%	2,974	1.68	0.06	25.79	49,870	1,814
		Subtotal	8,478	1.35	0.07	29.76	114,437	5,612
	Indicated	1.0-1.4%	10,711	1.16	0.06	28.83	123,928	6,748
		>1.4%	4,283	1.71	0.06	24.50	73,365	2,398
		Subtotal	14,994	1.32	0.06	27.59	197,293	9,146
	Measured + Indicated	1.0-1.4%	16,216	1.16	0.07	29.87	188,495	10,546
>1.4%		7,257	1.70	0.06	25.03	123,235	4,212	
Subtotal		23,472	1.33	0.06	28.38	311,730	14,758	
K West	Measured	1.0-1.4%	20,761	1.18	0.09	47.42	244,560	17,854
		>1.4%	23,896	1.80	0.12	40.91	430,376	29,632
		Subtotal	44,657	1.51	0.11	43.94	674,935	47,486
	Indicated	1.0-1.4%	46,383	1.17	0.09	39.93	543,603	42,672
		>1.4%	25,833	1.72	0.11	37.04	445,359	27,383
Subtotal	72,215	1.37	0.10	38.89	988,962	70,055		

Blocks	Category	Grade Range	Tonnage ('000t)	Average Grade			Metal Contained	
				Ni (%)	Co (%)	TFe (%)	Ni (t)	Co (t)
	Inferred	1.0-1.4%	5,136	1.16	0.10	36.29	59,634	5,136
		>1.4%	304	1.49	0.09	29.44	4,521	259
		Subtotal	5,441	1.18	0.10	35.91	64,155	5,395
	Measured + Indicated	1.0-1.4%	67,143	1.17	0.09	42.24	788,163	60,526
		>1.4%	49,729	1.76	0.11	38.90	875,734	57,014
		Subtotal	116,872	1.42	0.10	40.82	1,663,897	117,541
K East	Indicated	1.0-1.4%	16,020	1.16	0.07	32.05	186,312	11,695
		>1.4%	8,310	1.67	0.07	29.75	138,776	5,900
		Subtotal	24,330	1.34	0.07	31.26	325,088	17,595
	Inferred	1.0-1.4%	9,695	1.13	0.06	28.20	477,582	25,917
		>1.4%	1,848	1.62	0.06	28.36	373,660	15,716
		Subtotal	11,543	1.21	0.06	28.23	139,707	7,161

The information in this report which relates to Mineral Resource estimates is based on information compiled by Dr Bielin Shi and Mr Mick Elias, full time employees of CSA Global, and Members of the Australasian Institute of Mining and Metallurgy. Dr Shi and Mr Elias have sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as Competent Persons as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Dr Shi and Mr Elias consent to the reporting of this information in the form and context in which it appears.

CSA notes that the resources at a cut-off grade of 1.60% Ni include approximately 28.75 Mt of Measured Resources with average grades of 1.71% Ni and 0.088% Co; 33.18 Mt of Indicated Resources with average grades of 1.88% Ni and 0.080% Co; and 4.5 Mt of Inferred Resources with average grades of 1.88% Ni and 0.072% Co (see **Table 4-10**).

At a cut-off grade of 1.80% Ni, the Measured, Indicated and Inferred Resources are 16.71 Mt with average grades of 2.17% Ni and 0.094% Co, 16.15 Mt with average grades of 2.09% Ni and 0.078% Co, and 2.1 Mt with average grades of 2.11% Ni and 0.071% Co, respectively (**Table 4-10**).

Table 4-10: High- Grade Resources contained in Hanking Projects

Mineral Resource Category	Cut-off Grade	Tonnage ('000t)	Average Grade		Contained Metal	
			Ni (%)	Co (%)	Ni (t)	Co (t)
Measured	1.60%	28,749	1.71	0.088	491,106	25,345
Indicated		33,181	1.88	0.080	624,370	26,690
Inferred		4,492	1.88	0.072	84,461	3,232
Measured + Indicated		61,929	1.80	0.084	1,115,476	52,034
Measured	1.80%	16,709	2.17	0.094	362,955	15,724
Indicated		16,154	2.09	0.078	336,865	12,630
Inferred		2,082	2.11	0.071	43,844	1,474
Measured + Indicated		32,863	2.13	0.086	699,820	28,354

It should be noted that at the higher cut-off grades of 1.60% Ni and 1.80% Ni, grade continuity parameters will be quite different to those applying at the lower cut-off grade of 1.0% Ni. In light of this, resource classification might have to be re-evaluated.

4.8 Exploration Potential

It is CSA's opinion that the Project contains additional resource potential, although Brigade308 exploration has covered the KS and KKU licence areas. It is noted that there are about 83 Mt resources assigned as "Inferred" due to lower confidence of the geological control, and therefore further in-fill exploration may be required to verify this potential. CSA recommends that a quality assurance/quality control (QA/QC) protocol should be followed during the future exploration.

5 Open-pit Mining Assessment

5.1 Introduction

In order to accelerate the development of the Project, Hanking Group has commissioned a number of Chinese engineering design and research institutes to compile feasibility studies for its mine, processing plant, power plant and transportation port.

According to the existing Indonesian Government mining policy, the export of Nickel Laterite ore is prohibited effective 1 January, 2014. Therefore, the following mining plan was developed.

Year	2013	2014	2015	2016	2017	2018	.....	2032
Ore Production (Mt)	1500	2000	2000	2000	4000	4000	.....	4000

Hanking Group plans to produce 1,500,000 t of ore for exporting overseas. After 2014, Hanking Group will have to carry out local smelting. Additionally, the ore production for exporting overseas could be increased subject to any changes in Indonesian Government export regulations.

Based on the site visit by SRK and review of the related feasibility studies, CSA believes that the Project is a large lateritic nickel ore deposit with a high grade and large quantity of resources. The deposit is shallowly buried and easy to excavate. However, the infrastructure is not fully in place and will require further investment. The MFS has been rationally compiled, but considering the amount of recoverable resources in the mine, the designed mining capacity is relatively small and the mine will have a long LOM. The 300 day per year (dpa) working schedule is an optimistic plan, considering the local climate and duration of the rainy season, which may affect smelting capacity and mining capacity. From an economic perspective, the Project presents an attractive option to excavate high-grade ore and export it to China for processing in the early production stages, but such production is extremely likely to reduce the ore grade in the later production stages and might affect the production of the smelting plant planned to be constructed in the mining area.

5.2 Hydro-geology Conditions

5.2.1 Engineering Geology

The ore bodies occur in the top picrite weathering crust which is mainly distributed in the hills' gentle slopes. The topography of the mining area is simple and there are no serious dissections. Slope gradients locally are roughly between 10° and 25°. The lithology is simple and the base rock strength is high. Therefore, the engineering geology condition of the mining area can be classified as simple. The rock here is mainly dominated by hard stones and lumpy shapes.

Mining activity may change the geological environment and slope stress balance, and result in small scale collapses and/or landslides, which could have a negative effect on mining production. The physical/mechanical properties of the Project rock and ore are shown in **Table 5-1**, according to data supplied by Brigade 308.

Table 5-1: Rock and Ore Physical Mechanical Properties

Items	Volumetric Expansion Coefficient	Ore Moisture (%)	Wet Density (t/m ³)	Dry Density (t/m ³)	Average Compressive Strength (Mpa)
Ore	1.62	38	1.76	1.11	30.9
Overburden (M)	1.46	26.8	1.64	1.16	

It is CSA's opinion that geological exploration in the mining area and physical/mechanical tests on the ore and rock are still inadequate. Considering that the lateritic nickel ore bodies are severely weathered, relevant ore body physical/mechanical tests should be conducted. The compressive strength indicated in **Table 5-1** is not representative and should not be used as the reference in the production. Generally speaking, the mine's engineering geology is simple, but in order to guarantee open pit slope stability and prevent slope failures, a systematic and overall engineering geology exploration should be conducted at the mine to provide a more reliable basis for mine design compilation.

5.2.2 Hydrological Geology

The Project's ore deposits occur in the picrite weathering crust; the ore bodies themselves mainly occur as stratified or stratoid beds. Block D ore bodies are concentrated between 100 m and 300 m ASL, on hills above their surroundings, so surface water can easily flow down along ditches and valleys and will cause only very minor impacts to mining.

Groundwater in the mine mainly comes from phreatic water in the pores and fissures of the bedrock contact zone. According to the borehole water level survey, the ground water is usually found 8m - 12 m below the surface. Fortunately, except for the ore bodies' bottoms, which contact with the bedrock where pores and fissures phreatic water are developed, most of the ore bodies lie above the groundwater level; and, because open pit mining is to be adopted, groundwater can be discharged along the slopes easily by gravity without any impact to production. Overall, the mine's hydrological geology is simple and groundwater is mainly discharged from phreatic water in pores and fissures.

Pit water flow estimation: A majority of the Block D ore bodies are on gently sloping hills. Since the primary water source is rain water, the pit water level is closely correlated with rain fall. **Table 5-2** shows predicted annual precipitation in Block D.

Table 5-2: Rainfall Prediction in Block D

Catchment Area (m ²)	Rainfall (m)		Rainfall runoff coefficient		Rainfall Runoff Quantity (m ³ /d)	
	Annual average	Annual Maximum	Average	Maximum	Normal runoff	Maximum runoff
Initial Mining Area (697,440)					1,891	3,259
South Mining Area (4,743,124)	1.98	2.84	0.5	0.6	12,862	22,166
North Mining Area (4,820,270)					13,072	22,526

CSA is of the opinion that although the mine hydrogeology is simple, the climate, especially the rainy season from November to March, will have some impacts on mining production. The open pit slope, waste rock dump, ore dump, and road will be impacted by heavy rainfall. CSA suggests the company prepare a landslide prevention plan to avoid landslides or debris flows, to ensure continuous production.

5.3 Ore Reserve Estimation

Ore Reserves were estimated by Brigade 308 within the mining licence areas of Hanking Group's Nickel Project based on a mining recovery rate of 96% and dilution rate of 4% for open-pit mining and other modifying factors cited in MFS. As of 31 January 2012, the Ore Reserves were estimated as shown in **Table 5-3**.

Table 5-3: Ore Reserve Estimate of Blocks D, E and K, as of 30 November 2012

Blocks	Reserve Category	Grade Range	Tonnage ('000t)	Average Grade			Metal Contained	
				Ni (%)	Co (%)	TFe (%)	Ni (t)	Co (t)
D	Proved	1.0-1.4%	12,101	1.19	0.068	33.28	143,493	8,266
		>1.4%	16,444	1.58	0.073	28.47	260,407	11,948
	Subtotal		28,544	1.41	0.071	30.51	403,900	20,214
	Probable	1.0-1.4%	41,903	1.14	0.062	30.16	477,582	25,917
		>1.4%	23,313	1.6	0.067	28.76	373,660	15,716
	Subtotal		65,215	1.31	0.064	29.66	851,242	41,633
E	Proved	1.0-1.4%	5,242	1.14	0.068	31.24	59,968	3,539
		>1.4%	1,458	1.47	0.067	28.3	21,475	981
	Subtotal		6,699	1.22	0.067	30.61	81,444	4,520
	Probable	1.0-1.4%	8,387	1.13	0.059	28.02	94,775	4,951
		>1.4%	4,343	1.63	0.059	25.12	70,746	2,580
	Subtotal		12,730	1.35	0.061	28.11	165,521	7,530
K West	Proved	1.0-1.4%	18,221	1.16	0.089	45.44	211,776	16,256
		>1.4%	21,386	1.63	0.114	40.39	349,418	24,300
	Subtotal		39,607	1.42	0.102	42.72	561,194	40,556

Blocks	Reserve Category	Grade Range	Tonnage ('000t)	Average Grade			Metal Contained	
				Ni (%)	Co (%)	TFe (%)	Ni (t)	Co (t)
	Probable	1.0-1.4%	43,730	1.15	0.087	39.89	501,573	38,220
		>1.4%	28,894	1.62	0.095	36.79	467,433	27,390
	Subtotal		72,624	1.33	0.09	38.65	969,006	65,610
K East	Probable	1.0-1.4%	14,706	1.15	0.07	30.53	168,981	10,225
		>1.4%	6,709	1.52	0.063	28.76	101,841	4,245
	Subtotal		21,416	1.26	0.068	29.97	270,822	14,470

At cut-off grades of 1.60% Ni and 1.80% Ni, the high-grade Ore Reserves shown in the table above were estimated as well, based on the following modifying factors, as shown in **Table 5-4**. As of 30 November 2012, at cut-off grade of 1.60% Ni, the Proved and Probable Ore Reserves were 22.72 Mt with average grades of 1.80% Ni and 0.096% Co and 31.07 Mt with average grades of 1.83% Ni and 0.081% Co, respectively. At cut-off grade of 1.80% Ni, the Proved and Probable Ore Reserves were 9.78 Mt with average grades of 2.01% Ni and 0.097% Co and 15.46 Mt with average grades of 2.03% Ni and 0.083% Co, respectively. Details of the ore reserve estimates are shown in **Table 5-5**.

Table 5-4: Modifying Factors for High-Grade Ore Reserve Estimate

Factors	Cut-off: 1.60% Ni	Cut-off: 1.80% Ni
Mining Recovery	90.00%	93.00%
Dilution Rate	1.95%	1.71%
Low-grade mixed rate	6.00%	5.00%
Average Grade of the Mixed Low-grade Ores, Ni %	1.25	1.35
Average Grade of the Mixed Low-grade Ores, Co %	0.07	0.075

Table 5-5: High-Grade Ore Reserves Contained at Nickel Project

Reserve Category	Cut-off Grade	Tonnage ('000t)	Average Grade		Metal Contained	
			Ni (%)	Co (%)	Ni (t)	Co (t)
Proved	1.60%	22,716	1.8	0.096	409,370	21,737
Probable		31,074	1.83	0.081	568,372	25,260
Proved + Probable		53,790	1.82	0.087	977,741	46,997
Proved	1.80%	9,780	2.01	0.097	196,197	9,492
Probable		15,463	2.03	0.083	313,166	12,827
Proved + Probable		25,243	2.02	0.088	509,363	22,318

CSA advises that at the higher cut-off grades of 1.60% Ni and 1.80% Ni, grade continuity parameters will be quite different to those applying at lower cut-off grades. In light of this, reserve classification, dilution and recovery factors might have to be re-evaluated.

5.4 Mine Design

5.4.1 Open Pit Boundaries

MCC delineated the final boundaries of the open pit and the initial boundaries of the mining area based on data for the approved mine area, photographic features, and ore body floor contour maps. Details are shown in **Table 5-6**.

Table 5-6: Block D Final Open Pit Boundaries and Initial Mining Area Boundaries

Parameters	Unit	Ultimate Limits		Initial Limits	
Highest Elevation	m	350		110	
Bottom Elevation	m	15		35	
Closed Level Elevation	m	40		50	
Surface Length (E to W)	m	380 to 3,300		1,150	
Surface Length (S to N)	m	1,420 to 2,600		1,560	
Mining Bench Height	m	10		10	
Safety Platform Height	m	5		5 to 10	
Overall Slope Angle	°	11 to 25		14 to 29	
Average Stripping Ratio	t/t	0.15	0.13	0.12	0.11
	(with Moisture)	(without moisture)	(with Moisture)	(without moisture)	
Mining Loss	%	4		4	
Mining Dilution	%	4		4	

Based on a review of related parameters and indexes, CSA believes that those parameters and indexes used to delineate the open pit boundaries are rational. CSA also noted that the ore tonnage estimation used two indexes of wet tonnage and dry tonnage differing by more than 35%. Because the mine design uses wet tonnage, actual production capacity should be 35% lower after dewatering, that is, the 3.0 Mtpa designed mining capacity will decrease to approximately 2.0 Mtpa after moisture removal. CSA suggests that metal tonnage should be estimated in its dry condition without moisture. **Figure 5-1** shows the Block D initial mining area.



Figure 5-1: Overview of the Initial Mining Area of Block D

5.4.2 *Mine Development*

Based on the mining condition and production capacity, MCC chose the road-vehicle method for mine development. The mining benches will be deployed in a tree shape, and the roads will be designed in a fold back plan. The transport roads start from the east part of the pit bottom to the 15m elevation at northeast end and 35m at southeast end respectively.

In CSA's opinion, the road-vehicle method is a common development method for open pit mines, and it is suitable for the Project mine. However, the heavy rainfall in the wet season will cause trouble for mining and transportation. CSA recommends that the Company improves the road and improve the quality of road foundations on steep slopes.

5.4.3 *Stripping Process*

Since the ore occurs as loose laterite, MCC's mine design calls for stripping by bulldozers and truck loading via excavators.

The laterite will be bulldozed and then loaded onto trucks by excavator using three loading methods:

- For ore bodies with thicknesses >10 m, the ore body will be divided to benches with maximum bench heights of 10 m;
- For ore bodies with thicknesses ≤ 10 m and footage slopes $\leq 10\%$ or 5.7° , all the ore will be excavated at one time; and

- For ore bodies with thicknesses ≤ 10 m and footage slopes $>10\%$, the ore body will be divided into vertical mining strips every 10 m, the mining sequence will run from top to bottom, with the bulldozer piling up the soil from top to bottom, and then the piled soil will be loaded into the trucks by the excavators.

The ore loss rate and mining dilution are about 4%, and the average ore grade is 1.4% Ni. The average ore grade of the initial mining area is 1.57% Ni.

The mining section is planned to begin at the north section of the initial mining area where the ore body is thick, the grade is high, and the transportation distance is short.

The ore body is just beneath the topsoil. Approximately 80,000 m² of topsoil will have to be removed, representing about 200,000 t. The annual production capacity is 1,580,000 t of ore, after considering transportation loss. The rich ore will be transported to the ore yard, and the rest of the ore will be stockpiled. The annual topsoil removal quantity is about 200,000 to 300,000 t; it will be reserved for rehabilitation after mining ends. The average stripping ratio is ≤ 0.13 t/t.

