



29 January 