CSA believes the mine design is acceptable, but that there should be scope for experimentation for optimising results based on operating experience. As the mining area is large, the Company can setup several mining work faces. The mining capacity is sufficient to satisfy the demands of the metallurgy plant. CSA also noticed that the ore stockpile and waste rock dump (WRD) are not designed in the MFS. As the ore yard and WRD are long term facilities, the heaping technique and water drainage system must be properly designed. The use of mined-out areas for waste rock disposal should be considered. **Figure 5-2** shows the mining sequence.

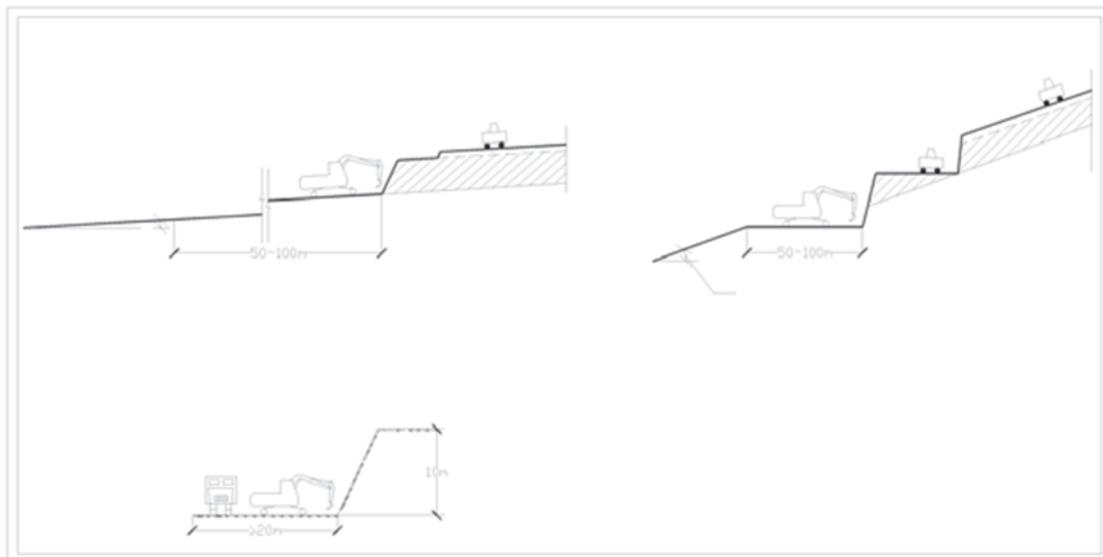


Figure 5-2: An Overview of the Mining Sequence

5.4.4 Mining Equipment

Diesel driven equipment is adopted as most suited to local mining conditions. The mining equipment for mining phase one is listed in **Table 5-7**.

Table 5-7: Main Equipment for Phase 1 Mining

Equipment	Quantity (Sets)		
	Year 1-8	Year 9-20	After year 21
Hydraulic Pressure Excavator(2m ³)	5	9	12
ZL50D (Loader)	2	3	3
Bulldozer (TS140)	3	5	7
Air Pick	4	8	10
Mobile Air Compressor	2	4	5
18t Tipper Truck	16	56	59
120HP Bulldozer	1	1	1
10t Roller	1	2	2
2m ³ Loader	1	2	2
5t Tipper Truck	1	2	2
10t Watering Cart	1	1	1
5t Watering Cart	1	1	1
50 Seats Bus	1	1	1
12 Seats Bus	1	1	1
Jeep	1	1	1
SJ-4 Ambulance	1	1	1
8t Fire Truck	1	1	1
5t Oil-can Truck	1	2	2
5t Truck	1	2	2
16t Auto-Crane	1	1	1
100t Auto-scale	1	1	1

In CSA's opinion, the mining equipment scheme is reasonable. Since the mining equipment investment is a small part of the whole investment, it is not likely to cause major impacts to the whole investment if equipment purchases need to be increased. All the items on the list are commonly available.

5.5 Mine Production Plan

According to the existing Indonesian Government mining policy, the export of Nickel Laterite ore is prohibited effective 1 January, 2014. Therefore, the following mining plan was developed.

Detailed data are shown in **Table 5-8**.

Table 5-8: Planned Mine Production Capacity

Year	2013	2014	2015	2016	2017	2018	.....	2032
Ore Production (kt) (wet)	1500	2000	2000	2000	4000	4000	.....	4000

Hanking Group plans to produce 1,500,000 t of ore for exporting overseas. After 2014, Hanking Group will have to carry out local smelting. Additionally, the ore production for exporting overseas could be increased subject to any changes in Indonesian Government export regulations.

Considering the local weather conditions and designed mining method, 300 working days per year is an ambitious goal. The local rainy season lasts about 150 days, and the mining target is weathered loose laterite.

Open pit mining in the rainy season will definitely reduce the equipment's operational efficiency and will increase the safety risks. CSA believes 270 days per year is a reasonable operating scheme. Officers of the Company informed CSA that they are currently running one working shift per day. In order to achieve production targets, more working shifts as well as more workers should be employed.

5.6 Conclusions

The North Konawe Laterite Nickel Deposit held by Hanking Group is a high-grade nickel deposit with good geological conditions; it is reasonable to develop it using large-scale open pit mining. The MFS produced by MCC is generally reasonable, but the design lacks details. A more detailed mine design is needed to guide the mine development. CSA believes that Block D of the Project has achieved a basic development level, but the following aspects should be noted:

- The levels of geotechnical and hydrogeological exploration are relatively low and may not be sufficient to support the mine design;
- No ore stockpile or WRD designs appear in the MFS, but since the low grade ore and topsoil for rehabilitation are designed to be stockpiled, pile heights, slope angles, piling technique(s), and drainage facilities must be well designed;
- Only mining high grade ore in the first stage will lower the overall ore grade in the later stages. There are, however, large amounts of high-grade ore resources likely sufficient for the smelting operation;
- The design mining capacity does not match the metallurgical capacity of the smelting plant; a full technical/economic evaluation must be carried out to set up reasonable mining and metallurgy capacities and determine the amount of investment necessary; and
- Considering the local weather conditions and mining methods, the plan to operate the mine 300 day per year is too optimistic; CSA believes 270 days per year is much practical, and the daily work plan and equipment arrangement should be adjusted accordingly.

6 Metallurgical and Processing Assessment

6.1 Introduction

Nickel laterite is a red residual soil of nickel-containing ultramafic rocks after millions of years of weathering in humid tropical and subtropical regions. Laterite is leached of soluble minerals, aluminium hydroxides, and silica, but still contains concentrations of iron oxides and iron hydroxides. A typical nickel laterite deposit consists of three layers of ore. The upper layer is iron-rich limonite ore with low nickel content. The middle layer is transitional or mixed ore, and the lower layer is saprolite containing high-grade nickel. Unlike nickel sulphide ore, which can be firstly processed into high-grade nickel concentrates by low-cost methods and then concentrated by smelting, nickel laterite requires smelting of all the raw ore, which requires high investments and high operational costs.

According to the Hanking feasibility study report issued by the Design Institute, Hanking Group plans to construct a shaft furnace operation with an annual output of 40,000 tons nickel metal contained in ferro-nickel alloy. The average nickel grade of the alloy is about 15% Ni. Hanking Group plans to produce 266,667t of ferro-nickel alloy annually. The planned production schedule is summarized as:

Year	2013	2014	2015	2016	2017	.....	2032
Contained Nickel Metal (t)	0	10,000	20,000	30,000	40,000	.....	40,000
Wet Ore (kt)	0	1000	2000	3000	4000	.....	4000

6.2 Designed Metallurgical Technical Parameters

Table 6-1 shows the ore composition of Block D. The valuable metallic element is Ni and associated metallic elements include Co, Fe and chromium (Cr). Most of the nickel is disseminated in the red residual soil and saprolite; remains are adsorbed or replace some elements as isomorphous elements in the residual soil. Nickel in the ore mainly occurs as nickel silicide (SiNi). Ore minerals in the red residual soil include limonite and in the bedded saprolite layers include silicates such as serpentine, pencil stone, and a small quantity of chlorite. Metallic minerals of other types are seldom concentrated, but include chromite and hematite. Gangue minerals mainly comprise secondary quartz; and clay minerals, secondary carbonate, and sulphide may be found in miniscule quantities, such as pyrite, chalcopyrite, and pentlandite. The ore has a low concentration of harmful elements such as P, S, F, and As.

Table 6-1: Ore Composition of Block D

Ni	TFe	Co	S	P	SiO ₂	Al ₂ O ₃
1.48	32.56	0.076	0.14	0.016	20.85	7.71

MgO	CaO%	Cr ₂ O ₃	MnO	Cu/10 ⁶	Pb/10 ⁶	Zn/10 ⁶
8.92	0.54	2.18	0.71	102.4	30.1	352.6

Block D ore can be categorised as rich in Fe, Ni, and Si, and low in Mg. Most of the ore (up to 59.8% of the total ore quantity) is ferruginous (MgO <10%). Femic ore (10% to 20% of MgO) and magnesia ore (MgO >20%) separately make up 29.4% and 10.9% of the total ore quantity, respectively. Ni content in the ore is between 1.00% and 4.42%. Ore is classified into two categories, lean Ni ore with Ni content between 1.0% to 1.40%, and rich ore with Ni content greater than 1.40%. High grade ore (with a cut-off grade of 1.6%) is also considered. Details of the estimated Resources and Reserves are discussed in Section 4.

Table 6-2 shows the project construction stages.

Table 6-2: Project Construction Stages

	Project	2013	2014	2015	2016
shaft furnace	First 10,000 t Ni				
	Second 10,000t Ni				
	Third 10,000t Ni				
	Fourth 10,000t Ni				

7 Occupational Health and Safety

7.1 Occupational Health and Safety Training

7.1.1 Occupational Health

In the Feasibility Study Report, several potential occupational risks were predicted; KS has established a safety department to prepare and implement safety regulations to prevent the potential risks.

It has been reported that one clinic, one warehouse for storing personal protective equipment (PPE), and several resting areas have been allowed for at the miners' camp. CSA was told that site ambulances are planned to be deployed in case of any accident.

The safety department has prepared bilingual operation procedures, safety regulations and equipment operation instructions for corresponding areas. It is CSA's view that the Company has made a good of effort to protect the safety of its employees.

7.1.2 Safety Training

Safety training for new employees is to be provided as follows:

- Recruitment training, including an introduction to relevant regulations and general safety awareness training.
- Department specific training, including general introduction to the department and the safety regulations that must be followed.
- Workshop specific training, including an introduction to the work area and the role of the individual within the workshop.
- General safety training, including fire control training, first aid training and lightning strike prevention training. The training varies seasonally.

8 Workforce

8.1 Workforce Numbers

At 31 January 2012, KS employed a total of 109 staff, including 43 are in the Mining Department, 4 in the Engineering Department, 10 in the Technical Department, 9 in the Safety Department, 6 in the Exploration Department, 22 in the Administration Department, 4 in the Social Development Department, and 11 in the Kendari Office (see **Table 8-1**).

Table 8-1: Workforce Numbers

Department	Personnel
Mining Department	43
Engineering Department	4
Technical Department	10
Safety Department	9
Exploration Department	6
Administration Department	22
Social Development Department	4
Kendari Office	11
Total	109

Since the mine development was in the preparation stage, this level of staffing is considered adequate for normal project development. The personnel number will significantly increase when formal production commences. According to the Feasibility Study Report, 250 to 290 personnel will be required for the mining department and 253 personnel will be required for the power plant. Personnel for the metallurgy plant and temporary dock were not mentioned in the Feasibility Study Report, but CSA believes to support normal production, KS will need 800 to 900 personnel. Considering workforce turnover, an additional 10% workforce should be recruited; in order to reduce labour costs, administrative personnel should not exceed 20% of the total workforce.

Personnel are classified as Senior Management Personnel, Management Personnel, and Labourers. All Senior Management Personnel are Chinese, Management personnel are Chinese and local employees, and labourers are all local employees. CSA believe this personnel structure is reasonable from a cost-saving point of view, but recommends that careful consideration should be given when building up work teams to account for cultural sensitivities amongst the local labour.

8.2 Workforce Assessment

CSA was made aware that three personnel staff members resigned in 2011, which indicates that the workforce turnover was low. CSA also noticed that local industry is quite

undeveloped, so the supply of experienced workers is low in the area. Since most workers are locally employed, vocational training is essential. CSA recommends that the Company conduct vocational training in parallel with mine development.

9 Capital and Operating Costs

9.1 Production Plan

According to the Hanking feasibility study report issued by the Design Institute, Hanking Group plans to construct a shaft furnace operation with an annual output of 40,000 tons nickel metal. The proposed product is nickel metal contained in ferro-nickel alloy. The average nickel grade of the alloy is about 15% Ni (266,800t of ferro-nickel alloy equivalent to 40,000t of nickel metal). The production plan is listed in **Table 9-1**.

Table 9-1: Production Plant from 2012 to 2023

Year	2013	2014	2015	2016	2017	.....	2032
Nickel Metal (t)	0	10,000	20,000	30,000	40,000	.....	40,000
Wet Ore (kt)	0	1000	2000	3000	4000	.....	4000

9.2 Capital Costs

The projects will require a total investment of US\$245 M, of which US\$143M is for mining and US\$102M total investment is for smelting. Annual investments are summarized as follows.

Details of the investment plan are listed in **Table 9-2**.

Table 9-2: Detailed Investment Plan from 2012 to 2021 (Million US\$)

Year	2013	2014	2015	2016	2017	2018	2019
Mining	36	0	0	23	2	0	0
Smelting	17	35	31	13	6	0	0
Sub-Total	53	35	31	36	8	0	0
Year	2020	2021	2022	2023	2024	2025	2026
Mining	0	21	0	0	21	0	0
Smelting	0	0	0	0	0	0	0
Sub-Total	0	21	0	0	21	0	0
Year	2027	2028	2029	2030	2031	2032	Total
Mining	0	21	0	0	21	0	143
Smelting	0	0	0	0	0	0	102
Sub-Total	0	21	0	0	21	0	245

9.3 Operating Costs

Unit costs for mining are listed in Table 9-3. Environmental protection and commuting fees are included in the on-site administration costs.

Table 9-3: Mining Costs for Hanking Group's Laterite Nickel Project (Unit: US\$/t)

	Item	Unit
Direct Costs	Ground mining	5.02
	transportation	0.64
	Port Stock pile	0.08
	shipping	2.41
	other	0.63
Taxation	Resource Tax	3.02
	Export Tax	6.43
Depreciation	License and Permits	0.86
	depreciation	1.30
Cash costs	Production (export)	18.25
	production (self-use)	9.32
Total Costs	Production (export)	20.40
	production (self-use)	11.48
Mining management costs		2.38

Unit costs for smelting is estimated as US\$10,450/t nickel metal contained in ferro-nickel alloy.

10 Environmental and Social Assessment

10.1 Environmental and Social Review Objective

The objective of this environmental due diligence review is to identify and or verify the existing and potential environmental liabilities and risks, and assess any associated proposed remediation measures for the North Konawe Nickel Project.

The North Konawe Nickel Project is located in the area of Langgikima Town, Wiwirano, Lasolo in North Konawe Regency, Southeast Sulawesi Province, Indonesia, approximately 1,740km north east of Jakarta. The North Konawe Nickel Project comprises two proposed nickel laterite open pit mines with a current designed mine production is 3.0 Mtpa. The North Konawe Nickel Project also comprises a proposed nickel smelting plant, a power generation plant and an ore ship loading/transportation wharf.

10.2 Environmental and Social Review Process, Scope and Standards

The process for the verification of the environmental compliance and conformance for the North Konawe Nickel Project a review and inspection of the project's environmental management performance against:

- Indonesian National environmental regulatory requirements (Appendix III).
- World Bank/International Finance Corporation (IFC) environmental and social standards and guidelines (Appendix IV).
- Internationally recognised environmental management practices (Appendix V).

10.3 Status of Environmental Approvals

The Indonesian National Mining Law and the Environmental Law both require mining companies that are developing projects that are deemed to have significant potential environmental and/or social impacts, to produce an environmental impact assessment and planning document, called. an *Analisa Mengenai Dampak Lingkungan* – (AMDAL) in Indonesia. An AMDAL consists of an environmental impact assessment (an *Analisis Dampak Lingkungan* – or ANDAL), an environmental management plan (a *Rencana Pengelolaan Lingkungan* – or RKL), and an environmental monitoring plan (a *Rencana Pemantauan Lingkungan* – or RPL).

CSA believes that KCU's two AMDAL's – (one for the mining operations and one for the port operations) and KS's AMDAL for its mining operations) have been prepared and lodged.

CSA believes the following project environmental approvals (i.e., Validation of AMDAL Documents) have been received:

- Regent of North Konawe (No: 540.11/1.095/2008) – Validation of the Documents of Environmental Impact Assessment, Environmental Management Plan (RKL), and Environmental Monitoring Plan (RPL) for PT Bangun Konawe Utara Sejahtera (BKUS), submitted to the Director of Development Program of Minerals, Coal and Geothermal in Jakarta, 3 November 2008.
- Regent of North Konawe (No: 540.11/1.096/2008) – Validation of the Documents of Environmental Impact Assessment, Environmental Management Plan (RKL), and Environmental Monitoring Plan (RPL) for PT Karyatama Konawe Utara (KKU), submitted to Director of the Development Program of Minerals, Coal and Geothermal in Jakarta, 3 November 2008.
- Regent of North Konawe (No: 540.11/1.097/2008) – Validation of the Documents of Environmental Impact Assessment, Environmental Management Plan (RKL), and Environmental Monitoring Plan (RPL) for of PT Bumi Makmur Selaras (BMS), submitted to the Director of Development Program of Minerals, Coal and Geothermal in Jakarta, 3 November 2008.
- Regent of North Konawe (No: 540.11/1.098/2008) – Validation of the Documents of Environmental Impact Assessment, Environmental Management Plan (RKL), and Environmental Monitoring Plan (RPL) for of PT Makmur Jaya Lestari (MJL), submitted to the Director of Development Program of Minerals, Coal and Geothermal in Jakarta, 3 November 2008.

CSA notes that the above environmental approvals relate to the previous AMDAL's and IUPs set up under previous companies (i.e. which have been amalgamated into KKU and KS). CSA has sighted the current IUPs for the KKU and KS. However, KKU and KS have stated that the approvals for the new amalgamated AMDAL's have yet to be issued by the Regent of North Konawe, but this is expected to occur during the first half of 2012. CSA recommends that prior to finalising the ITR report for listing purposes, the Hanking Group provide to CSA for review, the approvals for the new amalgamated AMDAL's.

10.4 Environmental Compliance and Conformance

CSA notes that the AMDAL's for KKU (mining operations and port operations) and for KS (mining operations), have been compiled in accordance with the relevant National Indonesian laws, regulations and decrees (each AMDAL provides a comprehensive list of the relevant legislation). However, for CSA to fully verify that these AMDAL's comply with National Indonesian requirements, CSA will need to sight and review the approvals for these documents (i.e. the Validation of AMDAL Documents).

CSA also notes that the AMDAL's for KKU and KS contain the project's Environmental Management Plan (RKL) and Environmental Monitoring Plan (RPL). In the following sections, CSA provides comments in respect to the project's proposed environmental management measures.

10.5 Land Disturbance and Flora and Fauna

The KKU and KS RKLs and RPLs (including the mining and the port) contain proposed measures for controlling and monitoring soil erosion and minimising loss of flora and fauna

habitat. However, CSA notes that the proposed measures for minimising and monitoring the project's overall land disturbance are not clearly defined. CSA recommends that Hanking Group establish operational procedures for controlling/minimising land disturbance and also for the annual surveying and recording of areas of project land disturbance (including areas of disturbed land that have been rehabilitated).

CSA also notes that the AMDAL's do not specify whether there are rare, endangered and/or significant flora and fauna within the project area.

10.6 Waste Rock/Overburden Management

The KKU and KS RKLs and RPLs contain proposed measures for controlling and monitoring soil erosion and sedimentation. CSA notes that these proposed management measures can be applied to any storage of waste rock or overburden, however, the KKU and KS RKLs and RPLs do not provide any specific information in respect to the proposed management of the project's waste rock/overburden. In particular, the proposed measures/design for waste rock storage, geochemical/acid rock drainage (ARD) assessment of the waste rock, and any potential for leaching/ARD risks/impacts (including drainage/flood and seepage management). CSA notes that the project feasibility refers to a site waste rock dump, but does not provide any design for this.

CSA recommends that the Hanking complete a waste rock geochemical characterisation/ARD assessment and determine the potential for any significant leaching/ARD risks and impacts. The outcome of this assessment should then be incorporated into a design for the proposed site waste rock dump.

10.7 Water Aspects

The proposed water management measure provided within the KKU and KS RKLs and RPLs are:

- Stormwater/surface water drainage (including any mine dewatering) – diversion channels, drainage systems and, sedimentation ponds are to be constructed around and within the mining and port areas.
- Surface water quality –regular water quality monitoring should be undertaken of surface water flows and discharges.
- Groundwater extraction– monitoring of groundwater extraction volume and groundwater table levels should also be conducted.
- Marine water –spillage of materials (e.g. ore, hydrocarbon, waste materials) into the surrounding marine water must be prevented during port operations, and regular marine water quality monitoring is to be conducted around and within the port area.

CSA notes that the KKU and KS RKLs and RPLs do not provide any details of design or management with respect to:

- Proposed site drainage system – mine dewatering and stormwater drainage pathways, and collection and discharge points/facilities.

- Site hydrogeology and groundwater management – limits for groundwater extraction, and proposed extraction methods/facilities.

CSA recommends that Hanking complete the site hydrology/hydrogeology assessment and associate designs for the proposed site surface water and groundwater management.

10.8 Air Emissions

10.8.1 Dust and Gas Emissions

The proposed site dust and gas emission management measures provided within the KKU and KS RKLs and RPLs are:

- Regular watering of roads and open areas with water trucks;
- Maintaining the surface moisture on ore stockpiles with water sprays;
- Setting of vehicle speed limits at designated areas and limits on the frequency of vehicles (port only)
- Covering of ore transport vehicles (with tarpaulins);
- Regular preventative maintenance of vehicles and heavy equipment;
- Age restriction on vehicles that are used (port only);
- Boundary screen planting around the ore stockpile yard;
- Use of dust masks for relevant personnel;
- Regular ambient air quality monitoring (i.e. dust and gas monitoring) at the site boundary; and
- Recording and responding to any public complaints in relation to any site dust or gas emissions

CSA notes that the above proposed site dust and gas emission management measures are in line with recognised international industry environmental management guidelines and practices. CSA recommends that site operating procedures be developed for these dust and gas emission management measures.

10.8.2 Greenhouse Gas Emissions

The estimation of a project's Greenhouse Gas emissions and subsequent implementation strategies for reductions in emissions, are components of IFC environmental requirements and are considered as internationally recognised industry environmental management practices. CSA notes that the KKU and KS RKLs and RPLs do not address the project's Greenhouse Gas emissions. Therefore, CSA suggests that the Hanking give consideration to developing initiatives to quantify Greenhouse Gas emissions and assess possible emission reduction strategies for the North Konawe Nickel Project.

10.9 Noise Emissions

The proposed site noise emission management measures provided within the KKU and KS RKLs and RPLs are:

- Scheduling mobile equipment usage and materials transport (i.e., mining activities) during daylight hours;
- Setting of vehicle speed limits at designated areas (i.e., in or near residential areas) and limits on the frequency of vehicles (port only);
- Use of hearing protection for relevant personnel;
- Ensure that vehicles are suitable for use and conduct regular preventative maintenance of vehicles and heavy equipment;
- Age restriction on vehicles that are used (port only);
- Regular ambient noise quality monitoring at the site boundary and in residential areas; and
- Conduct regular discussions and consultation with the surrounding residents on any perceived issues with site noise emissions

CSA notes that the above proposed site noise emission management measures are generally in line with recognised international industry environmental management guidelines and practices. CSA recommends that site operating procedures are developed for these noise emission management measures.

10.10 Hazardous Materials Management

The main hazardous materials for the project's mining operations will comprise the storage and handling of hydrocarbons (i.e. fuels and lubricants). CSA notes that the KKU and KS mining RKLs do not refer to the management hazardous materials. The KKU port RKL does refer to the management of fuel/oil spillages from ships but does not refer to any other management the storage and handling of hydrocarbons.

CSA recommends that the hazardous materials for the project be identified and quantified, and all storage and handling facilities be designed with secondary containment.

10.11 Waste Management

10.11.1 Waste Oil

Waste oil will be generated from the maintenance of the project's mobile equipment within the proposed site workshops and may also be generated from ships at the port. CSA notes that the KKU and KS RKLs do not discuss proposed management for this waste oil. CSA recommends that all waste oil be stored within site facilities that have secondary containment, and that the options for off-site recycling/disposal are assessed.

10.11.2 Solid Wastes

Domestic and inert industrial solid wastes will be generated from the project operations. CSA notes that the KKU and KS RKLs refer to the collection of solid wastes but do not provide any detail on the final disposal method and facilities (i.e., landfill, incineration, off-site collection, etc.). However, the port RKL does refer to the establishment of '*temporary landfills*'. CSA recommends that the solid wastes for the project be identified and quantified, and that the disposal method and facilities also are defined, designed and operated in line with relevant international guidelines and practices.

10.11.3 Sewage and Oily Waste Water

Domestic sewage will be generated from will be generated from the general project operations. While oily waste water will be generated from the wash down and servicing of mining mobile equipment and may also be generated from ships within the port operations. CSA notes that the KKU and KS RKLs refer to the general collection of domestic sewage but do not provide any detail on the final disposal method and facilities (i.e., sewage treatment plant, water treatment systems, etc.).

The KKU and KS mining RKLs do not refer to the management of oily wastewater. However, the KKU port RKL does refer to the establishment of a wastewater treatment plant (WWTP) for treating '*oil waste materials*'.

CSA recommends that the domestic sewage and oily waste water wastes for the project be identified and quantified, and that the disposal methods and facilities also are defined, designed and operated in line with relevant international guidelines and practices.

10.12 Contaminated Sites Assessment

The North Konawe Nickel Project has the potential to generate contaminated areas of land from spillages of fuels and oils. CSA has not sighted, as part of this review, a documented operational process to assess and remediate any areas of suspected contamination. CSA recommends that the Hanking Group give consideration to developing a contaminated sites assessment and management process for the North Konawe Nickel Project.

10.13 Operational Environmental Management Plan

The RKLs and RPLs for the North Konawe Nickel Project provide the basis for the project's operational Environmental Management Plan (EMP). CSA recommends developing the RKLs and RPLs into an operational EMP, which provides detailed actions, schedules, and responsibilities. This operational EMP should be reviewed and updated as the operational situation changes (i.e., the recognised international industry practice is to review and update operational EMP's on annual basis).

10.14 Emergency Response Plan

The recognised international industry practice for managing emergencies is for a project to develop and implement an Emergency Response Plan (ERP). The general elements of an operational ERP are:

- Administration – policy, purpose, distribution, and definitions of potential site emergencies and organisational resources (including setting of roles and responsibilities).
- Emergency response areas – command centres, medical stations, muster and evacuation points.
- Communication systems – both internal and external communications.
- Emergency response procedures – work area specific procedures (including area specific training).
- Checking and updating – prepare checklists (role and action list and equipment checklist) and undertake regular reviews of the plan.
- Business continuity and contingency – options and processes for business recovery from an emergency.

CSA has not sighted, as part of this review, a documented operational ERP for the North Konawe Nickel Project. CSA recommends developing an operational ERP for the North Konawe Nickel Project in line with the recognised international industry practice.

10.15 Site Closure Planning and Rehabilitation

The AMDAL's for the North Konawe Nickel Project contain general references to the proposed site rehabilitation (including references to the Indonesian rehabilitation guidelines for forest areas and the requirement for a rehabilitation guarantee). The AMDAL's do not contain any detailed rehabilitation scoping and planning information. However, CSA notes that the RKLs for the North Konawe Nickel Project also include a summary of the social aspects for the site closure (i.e., covered under the 'Post Operation Stages' sections of the RKL).

The recognised international industry practice for managing site closure and rehabilitation is to develop and implement an operational site closure and rehabilitation planning process and document this through an operational Closure and Rehabilitation Plan. This operational closure planning process generally includes the following components:

- Identify all site closure stakeholders (e.g. government, employees, community, etc.).
- Undertake stakeholder consultation to develop agreed site closure criteria and post operational land use.
- Maintain records of stakeholder consultation.
- Establish a site rehabilitation objective in line with the agreed post operational land use.

- Describe/define the site closure liabilities (i.e. determined against agreed closure criteria).
- Establish site closure management strategies and cost estimates (i.e. to address/reduce site closure liabilities).
- Establish a cost estimate and financial accrual process for site closure.
- Describe the post site closure monitoring activities/program (i.e. to demonstrate compliance with the rehabilitation objective/closure criteria).

CSA has not sighted, as part of this review, a documented operational Closure and Rehabilitation Plan for the North Konawe Nickel Project. CSA recommends developing an operational Closure and Rehabilitation Plan for the North Konawe Nickel Project in line with the recognised international industry practice.

10.16 Social Aspects

The North Konawe Nickel Project RKLs and RPLs contain comprehensive summaries of the project's propose social management measures. These measures comprise the following:

- Public perceptions and public attitudes – public consultation will be undertaken throughout all phases of the project. Including establishment of a process to record and respond to local public complaints.
- Improve local economic conditions – set local employment/recruitment targets and give priority to employing local residents, utilise and/or support local businesses and undertake technical skills training programs for local employment candidates. Increase local revenues (i.e. in North Konawe District) through payment of local royalties and taxes. Monitor local economic conditions (including local revenues) and provide information to local community.
- Public health and amenity – provide for regular medical examinations for local employees and residents through (i.e. the local health centre), manage/minimise air (dust) and noise impacts, monitor local water supply (quantity and quality). Monitor local public health conditions and provide information to local community.
- Site closure planning – consult with local residents on site closure planning, employ the local residents on site closure works, and provide training and redeployment support for local employees and businesses.

CSA notes that the above proposed social management measures are in line with relevant recognised industry international guidelines and practices. However, CSA has not sighted, as part of this review, any historical and/or current, community land access/compensation agreements for the development of the North Konawe Nickel Project.

10.17 Evaluation of Environmental and Social Risks

The sources of inherent environmental and social risks are project activities that may result in potential environmental and social impacts. These project activities have been previously described within this report.

The significant inherent environmental and social risks for the North Konawe Nickel Project are:

- Land disturbance, rehabilitation and site closure.
- Water management (i.e. stormwater/surface water drainage – including any mine dewatering).
- Waste rock stockpiling/waste rock dump management
- Dust management.
- Land contamination (i.e. hydrocarbon storage and handling).
- Social aspects (i.e. local community interactions)

Based on the review of the proposed management measures within the project AMDAL's and the site visit observations, it is CSA's opinion that the environmental and social risks for the North Konawe Nickel Project are generally being addressed well. However, CSA notes that to fully conform to internationally recognised environmental management guidelines and practices, the relevant designs and operational procedures/programs need to be developed and implemented, and incorporated into the overall project operations.

11 Infrastructure

11.1 Road Access

The North Konawe Nickel Mine is located near three towns, Langgikima, Wiwirano, and Lasolo, in North Konawe Regency, Southeast Sulawesi Province, Indonesia. The mine area is near the east coast of the Banda Sea, and a major provincial road goes through the north and west parts of the area. The city of Kendari, the capital of Southeast Sulawesi, is about 100 km southwest of the mine area, or about 180 km by road, of which half is asphalt road and half is an unpaved road of sand and stone. Another unpaved sand and stone road connects the provincial road to the miners’ camp, 5 km from the main road. In the mine area there are many dirt roads constructed for the lumber or oil palm industries.

There are many docks along the coast, operating year round. Ore and goods can be loaded onto ships and transported to China or other locations worldwide. KS/KKU is planning to build a dock 7 km from the Langgikima miners’ camp. The direct distance between Jakarta and the mine area is 1740 km; there are daily flights between Jakarta and Kendari.

In CSA’s opinion, the road access condition for North Konawe Nickel Mine is generally convenient, and can satisfy daily production and domestic needs. **Figure 11-1** shows the general location of the mine area.

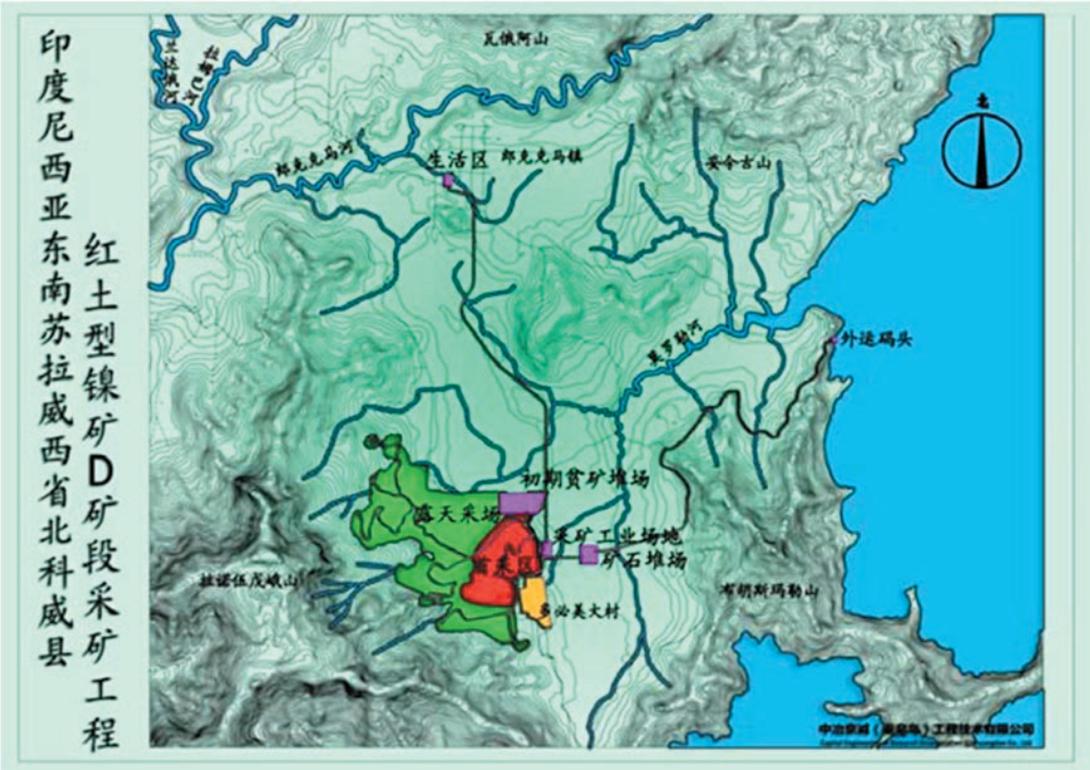


Figure 11-1: General Location of the Projects

11.2 Power Plant and Power Supply

Currently there is no power grid in or near the North Konawe Mining Area; power for the miners' camp is supplied by diesel power generators. According to Indonesia's new mining regulations, after 2013, metal mining companies may not export ore, but must instead process all raw ore domestically. To ensure the continued operation of the mine after 2013, Hanking is planning to build a metallurgy plant to produce ferro-nickel alloy.

Energy-saving technology of shaft furnace consumes less power, and diesel generators can be used to solve power problems.

11.3 Water Supply

Surface water resources in the North Konawe Mine Area are abundant, and the water quality is good. Both surface water and groundwater can be used as production and domestic water. There are three rivers in the mine area.

- The upstream reaches of the Duling River have a flow rate of more than 20 cubic metres per second (m^3/s);
- Langgikima River has run-off of about 2.5 to 20 m^3/s ; and
- Dongbule River has an average run-off of about 1.5 to 12 m^3/s .

The run-off varies seasonally with rain fall, but even during the dry season low it is more than adequate for production and domestic usage.

The groundwater inflow is relatively low, normally less than 100 cubic metres per day (m^3/d), which would only be able to supply part of the mine's domestic water needs.

According to the water usage calculation, the total water consumption is 642,954 m^3/d , of which 24,000 m^3/d are from fresh water sources (including 21,176 m^3/d of domestic water and 2,824 m^3/d of demineralized water), 5,308 m^3/d are from re-used water and the remaining 613,646 m^3/d is recycled water. Domestic water consumption totals 1,700 m^3/d .

CSA was told that the water source and water plant location have not yet been selected, and that currently domestic water is sourced from groundwater. In normal production, the power plant and metallurgy plant will be the major water consumers, and since these two plants are planned to commence production after 2013, the water supply facility can be constructed at the same time as the power plant and metallurgy plant construction.

CSA opines that current hydrogeology knowledge is insufficient due to the lack of surface water monitoring data, and a detailed hydrogeological survey is needed to better understand the hydrogeological conditions and to support appropriate choices for water sources and water plant location.

11.4 Port Facilities

During the first stages of production, Hanking Group planned to mine and sell the high grade ore ($\text{Ni} \geq 1.8\%$) to China. They anticipate an annual demand of about 1.5 to 3.0 Mtpa of ore. After 2013 the nickel alloy products will be transported by sea and sold around the world,

and since most equipment and facilities purchased from China will also be transported by sea, the dock is very important. Hanking has contracted with Dalian Fishery Sciences Design Institute to produce a temporary dock feasibility study report (DFS). According to the report, produced in July 2011, the dock was designed at Matalaby Bay, 7 km from the Langgikima miners' camp.

The designed dock is 240 m long and 45 m wide, with six (6) berths each capable of mooring a 5 000 t vessel.

Senior Company executives told CSA that construction for the temporary dock requires little work, so the construction period will be short. One major problem is that the dock is located in a mining concession belonging to another company, so dock construction can only be commenced after the current owner's mining is finished; negotiations for land use are in progress. However, there are many docks along the coast, so until the dock is built, the Company can rent other docks for loading and unloading ships. CSA was told the mining currently underway in the planned dock area, and was told that the mining was planned to finish by the end of 2012. **Figure 11-2** shows the temporary port location.

As mining in the port location area is in progress, and the land lease has not been finalised, the dock is unlikely to be built promptly. Renting other docks might be the only solution to load the ore onto ships in 2012. Dock leasing contracts need to be signed as soon as possible.



Figure 11-2: Temporary Port Location under preparation

11.5 Equipment Maintenance

KS/KKU is planning to build three isolated production systems: an open pit, a power plant, and a metallurgy plant. The industry and infrastructure of the area is undeveloped, and

there are no equipment maintenance companies nearby. According to the MFS, the three production systems will have their own maintenance staff.

11.6 Office Buildings and Accommodation

A 20,000 m² miners' camp has been built in Langgikima, including offices, dormitories, dining rooms, guest houses, shower rooms, warehouses, garages, and guard houses. The camp can support the office and domestic needs of about 300 people. The Company plans to build camps for the power and metallurgy plants as well.

CSA believes the domestic facilities are capable of supporting normal production and living needs. **Figure 11-3** shows part of the miners' camp in Langgikima.



Figure 11-3: Living Camp in Langgikima

12 Project Risk Assessment

Mining is a relatively high-risk industry. In general, the risk may decrease from exploration to development to production stage. The Company's projects are production projects, in which the risks are relatively low. CSA has considered various technical aspects which may affect these nickel projects, and have conducted a risk assessment which has been summarised in **Table 12-1**. The full qualitative risk analysis process is described in Appendix V.

Table 12-1: Summary of Hanking's Project Risk Assessment

Risk Issue	Likelihood	Consequence	Overall
Geology and Resource			
Lack of Significant Resource	Unlikely	Moderate	Low
Lack of Significant Reserve	Unlikely	Moderate	Low
Significant Unexpected Faulting	Unlikely	Moderate	Low
Mining			
Significant Production Shortfalls	Possible	Moderate	Medium
Significant Geological Structures	Possible	Moderate	Medium
Excessive Surface Subsidence	Unlikely	Minor	Low
Poor Mine plan	Unlikely	Moderate	Low
Poor Road Transportation/safety	Possible	Moderate	Medium
Ore Processing			
Lower Yields	Possible	Minor	Low
Lower Recovery	Possible	Minor	Low
Higher Production Cost	likely	Moderate	Medium
Lower Plant Reliability	likely	Moderate	Medium
Environmental Risk			
Poorly Managed Land disturbance, Rehabilitation and Site Closure	Certain	Moderate	Medium
Water Management below Standards (tailings/mine water and storm-water)	Possible	Moderate	Medium
Lack of Waste Rock Stockpiling/Dump Management	Possible	Moderate	Medium
Inadequate Tailings Storage (TSF design, construction and operation)	Possible	Moderate	Medium
Lack of Dust Management	Likely	Moderate	Medium
Land Contamination (hydrocarbon storage and handling)	Likely	Moderate	Medium
Capital and Operating Costs			
Project Timing Delays	Possible	Moderate	Medium
Capital Cost Increases	Possible	Moderate	Medium
Inadequate Capital Costs - Ongoing	Possible	Moderate	Medium
Operating Costs Underestimated	Possible	Moderate	Medium

13 References

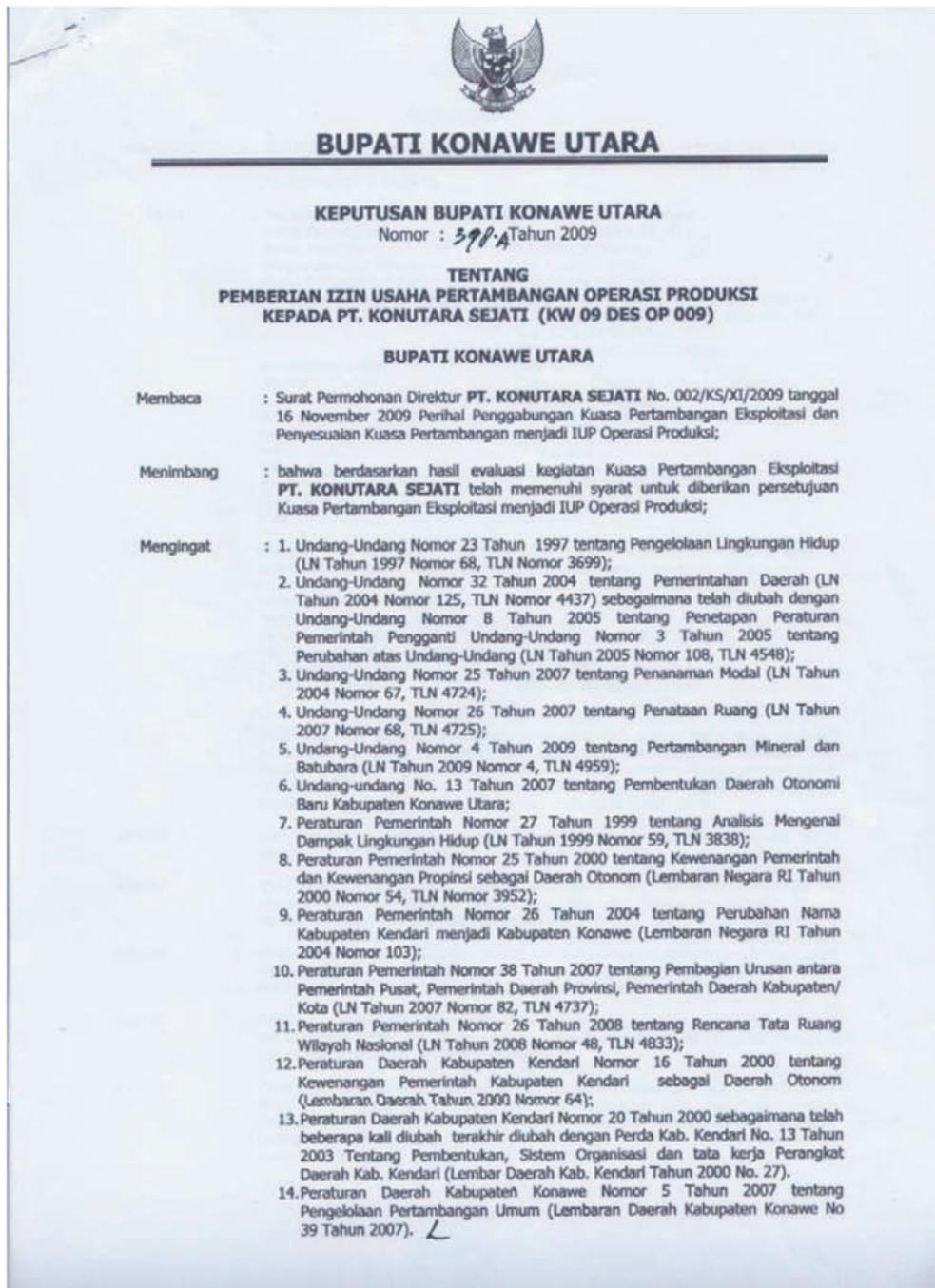
1. No. 308 Brigade of Yunnan Nonferrous Geological Bureau, Detailed Exploration Report of Nickel Laterites of Blocks K and E in Wiwirano Area, North Konawe Regency, Southeast Sulawesi Province, Indonesia, October 2007 – January 2009, May 2009.
2. No. 308 Brigade of Yunnan Nonferrous Geological Bureau, Detailed Exploration Report of Nickel Laterites of Block D in Langgikima Area, North Konawe Regency, Southeast Sulawesi Province, Indonesia, October 2007 – January 2009, May 2009.
3. China Nerin Engineering Co., Ltd. Feasibility Study Report of Nickel Laterites Mining & Smelting Project in North Konawe Regency, for KS/KKU Company, Indonesia. Volume 1 Comprehensive Summary, July 2011
4. MCC Capital Engineering & Research Incorporation Qinhuangdao Co., Ltd. Dalian Fishery Sciences Design Institute. Feasibility Study Report of Nickel Laterites Mining & Smelting Project in North Konawe Regency, for KS/KKU Company, Indonesia. Volume 2 Mining Engineering in Block D & Temporary Harbor Project. July 2011
5. China Nerin Engineering Co., Ltd. Feasibility Study Report of Nickel Laterites Mining & Smelting Project in North Konawe Regency, for KS/KKU Company, Indonesia. Volume 3 60,000Tpa Nickel Smelting Project (Phase 1, Step 1). July 2011
6. Qingdao Jieneng Power Design Co., Ltd. Feasibility Study Report of Nickel Laterites Mining & Smelting Project in North Konawe Regency, for KS/KKU Company, Indonesia. Volume 4 Self Supplying Power Plant. July 2011
7. Dalian Fishery Sciences Design Institute, Feasibility Study Report of Nickel Laterites Mining & Smelting Project in North Konawe Regency, for KS/KKU Company, Indonesia. Temporary Harbor, July 2011.
8. Regent of North Konawe (No: 540.11/1.095/2008) – Validation of the Documents of Environmental Impact Assessment, Environmental Management Plan (RKL), and Environmental Monitoring Plan (RPL) for PT Bangun Konawe Utara Sejahtera (BKUS), submitted to Director of Development Program of Minerals, Coal and Geothermal in Jakarta, 3 November 2008
9. Regent of North Konawe (No: 540.11/1.096/2008) – Validation of the Documents of Environmental Impact Assessment, Environmental Management Plan (RKL), and Environmental Monitoring Plan (RPL) for PT Karyatama Konawe Utara (KKU), submitted to Director of Development Program of Minerals, Coal and Geothermal in Jakarta, 3 November 2008.
10. Regent of North Konawe (No: 540.11/1.097/2008) – Validation of the Documents of Environmental Impact Assessment, Environmental Management Plan (RKL), and Environmental Monitoring Plan (RPL) for of PT Bumi Makmur Selaras (BMS), submitted

to Director of Development Program of Minerals, Coal and Geothermal in Jakarta, 3 November 2008.

11. Regent of North Konawe (No: 540.11/1.098/2008) – Validation of the Documents of Environmental Impact Assessment, Environmental Management Plan (RKL), and Environmental Monitoring Plan (RPL) for of PT Makmur Jaya Lestari (MJL), submitted to Director of Development Program of Minerals, Coal and Geothermal in Jakarta, 3 November 2008.
12. SRK Beijing, Technical Assessment Report for Hanking Group's Laterite Nickel Projects in Southeast Sulawesi Province, Indonesia. April 2012.

Appendix I: Mining Licence

Mining Licence (KS)



MEMUTUSKAN:

Menetapkan : KEPUTUSAN BUPATI KONAWE UTARA TENTANG PEMBERIAN KUASA PERTAMBANGAN EKSPLOITASI MENJADI IUP OPERASI PRODUKSI KEPADA **PT. KONUTARA SEJATI**

PERTAMA : Memberikan Izin Usaha Pertambangan (IUP) Operasi Produksi
 Nama Perusahaan : **PT. KONUTARA SEJATI**
 Nama Direktur : TADJUDIN HIDAJAT
 Nilai/persentase Saham : Rp. 150.000.000,-
 Nama Pemegang Saham : TADJUDIN HIDAJAT
 Pekerjaan Pemegang Saham : DIREKTUR UTAMA PT. KONUTARA SEJATI
 Alamat : Jl. Kamboja Ujung No. 15 RT. 009/RW. 006
 Kel. Kota Bambu Utara,
 Kec. Palmerah, Jakarta Barat
 Kewarganegaraan : Indonesia
 Alamat : Desa Langgikima Kecamatan Langgikima
 Kab. Konawe Utara
 Komoditas : Mineral Logam (Bijih Nikel)
Lokasi Penambangan :
 Kecamatan : Langgikima
 Kabupaten : Konawe Utara
 Provinsi : Sulawesi Tenggara
 Kode Wilayah : KW 09 DES OP 009
 Luas : 1.923 Ha

Dengan Peta dan daftar koordinat WIUP yang diterbitkan oleh Bupati Konawe Utara sebagai mana tercantum dalam lampiran I dan lampiran II keputusan ini.

Lokasi pengolahan dan pemurnian :
 Pengangkutan dan penjualan :
 Jangka waktu berlaku IUP : 20 (Dua Puluh) Tahun
 Jangka waktu tahap kegiatan :
 a. Konstruksi selama : 2 (Dua) Tahun
 b. Produksi selama : 18 (Delapan Belas) Tahun

KEDUA : Pemegang IUP Operasi Produksi mempunyai hak untuk melakukan kegiatan konstruksi, produksi pengangkutan dan penjualan serta pengolahan dan pemurnian dalam WIUP untuk jangka waktu 20 tahun dan dapat diperpanjang 2 (dua) kali masing-masing 10 tahun terhitung mulai tanggal ditetapkannya keputusan ini sampai dengan tanggal Desember Tahun 2029

KETIGA : IUP Operasi Produksi ini dilarang dipindah tangankan kepada pihak lain tanpa persetujuan Bupati Konawe Utara

KEEMPAT : **PT. KONUTARA SEJATI** sebagai pemegang IUP Operasi Produksi dalam melaksanakan kegiatannya mempunyai hak dan kewajiban sebagai mana tercantum dalam lampiran III keputusan ini.

KELIMA : Selambat-lambatnya 60 (enam puluh) hari kerja setelah diterbitkannya keputusan ini pemegang IUP Operasi Produksi sudah harus menyampaikan RKAB kepada Bupati Konawe Utara untuk mendapatkan persetujuan.

KEENAM : Terhitung sejak 90 (Sembilan puluh) hari kerja sejak persetujuan RKAB sebagaimana dimaksud dalam diktum kelima pemegang IUP Operasi Produksi sudah harus memulai aktifitas dilapangan.

KETUJUH : Tanpa mengurangi ketentuan peraturan perundang-undangan, maka IUP Operasi Produksi ini dapat diberhentikan sementara, dicabut, atau dibatalkan, apabila pemegang IUP Operasi Produksi tidak memenuhi kewajiban dan larangan sebagaimana dimaksud dalam diktum Ketiga, Keempat dan Kelima dalam keputusan ini.

KEDELAPAN : Keputusan Bupati Konawe Utara ini mulai berlaku pada tanggal ditetapkan atau berlaku surut.

Ditetapkan di : Wanggudu
Pada Tanggal : 22 Desember 2009


Pj. BUPATI KONAWA UTARA

H. HERRY HERMANSTAH SILONDAE, SE

Tembusan Yth :

1. Menteri Energi dan Sumberdaya Mineral di Jakarta;
2. Menteri Keuangan di Jakarta ;
3. Sekretaris Jenderal Departemen Energi dan Sumberdaya Mineral di Jakarta;
4. Inspektur Jenderal Departemen Energi dan Sumberdaya Mineral di Jakarta;
5. Direktur Jenderal Pajak, Departemen Keuangan di Jakarta;
6. Direktur Jenderal Perbendaharaan, Departemen Keuangan di Jakarta;
7. Direktur Jenderal Pendapatan Daerah, Departemen Dalam Negeri di Jakarta;
8. Gubernur Sulawesi Tenggara di Kendari;
9. Kepala Biro Hukum dan Humas/ Kepala Biro Keuangan/ Kepala Biro Perencanaan dan Kerjasama Luar Negeri, Setjen Departemen Luar Energi dan Sumberdaya Mineral di Jakarta;
10. Sekretaris Direktorat Jenderal Mineral, Batubara dan Panas Bumi di Jakarta;
11. Direktur Teknik dan Lingkungan Mineral, Batubara dan Panas Bumi di Jakarta;
12. Direktur Pembinaan Program Mineral, Batubara dan Panas Bumi di Jakarta;
13. Direktur Pembinaan Pengusahaan Mineral dan Batubara di Jakarta;
14. Direktur Pajak Bumi dan Bangunan, Departemen Keuangan di Jakarta;
15. Kepala Dinas Pertambangan dan Energi Prov. Sultra di Kendari;
16. Kepala Dinas Pertambangan dan Energi Kab. Konawe Utara di Wanggudu;
17. Direksi PT. Konutara Sejati di Langgikima;
18. Arsip.-

Lampiran I : KEPUTUSAN BUPATI KONAWE UTARA
 Nomor : 390/A Tahun 2009
 Tanggal : 22 Desember 2009

**DAFTAR KOORDINAT PETA
 POLIGON TERTUTUP**

Nama : **PT. KONUTARA SEJATI**
 Lokasi : Kec. Langgikima
 - Propinsi : SULAWESI TENGGARA
 - Kabupaten : Konawe Utara
 - Komoditas Tambang : Mineral Logam (Bijih Nikel)
 - Kode Wilayah : KW 09 DES OP 009
 Luas : 1.923 Ha
 IUP : Operasi Produksi

PATOK	GARIS BUJUR (BT)			GARIS LINTANG (LS)			BUJUR DESIMAL	LINTANG DESIMAL
	Derajat	Menit	Detik	Derajat	Menit	Detik		
	2	3	4	5	6	7	8	9
1	122	12	33.89	3	17	33.96	122.2094139	-3.292766667
2	122	13	54.66	3	17	33.96	122.23185	-3.292766667
3	122	13	54.66	3	18	11.87	122.23185	-3.303297222
4	122	13	34.61	3	18	11.87	122.2262806	-3.303297222
5	122	13	34.61	3	18	7.15	122.2262806	-3.301986111
6	122	13	23.65	3	18	7.15	122.2232361	-3.301986111
7	122	13	23.65	3	17	55.52	122.2232361	-3.298755556
8	122	13	7.22	3	17	55.52	122.2186722	-3.298755556
9	122	13	7.22	3	17	44.37	122.2186722	-3.295658333
10	122	12	51.27	3	17	44.37	122.2142417	-3.295658333
11	122	12	51.27	3	17	49.63	122.2142417	-3.297119444
12	122	12	56.74	3	17	49.63	122.2157611	-3.297119444
13	122	12	56.74	3	17	58.66	122.2157611	-3.299627778
14	122	13	13.18	3	17	58.66	122.2203278	-3.299627778
15	122	13	13.18	3	18	3.64	122.2203278	-3.301011111
16	122	13	8.7	3	18	3.64	122.2190833	-3.301011111
17	122	13	8.7	3	18	20.7	122.2190833	-3.30575
18	122	13	16.5	3	18	20.7	122.22125	-3.30575
19	122	13	16.5	3	18	35.4	122.22125	-3.309833333
20	122	13	24.1	3	18	35.4	122.2233611	-3.309833333
21	122	13	24.1	3	18	39.6	122.2233611	-3.311
22	122	13	34.3	3	18	39.6	122.2261944	-3.311
23	122	13	34.3	3	19	0	122.2261944	-3.316666667
24	122	14	15.04	3	19	0	122.2375111	-3.316666667
25	122	14	15.04	3	19	13.21	122.2375111	-3.320336111
26	122	14	54.5	3	19	13.21	122.2484722	-3.320336111
27	122	14	54.5	3	19	25.57	122.2484722	-3.323769444
28	122	14	15	3	19	25.57	122.2375	-3.323769444
29	122	14	5.5	3	19	14.1	122.2375	-3.320583333
30	122	14	5.5	3	19	14.1	122.2351389	-3.320583333
31	122	13	20.2	3	19	5.2	122.2351389	-3.318111111
32	122	13	20.2	3	19	5.2	122.2223333	-3.318111111
33	122	13	20.2	3	19	31.7	122.2223333	-3.325472222
34	122	13	13.6	3	19	31.7	122.2204444	-3.325472222
35	122	13	13.6	3	19	56.93	122.2204444	-3.332480556
36	122	13	13.6	3	19	56.93	122.2227778	-3.332480556

DILEGASIKAN SESUAI SIKLUSNYA
 KEPALA DINAS PERTAMBANGAN DAN ENERGI
 KABUPATEN KONAWE UTARA

..... Sambungan.

1	2	3	4	5	6	7	8	9
37	122	13	22	3	20	12	122.2227778	-3.336666667
38	122	13	28.99	3	20	12	122.2247194	-3.336666667
39	122	13	28.99	3	20	26	122.2247194	-3.340555556
40	122	13	32.99	3	20	26	122.2258306	-3.340555556
41	122	13	32.99	3	20	20	122.2258306	-3.338888889
42	122	13	41.99	3	20	20	122.2283306	-3.338888889
43	122	13	41.99	3	20	27.99	122.2283306	-3.341108333
44	122	13	46.99	3	20	27.99	122.2297194	-3.341108333
45	122	13	46.99	3	20	26	122.2297194	-3.340555556
46	122	14	44.99	3	20	26	122.2458306	-3.340555556
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49	122	14	52	3	21	15	122.2477778	-3.354166667
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51	122	14	21	3	21	51	122.2391667	-3.364166667
52	122	14	30.99	3	21	51	122.2419417	-3.364166667
53	122	14	30.99	3	22	0	122.2419417	-3.366666667
54	122	14	16.94	3	22	0	122.2380389	-3.366666667
55	122	14	16.94	3	21	56.74	122.2380389	-3.365761111
56	122	14	11.8	3	21	56.74	122.2366111	-3.365761111
57	122	14	11.8	3	21	54.11	122.2366111	-3.365030556
58	122	14	7.8	3	21	54.11	122.2355	-3.365030556
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62	122	13	53.53	3	21	49.55	122.2315361	-3.363763889
63	122	13	53.53	3	21	47.81	122.2315361	-3.363280556
64	122	13	25.97	3	21	47.81	122.2238806	-3.363280556
65	122	13	25.97	3	21	45.9	122.2238806	-3.36275
66	122	13	22	3	21	45.9	122.2227778	-3.36275
67	122	13	22	3	21	29	122.2227778	-3.358055556
68	122	13	9	3	21	29	122.2191667	-3.358055556
69	122	13	9	3	21	20.99	122.2191667	-3.355830556
70	122	13	0.99	3	21	20.99	122.2169417	-3.355830556
71	122	13	0.99	3	21	6.99	122.2169417	-3.351941667
72	122	12	45	3	21	6.99	122.2125	-3.351941667
73	122	12	45	3	19	0	122.2125	-3.316666667
74	122	11	55.1	3	19	0	122.1986389	-3.316666667
75	122	11	55.1	3	17	40.4	122.1986389	-3.294555556
76	122	12	17.5	3	17	40.4	122.2048611	-3.294555556
77	122	12	17.5	3	17	46.4	122.2048611	-3.296222222
78	122	12	33.85	3	17	46.4	122.2094028	-3.296222222
79	122	12	33.85	3	17	33.96	122.2094028	-3.292766667
80	122	12	33.89	3	17	33.96	122.2094139	-3.292766667

DILEGALISIR SESUAI ASLINYA
 KEPALA DINAS PERTAMBANGAN DAN ENERGI
 KABUPATEN KONAWE UTARA



KABUPATEN KONAWE UTARA
 H. HERRY HERMAN SYAH SILONDAE, SE

**LAMPIRAN III
HAK DAN KEWAJIBAN****A. HAK**

1. Memasuki WIUP sesuai dengan peta dan daftar koordinat;
2. Melaksanakan kegiatan IUP Operasi Produksi (konstruksi, produksi, pengolahan, pemurnian dan pengangkutan penjualan) sesuai dengan ketentuan peraturan perundang-undangan;
3. Membangun fasilitas penunjang kegiatan IUP Operasi Produksi (konstruksi, produksi, pengolahan pemurnian dan pengangkutan penjualan), didalam maupun diluar WIUP;
4. Dapat menghentikan sewaktu-waktu kegiatan IUP Operasi produksi (konstruksi, produksi, pengolahan pemurnian dan pengangkutan penjualan), di setiap bagian atau beberapa bagian WIUP dengan alasan bahwa kelanjutan dari kegiatan IUP Operasi produksi (konstruksi, produksi, pengolahan pemurnian dan pengangkutan penjualan), tersebut tidak layak atau praktis secara komersial maupun karena keadaan kahar, keadaan yang menghalangi sehingga menimbulkan penghentian sebagian atau seluruh kegiatan usaha pertambangan;
5. Mengajukan permohonan perusahaan mineral lain yang bukan merupakan asosiasi mineral utama yang diketemukan dalam WIUP;
6. Mengajukan pernyataan tidak berminat terhadap perusahaan mineral lain yang bukan merupakan asosiasi mineral utama yang diketemukan dalam WIUP;
7. Memanfaatkan sarana dan prasarana umum untuk keperluan kegiatan IUP Operasi produksi (konstruksi, produksi, pengolahan pemurnian dan pengangkutan penjualan), setelah memenuhi kekuatan peraturan perundang-undangan;
8. Dapat melakukan kerjasama dengan perusahaan lain dalam rangka penggunaan setiap fasilitas yang dimiliki oleh perusahaan lain baik yang berafiliasi dengan perusahaan atau tidak sesuai dengan ketentuan peraturan perundang-undangan;
9. Dapat membangun sarana dan prasarana pada WIUP lain setelah mendapat izin dari pemegang IUP yang bersangkutan.

B. KEWAJIBAN

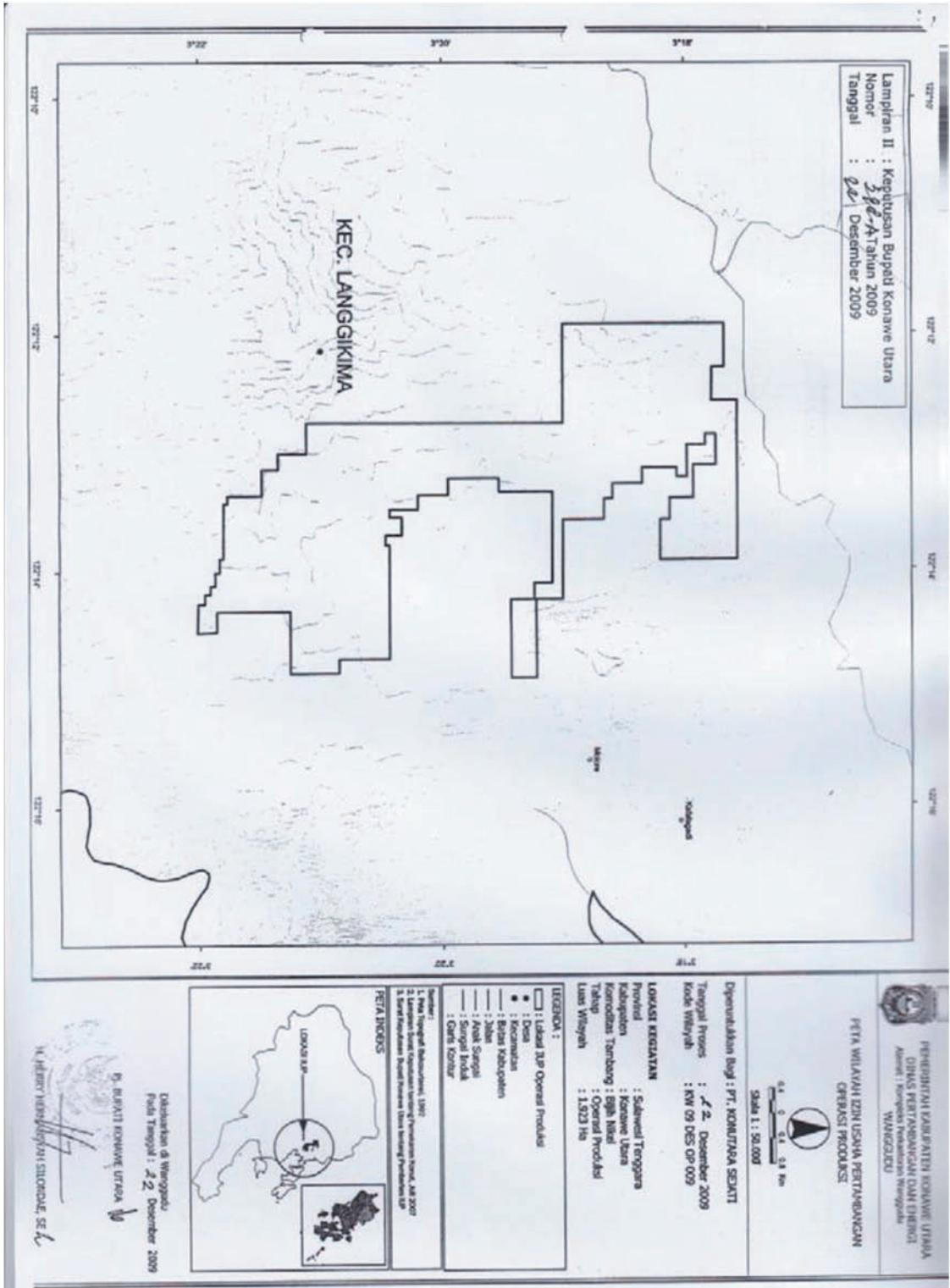
1. Memilih yurisdiksi pada pengadilan negeri tempat dimana lokasi WIUP berada.
2. Selambat-lambatnya 6 bulan setelah ditetapkannya keputusan ini, pemegang IUP Operasi produksi harus sudah melaksanakan dan menyampaikan laporan pematokan batas wilayah IUP Operasi produksi kepada Bupati Konawe Utara
3. Hubungan antara pemegang IUP operasi produksi dengan pihak ketiga menjadi tanggung jawab pemegang IUP sesuai ketentuan peraturan perundang-undangan
4. Melaporkan rencana investasi
5. Menyampaikan rencana reklamasi
6. Menyampaikan rencana pasca tambang
7. Menempatkan jaminan penutupan tambang (sesuai umur tambang)
8. Menyampaikan RKAB selambat-lambatnya pada bulan november yang meliputi rencana tahun depan realisasi kegiatan setiap tahun berjalan kepada Bupati Konawe Utara dengan tembusan kepada Gubernur Sulawesi Tenggara
9. Menyampaikan laporan kegiatan triwulanan yang harus diserahkan dalam jangka waktu 30 (tiga puluh) hari setelah akhir dari triwulanan takwim secara berkala kepada Bupati Konawe Utara dengan tembusan kepada Gubernur Sulawesi Tenggara
10. Apabila ketentuan batas waktu penyampaian RKAB dan pelaporan sebagaimana dimaksud pada angka 8 (delapan) dan 9 (sembilan) tersebut diatas terlampaui, maka kepada pemegang IUP Operasi produksi akan diberikan peringatan tertulis.
11. Menyampaikan laporan produksi dan pemasaran sesuai dengan ketentuan peraturan perundang-undangan.
12. Menyampaikan rencana pengembangan dan pemberdayaan masyarakat sekitar wilayah pertambangan kepada Bupati Konawe Utara
13. Menyampaikan RKTTL setiap tahun sebelum penyampaian RKAB kepada Bupati Konawe Utara
14. Memenuhi ketentuan perpajakan sesuai dengan ketentuan peraturan perundang-undangan.
15. Membayar luran tetap setiap tahun dan membayar royalty sesuai dengan ketentuan peraturan perundang-undangan
16. Menempatkan jaminan reklamasi sebelum melakukann kegiatan produksi dan rencana penutupan tambang sesuai ketentuan peraturan perundang -undangan
17. Menyampaikan RPT (rencana penutupan tambang) 2 tahun sebelum kegiatan produksi berakhir.
18. Mengangkat seorang kepala teknik tambang yang bertanggung jawab atas kegiatan IUP Operasi produksi (konstruksi, produksi, pengolahan pemurnian dan pengangkutan penjualan), keselamatan dan kesehatan kerja pertambangan serta pengelolaan lingkungan pertambangan.

19. Kegiatan produksi dimulai apabila kapasitas produksi terpasang sudah mencapai 70% yang direncanakan;
20. Permohonan perpanjangan IUP untuk kegiatan produksi harus diajukan 2 (dua) tahun sebelum berakhirnya masa izin ini dengan disertai pemenuhan persyaratan;
21. Kelalaian atas ketentuan tersebut pada butir 20, mengakibatkan IUP Operasi produksi berakhir menurut hukum dan segala usaha pertambangan dihentikan dalam jangka waktu paling lama 6 (enam) bulan sejak berakhirnya keputusan ini pemegang IUP Operasi produksi harus mengangkat keluar segala sesuatu yang menjadi miliknya, kecuali benda-benda/bangunan-bangunan yang dipergunakan untuk kepentingan umum;
22. Apabila dalam jangka waktu sebagaimana dimaksud dalam butir 21, pemegang IUP Operasi produksi tidak melaksanakan maka barang /aset pemegang IUP menjadi milik pemerintah;
23. Pemegang IUP Operasi produksi harus menyediakan data dan keterangan sewaktu-waktu apabila dikehendaki oleh pemerintah;
24. Pemegang IUP Operasi produksi membolehkan dan menerima apabila pemerintah sewaktu-waktu melakukan pemeriksaan;
25. Menerapkan kaidah pertambangan yang baik;
26. Mengelola keuangan sesuai dengan sistem akuntansi Indonesia;
27. Melaporkan pelaksanaan pengembangan dan pemberdayaan masyarakat setempat secara berkala;
28. Mengutamakan pemanfaatan tenaga kerja setempat, barang dan jasa dalam negeri sesuai dengan ketentuan peraturan perundang-undangan;
29. Mengutamakan pembelian dalam negeri dari pengusaha lokal yang ada di daerah tersebut sesuai dengan ketentuan peraturan perundang-undangan;
30. Mengutamakan seoptimal mungkin penggunaan perusahaan jasa pertambangan lokal dan/atau nasional;
31. Dilarang melibatkan anak perusahaan dan/atau afiliasinya dalam bidang usaha jasa pertambangan di WUP yang diusahakannya, kecuali dengan izin menteri.
32. Melaporkan data dan pelaksanaan penggunaan usaha jasa penunjang;
33. Menyerahkan seluruh data yang diperoleh dari hasil kegiatan IUP Operasi produksi kepada Bupati Konawe Utara dengan tembusan kepada Gubernur Sulawesi Tenggara.
34. Menyampaikan proposal yang sekurang-kurangnya menggambarkan aspek teknis, keuangan, produksi dan pemasaran serta lingkungan sebagai persyaratannya pengajuan permohonan perpajakan IUP Operasi produksi;
35. Memberikan ganti rugi kepada pemegang hak atas tanah dan tegakan yang terganggu akibat kegiatan IUP Operasi produksi;
36. Mengutamakan pemenuhan kebutuhan dalam negeri (DMO) sesuai ketentuan peraturan perundang-undangan;
37. Penjualan produksi kepada afiliasi harus mengacu kepada harga pasar;
38. Kontrak penjualan jangka panjang (minimal 3 tahun) harus mendapat persetujuan terlebih dahulu dari menteri;
39. Perusahaan wajib mengolah produksinya didalam negeri;
40. Pembangunan sarana dan prasarana pada kegiatan konstruksi antara lain meliputi;
 - a. fasilitas-fasilitas dan peralatan pertambangan;
 - b. instalasi dan peralatan peningkatan mutu mineral/batu bara;
 - c. fasilitas-fasilitas bandar yang dapat meliputi dok-dok, pelabuhan-pelabuhan, dermaga-dermaga, jembatan-jembatan, tongkang-tongkang, pemecah-pemecah air, fasilitas-fasilitas terminal, bengkel-bengkel, daerah-daerah penimbunan, gudang-gudang, dan peralatan bongkar muat.
 - d. fasilitas-fasilitas transportasi, komunikasi yang dapat meliputi jalan-jalan, jembatan-jembatan, kapal-kapal, feri-feri, pelabuhan-pelabuhan udara, rel-rel, tempat-tempat pendaratan pesawat, hanggar-hanggar, garasi-garasi, pompa-pompa BBM, fasilitas-fasilitas radiodan telekomunikasi, serta fasilitas-fasilitas jaringan telegraph, dan telepon.
 - e. perkotaan, yang dapat meliputi rumah-rumah tempat tinggal, toko-toko, sekolah-sekolah, rumah sakit, teater-teater, dan bangunan lain, fasilitas-fasilitas dan peralatan pegawai kantor termasuk tanggungan pegawai tersebut;

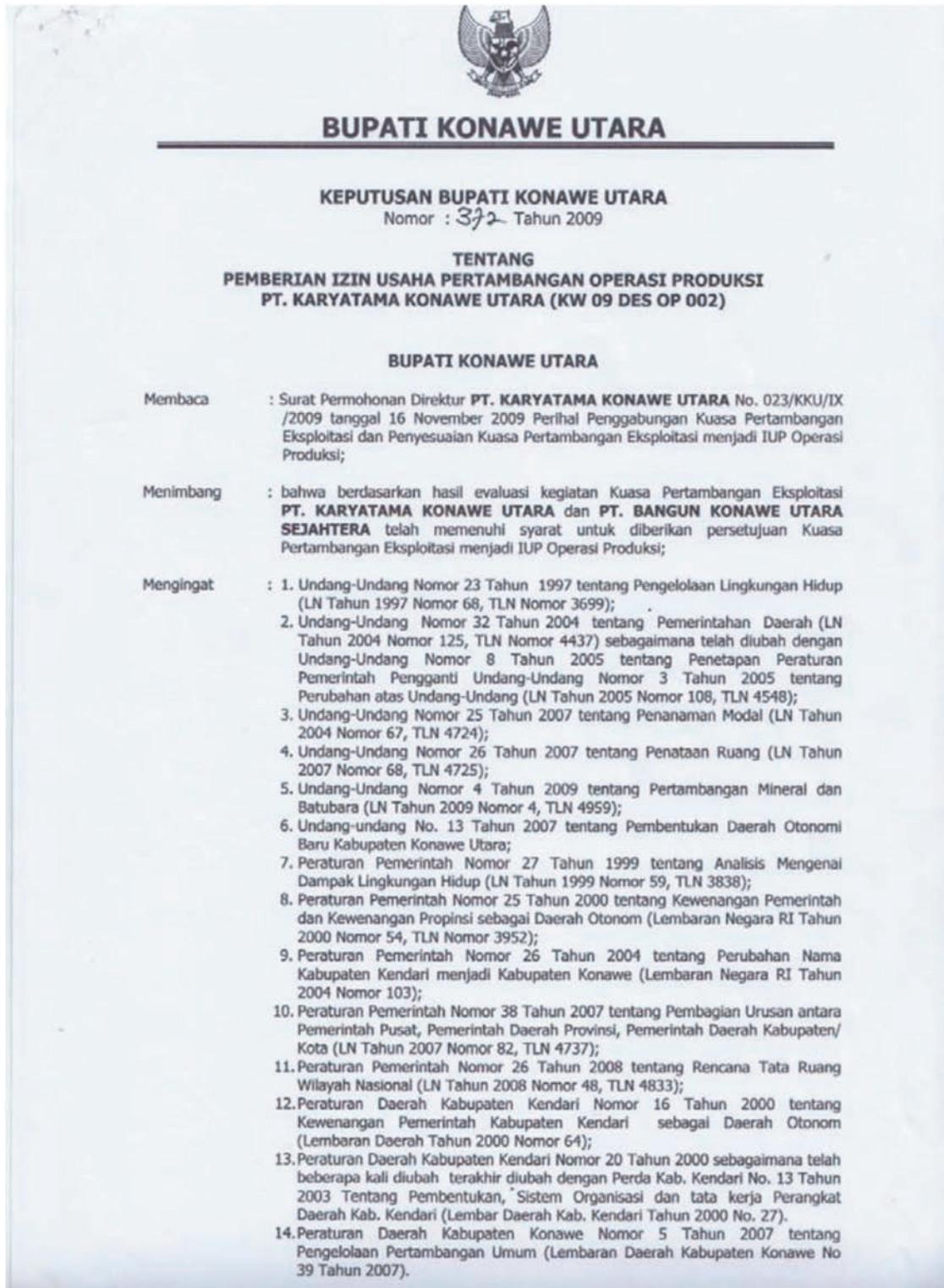
- f. listrik,fasilitas-fasilitas air dan air buangan,dan dapat meliputi pembangkit-pembangkit tenaga listrik (yang dapat berupa tenaga air,uap,gas,atau diesel),jaringan-jaringan listrik,dam-dam,saluran-saluran air,sistem-sistem penyediaan air,dan sistem-sistem pembuangan limbah (tailing),air buangan pabrik,dan air buangan rumah tangga;
- g. fasilitas-fasilitas lain - lain, yang dapat meliputi namun tidak terbatas bengkel-bengkel mesin,bengkel-bengkel pengecoran,dan reparasi;
- h. semua fasilitas tambahan atau fasilitas lain,pabrik dan peralatan yang dianggap perlu atau cocok untuk operasi perusahaan yang berkaitan dengan WIUP atau untuk menyediakan pelayanan atau melaksanakan aktifitas-aktifitas pendukung atau aktifitas yang sifatnya insidentil.

 Pj. BUPATI KONAWE UTARA

H. HERRY HERMANSYAH SILONDAE, SE



Mining Licence (KKU)



MEMUTUSKAN:

Menetapkan : KEPUTUSAN BUPATI KONAWE UTARA TENTANG PEMBERIAN KUASA PERTAMBANGAN EKSPLOITASI MENJADI IUP OPERASI PRODUKSI KEPADA **PT. KARYATAMA KONAWE UTARA**

- PERTAMA** : Memberikan Izin Usaha Pertambangan (IUP) Operasi Produksi
- Nama Perusahaan : **PT. KARYATAMA KONAWE UTARA**
 Nama Direktur : BURHAN TADJUDDIN
 Nilai/persentase saham : Rp. 600.000.000,-
 Nama pemegang saham : BURHAN TADJUDDIN
 Pekerjaan pemegang saham : DIREKTUR PT. KARYATAMA KONAWE UTARA
 Alamat : Menara Batavia Lt.6 Jl. KH. Mas Mansyur Kav. 126 Jakarta Pusat, Telp (021) 57930294, Fax (021)57930295
- Kewarganegaraan : Indonesia
 Alamat : Menara Batavia Lt.6 Jl. KH. Mas Mansyur Kav. 126 Jakarta Pusat, Telp (021) 57930294, Fax (021)57930295
- Komoditas : Mineral Logam (Bijih Nikel)
Lokasi penambangan :
 Kecamatan : Asera
 Kabupaten : Konawe Utara
 Provinsi : Sulawesi Tenggara
 Kode wilayah : KW 09 DES OP 002
 Luas : 3.119 Ha
- Dengan Peta dan daftar koordinat WIUP yang diterbitkan oleh Bupati Konawe Utara sebagai mana tercantum dalam lampiran I dan lampiran II keputusan ini.
- Lokasi pengolahan dan pemurnian:
 Pengangkutan dan penjualan :
 Jangka waktu berlaku IUP : 20 (Dua Puluh) Tahun
 Jangka waktu tahap kegiatan :
 a. Konstruksi selama : 2 (Dua) Tahun
 b. Produksi selama : 18 (Delapan Belas) Tahun
- KEDUA** : Pemegang IUP Operasi Produksi mempunyai hak untuk melakukan kegiatan konstruksi, produksi pengangkutan dan penjualan serta pengolahan dan pemurnian dalam WIUP untuk jangka waktu 20 tahun dan dapat diperpanjang 2 (dua) kali masing-masing 10 tahun terhitung mulai tanggal ditetapkannya keputusan ini sampai dengan tanggal Desember Tahun 2029
- KETIGA** : IUP Operasi Produksi ini dilarang dipindah tangankan kepada pihak lain tanpa persetujuan Bupati Konawe Utara
- KEEMPAT** : **PT. KARYATAMA KONAWE UTARA** sebagai pemegang IUP Operasi Produksi dalam melaksanakan kegiatannya mempunyai hak dan kewajiban sebagai mana tercantum dalam lampiran I keputusan ini.
- KELIMA** : Selambat-lambatnya 60 (enam puluh) hari kerja setelah diterbitkannya keputusan ini pemegang IUP Operasi Produksi sudah harus menyampaikan RKAB kepada Bupati Konawe Utara untuk mendapat persetujuan.
- KEENAM** : Terhitung sejak 90 (sembilan puluh) hari kerja sejak persetujuan RKAB sebagaimana dimaksud dalam diiktum kelima pemegang IUP Operasi Produksi sudah harus memulai aktifitas dilapangan.

- KETUJUH** : Tanpa mengurangi ketentuan peraturan perundang-undangan maka IUP Operasi Produksi ini dapat diberhentikan semnetara, dicabut, atau dibatalkan, apabila pemegang IUP Operasi Produksi tidak memenuhi kewajiban dan larangan sebagaimana dimaksud dalam diktum Ketiga, Keempat dan Kelima dalam keputusan ini.
- KEDELAPAN** : Keputusan Bupati Konawe Utara ini mulai berlaku pada tanggal ditetapkan atau berlaku surut.

Ditetapkan di : Wanggudu
Pada Tanggal : 19 Desember 2009



Tembusan Yth :

1. Menteri Energi dan Sumberdaya Mineral di Jakarta;
2. Menteri Keuangan di Jakarta ;
3. Sekretaris Jenderal Departemen Energi dan Sumberdaya Mineral di Jakarta;
4. Inspektur Jenderal Departemen Energi dan Sumberdaya Mineral di Jakarta;
5. Direktur Jenderal Pajak, Departemen Keuangan di Jakarta;
6. Direktur Jenderal Perbendaharaan, Departemen Keuangan di Jakarta;
7. Direktur Jenderal Pendapatan Daerah, Departemen Dalam Negeri di Jakarta;
8. Gubernur Sulawesi Tenggara di Kendari;
9. Kepala Biro Hukum dan Humas/ Kepala Biro Keuangan/ Kepala Biro Perencanaan dan Kerjasama Luar Negeri, Setjen Departemen Luar Energi dan Sumberdaya Mineral di Jakarta;
10. Sekretaris Direktorat Jenderal Mineral, Batubara dan Panas Bumi di Jakarta;
11. Direktur Teknik dan Lingkungan Mineral, Batubara dan Panas Bumi di Jakarta;
12. Direktur Pembinaan Program Mineral, Batubara dan Panas Bumi di Jakarta;
13. Direktur Pembinaan Pengusahaan Mineral dan Batubara di Jakarta;
14. Direktur Pajak Bumi dan Bangunan, Departemen Keuangan di Jakarta;
15. Kepala Dinas Pertambangan dan Energi Prov. Sultra di Kendari;
16. Kepala Dinas Pertambangan dan Energi Kab. Konawe Utara di Wanggudu;
17. Direksi PT. Karyatama Konawe Utara di Jakarta;
18. Arslp.-

**LAMPIRAN I
HAK DAN KEWAJIBAN****A. HAK**

1. Memasuki WIUP sesuai dengan peta dan daftar koordinat;
2. Melaksanakan kegiatan IUP Operasi Produksi (konstruksi, produksi, pengolahan, pemurnian dan pengangkutan penjualan) sesuai dengan ketentuan peraturan perundang-undangan;
3. Membangun fasilitas penunjang kegiatan IUP Operasi Produksi (konstruksi, produksi, pengolahan pemurnian dan pengangkutan penjualan), didalam maupun diluar WIUP;
4. Dapat menghentikan sewaktu-waktu kegiatan IUP Operasi produksi (konstruksi, produksi, pengolahan pemurnian dan pengangkutan penjualan), di setiap bagian atau beberapa bagian WIUP dengan alasan bahwa kelanjutan dari kegiatan IUP Operasi produksi (konstruksi, produksi, pengolahan pemurnian dan pengangkutan penjualan), tersebut tidak layak atau praktis secara komersial maupun karena keadaan kahar, keadaan yang menghalangi sehingga menimbulkan penghentian sebagian atau seluruh kegiatan usaha pertambangan;
5. Mengajukan permohonan perusahaan mineral lain yang bukan merupakan asosiasi mineral utama yang diketemukan dalam WIUP;
6. Mengajukan pernyataan tidak berminat terhadap perusahaan mineral lain yang bukan merupakan asosiasi mineral utama yang diketemukan dalam WIUP;
7. Memanfaatkan sarana dan prasarana umum untuk keperluan kegiatan IUP Operasi produksi (konstruksi, produksi, pengolahan pemurnian dan pengangkutan penjualan), setelah memenuhi kekuatan peraturan perundang-undangan;
8. Dapat melakukan kerjasama dengan perusahaan lain dalam rangka penggunaan setiap fasilitas yang dimiliki oleh perusahaan lain baik yang berafiliasi dengan perusahaan atau tidak sesuai dengan ketentuan peraturan perundang-undangan;
9. Dapat membangun sarana dan prasarana pada WIUP lain setelah mendapat izin dari pemegang IUP yang bersangkutan.

B. KEWAJIBAN

1. Memilih yurisdiksi pada pengadilan negeri tempat dimana lokasi WIUP berada.
2. Selambat-lambatnya 6 bulan setelah ditetapkannya keputusan ini, pemegang IUP Operasi produksi harus sudah melaksanakan dan menyampaikan laporan pematokan batas wilayah IUP Operasi produksi kepada Bupati Konawe Utara
3. Hubungan antara pemegang IUP operasi produksi dengan pihak ketiga menjadi tanggung jawab pemegang IUP sesuai ketentuan perundang-undangan
4. Melaporkan rencana investasi
5. Menyampaikan rencana reklamasi
6. Menyampaikan rencana pasca tambang
7. Menempatkan jaminan penutupan tambang (sesuai umur tambang)
8. Menyampaikan RKAB selambat-lambatnya pada bulan november yang meliputi rencana tahun depan realisasi kegiatan setiap tahun berjalan kepada Bupati Konawe Utara dengan tembusan kepada Gubernur Sulawesi Tenggara
9. Menyampaikan laporan kegiatan triwulanan yang harus diserahkan dalam jangka waktu 30 (tiga puluh) hari setelah akhir dari triwulanan takwim secara berkala kepada Bupati Konawe Utara dengan tembusan kepada Gubernur Sulawesi Tenggara
10. Apabila ketentuan batas waktu penyampaian RKAB dan pelaporan sebagaimana dimaksud pada angka 8 (delapan) dan 9 (sembilan) tersebut diatas terlampaui, maka kepada pemegang IUP Operasi produksi akan diberikan peringatan tertulis.
11. Menyampaikan laporan produksi dan pemasaran sesuai dengan ketentuan peraturan perundang-undangan.
12. Menyampaikan rencana pengembangan dan pemberdayaan masyarakat sekitar wilayah pertambangan kepada Bupati Konawe Utara
13. Menyampaikan RKTTL setiap tahun sebelum penyampaian RKAB kepada Bupati Konawe Utara
14. Memenuhi ketentuan perpajakan sesuai dengan ketentuan peraturan perundang-undangan.
15. Membayar iuran tetap setiap tahun dan membayar royalty sesuai dengan ketentuan peraturan perundang-undangan
16. Menempatkan jaminan reklamasi sebelum melakukann kegiatan produksi dan rencana penutupan tambang sesuai ketentuan peraturan perundang-undangan
17. Menyampaikan RPT (rencana penutupan tambang) 2 tahun sebelum kegiatan produksi berakhir.
18. Mengangkat seorang kepala teknik tambang yang bertanggung jawab atas kegiatan IUP Operasi produksi (konstruksi, produksi pengolahan pemurnian dan pengangkutan penjualan), keselamatan dan kesehatan kerja pertambangan serta pengelolaan lingkungan pertambangan;

19. Kegiatan produksi dimulai apabila kapasitas produksi terpasang sudah mencapai 70% yang direncanakan;
20. Permohonan perpanjangan IUP untuk kegiatan produksi harus diajukan 2 (dua) tahun sebelum berakhirnya masa izin ini dengan disertai pemenuhan persyaratan;
21. Kelalaian atas ketentuan tersebut pada butir 20, mengakibatkan IUP Operasi produksi berakhir menurut hukum dan segala usaha pertambangan dihentikan dalam jangka waktu paling lama 6 (enam) bulan sejak berakhirnya keputusan ini pemegang IUP Operasi produksi harus mengangkat keluar segala sesuatu yang menjadi miliknya, kecuali benda-benda/bangunan-bangunan yang dipergunakan untuk kepentingan umum;
22. Apabila dalam jangka waktu sebagaimana dimaksud dalam butir 21, pemegang IUP Operasi produksi tidak melaksanakan maka barang /aset pemegang IUP menjadi milik pemerintah;
23. Pemegang IUP Operasi produksi harus menyediakan data dan keterangan sewaktu-waktu apabila dikehendaki oleh pemerintah;
24. Pemegang IUP Operasi produksi membolehkan dan menerima apabila pemerintah sewaktu-waktu melakukan pemeriksaan;
25. Menerapkan kaidah pertambangan yang baik;
26. Mengelola keuangan sesuai dengan sistem akuntansi Indonesia;
27. Melaporkan pelaksanaan pengembangan dan pemberdayaan masyarakat setempat secara berkala;
28. Mengutamakan pemanfaatan tenaga kerja setempat, barang dan jasa dalam negeri sesuai dengan ketentuan peraturan perundang-undangan;
29. Mengutamakan pembelian dalam negeri dari pengusaha lokal yang ada di daerah tersebut sesuai dengan ketentuan peraturan perundang-undangan;
30. Mengutamakan seoptimal mungkin penggunaan perusahaan jasa pertambangan lokal dan/atau nasional;
31. Dilarang melibatkan anak perusahaan dan/atau afiliasinya dalam bidang usaha jasa pertambangan di WUP yang diusahakannya, kecuali dengan izin menteri.
32. Melaporkan data dan pelaksanaan penggunaan usaha jasa penunjang;
33. Menyerahkan seluruh data yang diperoleh dari hasil kegiatan IUP Operasi produksi kepada Bupati Konawe Utara dengan tembusan kepada Gubernur Sulawesi Tenggara.
34. Menyampaikan proposal yang sekurang-kurangnya menggambarkan aspek teknis, keuangan, produksi dan pemasaran serta lingkungan sebagai persy7a ratan pengajuan permohonan perpajakan IUP Operasi produksi;
35. Memberikan ganti rugi kepada pemegang hak atas tanah dan tegakan yang terganggu akibat kegiatan IUP Operasi produksi;
36. Mengutamakan pemenuhan kebutuhan dalam negeri (DMO) sesuai ketentuan peraturan perundang-undangan;
37. Penjualan produksi kepada afiliasi harus mengacu kepada harga pasar;
38. Kontrak penjualan jangka panjang (minimal 3 tahun) harus mendapat persetujuan terlebih dahulu dari menteri;
39. Perusahaan wajib mengolah produksinya didalam negeri;
40. Pembangunan sarana dan prasarana pada kegiatan konstruksi antara lain meliputi:
 - a. fasilitas-fasilitas dan peralatan pertambangan;
 - b. instalasi dan peralatan peningkatan mutu mineral/batu bara;
 - c. fasilitas-fasilitas bandar yang dapat meliputi dok-dok, pelabuhan-pelabuhan, dermaga-dermaga, jembatan-jembatan, tongkang-tongkang, pemecah-pemecah air, fasilitas-fasilitas terminal, bengkel-bengkel, daerah-daerah penimbunan, gudang-gudang, dan peralatan bongkar muat.
 - d. fasilitas-fasilitas transportasi, komunikasi yang dapat meliputi jalan-jalan, jembatan-jembatan, kapal-kapal, feri-feri, pelabuhan-pelabuhan udara, rel-rel, tempat-tempat pendaratan pesawat, hanggar-hanggar, garasi-garasi, pompa-pompa BBM, fasilitas-fasilitas radiodan telekomunikasi, serta fasilitas-fasilitas jaringan telegraph, dan telepon.
 - e. perkotaan, yang dapat meliputi rumah-rumah tempat tinggal, toko-toko, sekolah-sekolah, rumah sakit, teater-teater, dan bangunan lain, fasilitas-fasilitas dan peralatan pegawai kantor termasuk tanggungan pegawai tersebut;

- f. listrik, fasilitas-fasilitas air dan air buangan, dan dapat meliputi pembangkit-pembangkit tenaga listrik (yang dapat berupa tenaga air, uap, gas, atau diesel), jaringan-jaringan listrik, dam-dam, saluran-saluran air, sistem-sistem penyediaan air, dan sistem-sistem pembuangan limbah (tailing), air buangan pabrik, dan air buangan rumah tangga;
- g. fasilitas-fasilitas lain - lain, yang dapat meliputi namun tidak terbatas bengkel-bengkel mesin, bengkel-bengkel pengecoran, dan reparasi;
- h. semua fasilitas tambahan atau fasilitas lain, pabrik dan peralatan yang dianggap perlu atau cocok untuk operasi perusahaan yang berkaitan dengan WIUP atau untuk menyediakan pelayanan atau melaksanakan aktifitas-aktifitas pendukung atau aktifitas yang sifatnya insidental.


Pj. BUPATI KONAWA UTARA
H. HERRY HERMANSYAH SILONDAE, SE *h*

Lampiran II : KEPUTUSAN BUPATI KONAWE UTARA
 Nomor : 372 Tahun 2009
 Tanggal : 14 Desember 2009
 Tentang : PEMBERIAN IZIN USAHA PERTAMBANGAN OPERASI PRODUKSI

**DAFTAR KOORDINAT PETA
 POLIGON TERTUTUP**

Nama : PT. KARYATAMA KONAWE UTARA
 Lokasi :
 - Propinsi : SULAWESI TENGGARA
 - Kabupaten : KONAWE UTARA
 - Komoditas Tambang : Mineral Logam (Bijih Nikel)
 - Kode Wilayah : KW 09 DES OP 002
 Luas : 3.119 Hektar
 IUP : Operasi Produksi

PATOK	GARIS BUJUR (BT)			GARIS LINTANG (LS)			BUJUR DESIMA	LINTANG G
	Derajat	Menit	Detik	Derajat	Menit	Detik		
1	2	3	4	5	6	7	8	9
1	122	13	26	3	13	48.2	122.2239	-3.23006
2	122	13	26	3	13	2	122.2239	-3.21722
3	122	14	2.8	3	13	2	122.2341	-3.21722
4	122	14	2.8	3	13	0.1	122.2674	-3.21669
5	122	17	10	3	13	0.1	122.2861	-3.21669
6	122	17	10	3	14	0.1	122.2861	-3.23336
7	122	16	44.9	3	14	0.1	122.2791	-3.23336
8	122	16	44.9	3	15	0	122.2791	-3.25
9	122	16	38.8	3	15	0	122.2774	-3.25
10	122	16	38.8	3	14	52	122.2774	-3.24778
11	122	16	36.1	3	14	52	122.2767	-3.24778
12	122	16	36.1	3	14	45.3	122.2767	-3.24592
13	122	16	34.1	3	14	45.3	122.2761	-3.24592
14	122	16	34.1	3	14	38.8	122.2761	-3.24411
15	122	16	39.2	3	14	38.8	122.2776	-3.24411
16	122	16	39.2	3	14	21.9	122.2776	-3.23942
17	122	16	31.9	3	14	21.9	122.2755	-3.23942
18	122	16	31.9	3	14	32.3	122.2755	-3.24231
19	122	16	25	3	14	32.3	122.2736	-3.24231
20	122	16	25	3	15	0	122.2736	-3.25
21	122	15	34.6	3	15	0	122.2596	-3.25
22	122	15	34.6	3	14	50.1	122.2596	-3.24725
23	122	15	26.8	3	14	50.1	122.2574	-3.24725
24	122	15	26.8	3	14	54.2	122.2574	-3.24839
25	122	15	17.15	3	14	54.2	122.2548	-3.24839
26	122	15	17.15	3	15	0	122.2548	-3.25
27	122	14	35.2	3	15	0	122.2431	-3.25
28	122	14	35.2	3	14	50.3	122.2431	-3.24731
29	122	14	24.7	3	14	50.3	122.2402	-3.24731
30	122	14	24.7	3	14	35	122.2402	-3.24306

Bersambung

.....Sambungan

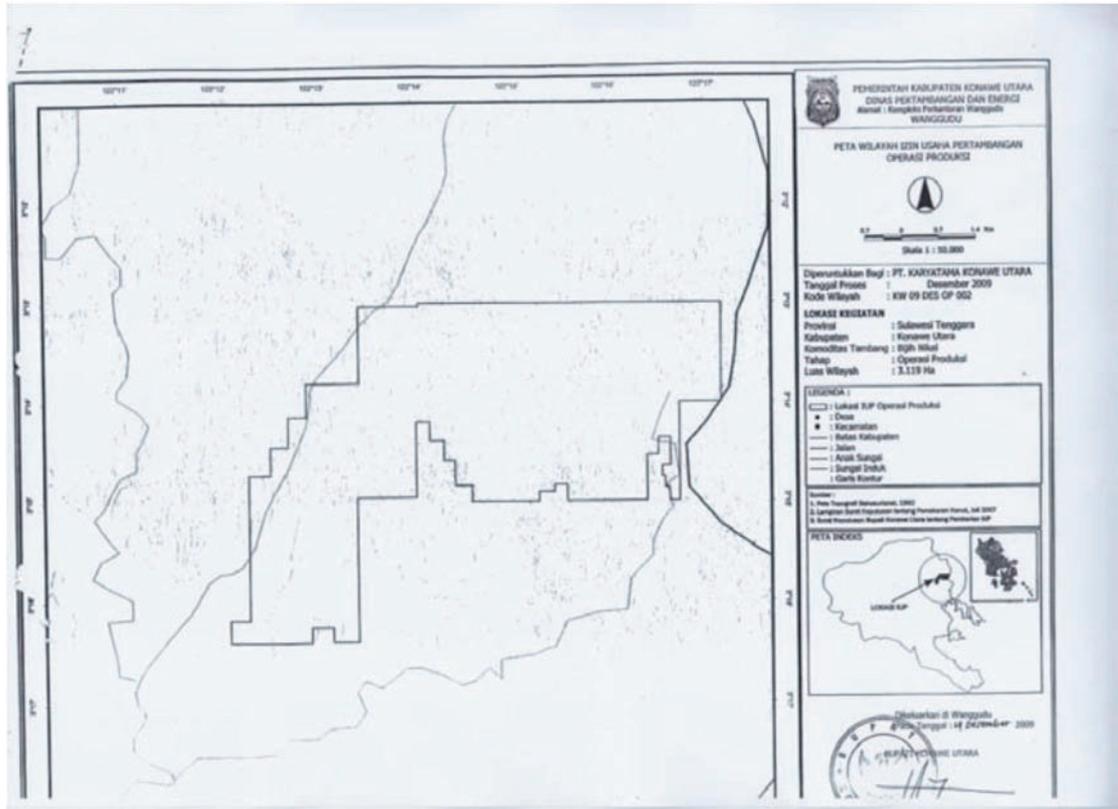
1	2	3	4	5	6	7	8	9
31	122	14	18	3	14	35	122.2383	-3.24306
32	122	14	18	3	14	23.1	122.2383	-3.23975
33	122	14	9.3	3	14	23.1	122.2359	-3.23975
34	122	14	9.3	3	14	11.7	122.2359	-3.23658
35	122	14	1.01	3	14	11.7	122.2336	-3.23658
36	122	14	1.01	3	14	57.4	122.2336	-3.24928
37	122	13	24.7	3	14	57.4	122.2235	-3.24928
38	122	13	24.7	3	16	23.8	122.2235	-3.27328
39	122	13	9	3	16	23.8	122.2192	-3.27328
40	122	13	9	3	16	15.1	122.2192	-3.27086
41	122	12	56	3	16	15.1	122.2156	-3.27086
42	122	12	56	3	16	24	122.2156	-3.27333
43	122	12	6.3	3	16	24	122.2018	-3.27333
44	122	12	6.3	3	16	10.7	122.2018	-3.26964
45	122	12	18.3	3	16	10.7	122.2051	-3.26964
46	122	12	18.3	3	14	43.6	122.2051	-3.24544
47	122	12	31.6	3	14	43.6	122.2088	-3.24544
48	122	12	31.6	3	14	26.8	122.2088	-3.24078
49	122	12	42.6	3	14	26.8	122.2118	-3.24078
50	122	12	42.6	3	14	8.6	122.2118	-3.23572
51	122	12	53.8	3	14	8.6	122.2149	-3.23572
52	122	12	53.8	3	13	48.2	122.2149	-3.23006



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H. HERRY HERMANSYAH SILONDAE, SE



Appendix II: Chinese Resource and Reserve Standards

Categorisation of Mineral Resources and Ore Reserves

The system for categorisation of mineral resources and ore reserves in China is in a period of transition which commenced in 1999. The traditional system, which is derived from the former Soviet system, uses five categories based on decreasing levels of geological confidence – Categories A, B, C, D and E. The new system (Rule 66) promulgated by the Ministry of Land and Resources (MLR) in 1999 uses three dimensional matrices, based on economic, feasibility/mine design and geological degrees of confidence. These are categorised by a three number code of the form “123”. This new system is derived from the UN Framework Classification proposed for international use. All new projects in China must comply with the new system, however, estimates and feasibility studies carried out before 1999 will have used the old system.

Wherever possible, the Chinese Resource and Reserve estimates have been reassigned by CSA to categories similar to those used by the JORC Code to standardise categorisation. Although similar terms have been used, CSA does not mean to imply that in their present format they are necessarily classified as ‘Mineral Resources’ as defined by the Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves (the “JORC Code”).

A broad comparison guide between the Chinese classification scheme and the JORC Code is presented in the following table.

Relationship between JORC Code and the Chinese Reserves System

JORC Code Resource Category	Chinese Resource Category	
	Previous system	Current system
Measured	A, B	111, 111b, 121, 121b, 2M11, 2M21, 2S11, 2S21, 331
Indicated	C	122, 122b, 2M22, 2S22, 332
Inferred	D	333
Non-equivalent	E	334

Definition of the New Chinese Resource and Reserve Category Scheme

Category	Denoted	Comments
Economic	1	Full feasibility study considering economic factors has been conducted
	2	Pre feasibility to scoping study which generally considers economic factors has been conducted
	3	No pre feasibility or scoping study conducted to consider economic analysis
Feasibility	1	Further analysis of data collected in “2” by an external technical department
	2	More detailed feasibility work including more trenches, tunnels, drilling, detailed mapping
	3	Preliminary evaluation of feasibility with some mapping and trenches
Geologically controlled	1	Strong geological control
	2	Moderate geological control via closely-spaced data points (e.g. small scale mapping)
	3	Minor work which is projected throughout the area
	4	Review stage

In China, the methods used to estimate the resources and reserves are generally prescribed by the relevant government authority, and are based on the level of knowledge for that particular geological style of deposit. The parameters and computational methods prescribed by the relevant authority include cut-off grades, minimum thickness of mineralisation, maximum thickness of internal waste, and average minimum ‘industrial’ or ‘economic’ grades required. The resource classification categories are assigned largely on the basis of the spacing of sampling, trenching, underground tunnels and drill holes.

In the pre-1999 system, Category A generally included the highest level of detail possible, such as grade control information. However, the content of categories B, C and D may vary from deposit to deposit in China, and therefore must be carefully reviewed before assigning to an equivalent “JORC Code type” category. The traditional Categories B, C and D are broadly equivalent to the ‘Measured’, ‘Indicated’, and ‘Inferred’ categories that are provided by the JORC Code and USBM/USGS systems used widely elsewhere in the world. In the JORC Code system the ‘Measured Resource’ category has the most confidence and the ‘Inferred’ category has the least confidence, based on increasing levels of geological knowledge and continuity of mineralisation.

Old Chinese Classification		A & B		C		D	E & F
New Chinese Classification							
"E" Economic Evaluation (1XX)	Designed Mining Loss Accounted	Recoverable Reserve (111)	Probable Recoverable Reserve (121)		Probable Recoverable Reserve (122)		
	Designed Mining Loss NOT Accounted (b)	Basic Reserve (111b)	Basic Reserve (121b)		Basic Reserve (122b)		
Marginal Economic (2MXX)		Basic Reserve (2M11)	Basic Reserve (2M21)		Basic Reserve (2M22)		
Submarginal Economic (2SXX)		Resource (2S11)	Resource (2S21)		Resource (2S22)		
Intrinsic Economic (3XX)				Resource (331)	Resource (332)	Resource (333)	Resource (334?)
"F" Feasibility Evaluation	Feasibility (010)	Pre-Feasibility (020)	Scoping (030)	Pre-Feasibility (020)	Scoping (030)	Scoping (030)	Scoping (030)
"G" Geological Evaluation	Measured (001)			Indicated (002)		Inferred (003)	Predicted (004)
Comparison to JORC Code							Unclassified
							Inferred Resource
					Probable Reserve or Indicated Resource		
	Proved / Probable Reserve or Measured Resource						

Appendix III: Indonesian Environmental Legislative Background

The Indonesian National Law on Mineral and Coal Mining (No.4 of 2009) ('Mining Law'), the Regulation for the Implementation of Mining Areas (No.22 of 2010), ('Mining Area Regulations') and the Regulation for the Implementation of Mineral and Coal Mining Business Activities (No.23 of 2010) ('Mining Regulations'), provide the main legislative framework for the administration and regulation of mining projects within Indonesia. The Law on Environmental Protection and Management (No.32 of 2009) ('Environmental Law') provides the main legislative framework for the regulation and administration of mining projects environmental impacts.

Mining Areas are those areas designated by the Central Government as 'open for mining'. These 'designated mining areas' are referred to as *Wilayah Pertambangan* (WP) and occur in the following three categories:

- Commercial mining business areas – *Wilayah Usaha Pertambangan* (WUP), are mining areas for larger scale mining.
- State reserve areas – *Wilayah Pencadangan Negara* (WPN), are mining areas reserved for the national strategic interest.
- People's mining areas – *Wilayah Pertambangan Rakyat* (WPR), are mining areas for small scale local mining.

Within these designated mining areas, mining licences may be issued under the following three categories:

- Mining Business Licence – *Izin Usaha Pertambangan* (IUP) is a general mining licence for conducting mining business activities within a WUP mining area.
- Special Mining Business Licence – *Izin Usaha Pertambangan Khusus* (IUPK) is a licence for conducting mining business activities within a specific WPN mining area.
- People's Mining Licence – *Izin Pertambangan Rakyat* (IPR) is a licence granted to Indonesian citizens/invertors only for conducting mining business of a limited size and investment, within a WPR mining area.

Both the Mining Law and the Environmental Law require mining companies that are developing projects that are deemed to have significant potential environmental and/or social impacts, to produce an environmental impact assessment and planning document *Analisa Mengenai Dampak Lingkungan* (AMDAL). An AMDAL consists of an environmental impact assessment, an environmental management plan and an environmental monitoring plan. An 'environmental management effort document', *Upaya Pengelolaan Lingkungan* (UPL) and *Upaya Pengawasan Lingkungan* (UKL) generally need to be prepared in any situation where it is deemed that an AMDAL is not required.

The following are further Indonesian laws, regulations, presidential decrees and statutes that provide environmental legislative support to the Mining Law/Regulations and the Environmental Law:

- *The Law on Forestry (No.41 1999)*
- *Government Regulation (No. 24 2010) – regarding utilisation of forest areas*
- *Government Regulation (No. 78 2010) – concerning reclamation and post-mining*
- *Regulation of the Minister of Forestry (No.18 2011) Guidelines for Use of Forest Areas (Lend Use Permitting in Production Forest Areas and Protected Forest Area)*
- *Government Regulation (Presidential decree) (No.28 2011) – on the use of protected forest areas for underground mining*
- *Environmental Impact Assessment, Types of Businesses or Activities Required to Prepare (MOE Decree No.11, 1994)*
- *Environmental Management and Monitoring Procedures, Guidelines for (MOE Decree No.12, 1994)*
- *Indonesia: Environmental Regulations of Indonesia (Circular No.3 of 1987)*
- *Water Pollution, Control of (Gov't Reg. No.20, 1990)*
- *Hazardous and Toxic Waste Management, Regulation Regarding (Gov't Reg. No.19 1994)*
- *Hazardous and Toxic Wastes, Amendment of Regulation Regarding Handling (Gov't Reg. No.12 1995)*
- *Environmental Impact Assessment, Regulation Regarding (Gov't Reg. No.51 1993)*
- *Environmental Management and Monitoring Procedures, Guidelines for (MOE Decree No.12 1994)*
- *Hazardous and Toxic Waste Management, Regulation Regarding (Gov't Reg. No.19 1994)*
- *Hazardous and Toxic Wastes, Amendment of Regulation Regarding Handling (Gov't Reg. No.12 1995).*

Appendix IV: World Bank/IFC Environmental Standards and Guidelines

In seeking to obtain project financing or to list on a stock exchange, these institutions themselves require the proponent to comply with such documents as the Equator Principles and the IFC Performance Standards and Guidelines. This is exemplified by the following preamble from the Equator Principles (July 2006):

Project financing, a method of funding in which the lender looks primarily to the revenues generated by a single project both as the source of repayment and as security for the exposure, plays an important role in financing development throughout the world. Project financiers may encounter social and environmental issues that are both complex and challenging, particularly with respect to projects in the emerging markets.

The Equator Principles Financial Institutions (EPFIs) have consequently adopted these Principles in order to ensure that the projects we finance are developed in a manner that is socially responsible and reflect sound environmental management practices. By doing so, negative impacts on project-affected ecosystems and communities should be avoided where possible, and if these impacts are unavoidable, they should be reduced, mitigated and/or compensated for appropriately. We believe that adoption of and adherence to these Principles offers significant benefits to ourselves, our borrowers and local stakeholders through our borrowers' engagement with locally affected communities. We therefore recognise that our role as financiers affords us opportunities to promote responsible environmental stewardship and socially responsible development. As such, EPFIs will consider reviewing these Principles from time-to-time based on implementation experience, and in order to reflect ongoing learning and emerging good practice.

These Principles are intended to serve as a common baseline and framework for the implementation by each EPFI of its own internal social and environmental policies, procedures and standards related to its project financing activities. We will not provide loans to projects where the borrower will not or is unable to comply with our respective social and environmental policies and procedures that implement the Equator Principles.

Tables 1 and 2 provide a brief summary of the Equator Principles and the IFC Performance Standards respectively. These documents are used by the EPFIs and stock exchanges in their review of the social and environmental performance of proponent companies.

Table 1: Equator Principles

Equator Principles	Title	Key Aspects (Summary)
1	Review and Categorisation	Categorise such project based on the magnitude of its potential impacts and risks
2	Social and Environmental Assessment	Conduct a Social and Environmental Assessment ("Assessment"). The Assessment should also propose mitigation and management measures appropriate to the nature and scale of the proposed project.
3	Applicable Social and Environmental Standards	The Assessment will refer to the applicable IFC Performance Standards, and applicable Industry Specific Environmental Health and Safety Guidelines ("EHS Guidelines") and overall compliance with the same.
4	Action Plan and Management System	Prepare an Action Plan (AP) which addresses the relevant findings of the Assessment. The AP will describe and prioritise actions, mitigation measures, corrective actions and monitoring to manage impacts and risks identified in the Assessment. Maintain a Social and Environmental Management System that addresses the management of these impacts, risks, and corrective actions required to comply with host country laws and regulations, and requirements of the applicable Standards and Guidelines, as defined in the AP.
5	Consultation and Disclosure	Consult with project affected communities. Adequately incorporate affected communities' concerns.
6	Grievance Mechanism	Establish a grievance mechanism as part of the management system to receive and resolve concerns about the project by individuals or groups from among project affected communities. Inform affected communities about the grievance mechanism in the course of the community engagement process and ensure that the mechanism addresses concerns promptly and transparently, and is readily accessible to all segments of affected communities.
7	Independent Review	An independent social or environmental expert will review the Assessment, AP and consultation process to assess Equator Principles compliance.
8	Covenants	Covenant in financing documentation: a) to comply with all relevant host country social and environmental laws, regulations and permits; b) to comply with the AP during the construction and operation of the project; c) to provide periodic reports not less than annually, prepared by in-house staff or third party experts, that (i) document compliance with the AP, and (ii) provide compliance with relevant local, state and host country social and environmental laws, regulations and permits; and d) to decommission the facilities, where applicable and appropriate, in accordance with an agreed decommissioning plan.
9	Independent Monitoring and Reporting	Appoint an independent environmental and/or social expert, or require that the borrower retain qualified and experienced external experts to verify its monitoring information.
10	EPFI Reporting	Each EPFI adopting the Equator Principles commits to report publicly at least annually about its Equator Principles implementation processes and experience, taking into account appropriate confidentiality considerations.

Table 2: IFC Performance Standards

IFC Performance Standard	Title	Objective (Summary)	Key Aspects (Summary)
1	Social and Environmental Assessment and Management Systems	Social and EIA and improved performance through use of management systems.	Social and Environmental Management System (S&EMS). Social and Environmental Impact Assessment (S&EIA). Risks and impacts. Management Plans. Monitoring. Reporting. Training. Community consultation
2	Labour and Working Conditions	Equal Employment Opportunities (EEO). Safety and Health	Implement through the S&EMS. Human Relations (HR) policy. Working conditions. EEO. Forced and child labour. Occupational Health and Safety.
3	Pollution Prevention and Abatement	Avoid pollution. Reduce emissions.	Prevent pollution. Conserve resources. Energy efficiency. Reduce waste. Hazardous materials. EPR. Greenhouse.
4	Community Health, Safety and Security	Avoid or minimise risks to community.	Implement through the S&EMS. Do risk assessment. Hazardous materials safety. Community exposure. ERP
5	Land Acquisition and Involuntary Resettlement	Avoid or minimise resettlement. Mitigate adverse social impacts	Implement through the S&EMS. Consultation. Compensation. Resettlement planning. Economic displacement.
6	Biodiversity Conservation and Sustainable Natural Resource Management	Protect and conserve biodiversity.	Implement through the S&EMS. Assessment. Habitat. Protected areas. Invasive species.
7	Indigenous Peoples	Respect. Avoid and minimise impacts. Foster good faith.	Avoid adverse impacts. Consultation. Development benefits. Impacts to traditional land use. Relocation.
8	Cultural Heritage	Protect cultural heritage.	Heritage survey. Site avoidances. Consultation

Appendix V: Qualitative Risk Analysis

To ensure the technical integrity of the risk analysis process, the following Australian Standards for risk analysis and risk management have been utilised for overall guidance:

- AS/NZS 3931:1998 Risk Analysis of Technological Systems – Application Guide;
- AS/NZS 4360:1999 Risk Management; and
- HB 203:2004 Environmental Risk Management – Principles and Process.

These Australian Standards have been developed in line with comparable international standards.

A risk is generally described in terms of the severity/consequence and likelihood of an undesirable occurrence or incident. The greater the potential severity and likelihood of an undesirable occurrence, the higher the level of risk associated with the related activity. An environmental risk can be defined as both a risk to the environment resulting from an organisation's activities and also as a risk to an organisation from related environmental issues.

The generic approach for this qualitative risk analysis has the following three steps:

- (i) Establish the context/define the scope of the analysis – goals/objectives, the analysis strategy and evaluation criteria.
- (ii) Identify and analyse the environmental risks in terms of consequence and likelihood.
- (iii) Evaluate and rank the environmental risks.

Qualitative Risk Analysis - Scope

The scope definition and context for the qualitative risk analysis can be summarised as follows:

- **Goals/Objectives** – The primary objective is to analyse the qualitative risks associated with the project's development, operational and closure aspects.
- **Strategy** – The strategy employed comprises the application of a qualitative risk analysis where the 'relative magnitude' of risks associated with the project are estimated. Inclusive within this process are also the concepts of inherent and residual risks. Inherent risks being those hazards that are present within the project without any remedial management, and residual risks are defined as those hazards remaining after the application of remedial risk management measures.

This qualitative risk analysis strategy has the following key steps:

- **Step 1** – Develop a qualitative risk matrix. This has relative significance rankings for the potential consequences/impacts, levels of event likelihood and the corresponding risk rankings from negligible to extreme.
- **Step 2** – Define the inherent/residual risks. List the sources of risks and apply the qualitative risk analysis to define the level of inherent/residual risk.

Qualitative Risk Analysis Matrix

The proposed qualitative risk matrix uses the following definitions for consequence and likelihood:

- Consequence:
 - **Catastrophic:** Disaster with potential to lead to ecological/business collapse.
 - **Major:** Critical event/impact, which with proper remedial management, will be endured.
 - **Moderate:** Significant event/impact, which may be managed under normal procedures.
 - **Minor:** Consequences/impacts that may be readily absorbed, but some remedial management effort is still required.
 - **Insignificant:** No remedial management required.
- Likelihood:
 - **Certain:** The event is expected to occur in most circumstances.
 - **Likely:** The event probably will occur in most circumstances (i.e. also could be on a regular basis such as weekly/monthly).
 - **Possible:** The event should occur at some time (i.e. once in a while).
 - **Unlikely:** The event could occur at some time.
 - **Rarely:** The event may occur only in exceptional circumstances.

Likelihood	Consequences				
	Insignificant	Minor	Moderate	Major	Catastrophic
Certain	Low risk	Moderate risk	Moderate risk	High risk	Extreme risk
Likely	Low risk	Moderate risk	Moderate risk	High risk	High risk
Possible	Negligible risk	Low risk	Moderate risk	Moderate risk	High risk
Unlikely	Negligible risk	Low risk	Low risk	Moderate risk	Moderate risk
Rarely	Negligible risk	Negligible risk	Negligible risk	Low risk	Moderate risk

Based on these definitions the Qualitative Risk Matrix is presented below.

The risk definitions from this risk matrix can be further grouped into risk evaluation categories that are based on regulatory compliance and conformance with industry standards, guidelines and/or codes of practice. These are:

- **Category 1 – Unacceptable Risks** (Extreme/high risks) – can be defined as those sources of risk that are essentially unacceptable and have a high potential to result in business collapse or critical impacts to business.
- **Category 2 – Tolerable Risks** (Moderate risks) – can be defined as those sources of risk that are tolerable and while non-compliant/non-conforming, can made to be compliant/conforming (acceptable risks) through the application of risk management measures.
- **Category 3 – Acceptable Risks** (Low/negligible risks) – can be defined as those sources of risk that are acceptable and are compliant with legal requirements and conform to recognised industry standards, guidelines and codes of practice.

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

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 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, 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	Number of Shares	Nature of interest	Capacity	Percentage of total issued share capital of the Company	Note
China Hanking (BVI) Limited	751,035,000	Long position	Beneficial owner	41.04%	
Bisney Success Limited	424,360,500	Long position	Beneficial owner	23.19%	
	31,100,000	Short position	Beneficial owner	1.69%	
Splendour Ventures Limited	165,651,000	Long position	Beneficial owner	9.05%	
SAIF IV GP Capital Ltd	93,107,000	Long position	Interest in a controlled corporation	5.09%	(1)
SAIF IV GP LP	93,107,000	Long position	Interest in a controlled corporation	5.09%	(1)
SAIF Partners IV L.P.	93,107,000	Long position	Beneficial owner	5.09%	(1)
Yan Andrew Y	93,107,000	Long position	Interest in a controlled corporation	5.09%	(1)

Note:

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

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 Issuers to be notified to the Company and the Stock Exchange.

(i) *Interests or short 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	Interest in a controlled corporation	Long position	751,035,000	41.04%	(1)
	Founder of discretionary trust	Long position	29,953,500	1.64%	(1)
Mr. Yang	Interest in a controlled corporation	Long position	424,360,500	23.19%	(2)
	Interest in a controlled corporation	Short position	31,100,000	1.69%	
Xia Zhuo	Other	Long position	165,651,000	9.05%	(3)
Zheng Xuezhi	Beneficial owner	Long position	50,000	0.00%	

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

Name of associate 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 (long position) and 31,100,000 shares (short position) 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 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:

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 Northeastern Lion which shall be acquired by the Group pursuant to the Share Purchase 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:

	2010	2011	2012
	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
Total assets	37.8	46.5	48.39
Total liabilities	32.1	39.1	39.39
Revenue	12.7	36.5	28.47
Total net profit/loss	0.7	1.7	1.63

* *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

Aoni 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 Aoni 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

Aoni 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, Aoni 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

Aoni Mining, STSU and Shenyang Shengtai Property Management Co., Ltd. (“**Shengtai Property**”) entered into a lease agreement on 16 September 2011. According to the agreement, Aoni 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 Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged 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 Enlarged Group.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has a service contract with any member of the Enlarged 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 Enlarged 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 Enlarged 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
Savills	Professional valuer
CSA Global	Professional resources consultant
HHP	Indonesian legal adviser

As at the Latest Practicable Date, each of CMBI, Savills, CSA Global and HHP 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, Savills, CSA Global and HHP) and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, each of CMBI, Savills, CSA Global and HHP did not have any shareholding in any member of the Enlarged Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

As at the Latest Practicable Date, none of CMBI, Savills, CSA Global and HHP 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 Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged 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 Share Purchase Agreement;
- (b) a letter from the Independent Board Committee, the text of which is set out on pages 25 to 26 of this circular;

- (c) the letter from CMBI, the text of which is set out on pages 27 to 48 of this circular;
- (d) the letters of consent from CMBI, Savills, CSA Global and HHP referred to in the above paragraph headed “Qualification of Expert and Consent” in this Appendix; and
- (e) the valuation report dated 10 December 2012 issued by Savills relating to 70% equity interest of the Northeastern Lion, the text of which is set out in Appendix I to this circular.

NOTICE OF EGM



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)

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 4 March 2013 at 9:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions (with or without modifications):

“THAT

- (1) the share purchase agreement dated 20 December 2012 entered into among Evergreen Mining Limited (as vendor), the Company (as purchaser) and Northeastern Lion Limited (as the target company) in relation to the acquisition of 70% equity interest in Northeastern Lion Limited by the Company (the “**Share Purchase Agreement**”) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified.
- (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 Share Purchase 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
15 February 2013

NOTICE OF EGM

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 notarized.
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 of the Company 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.

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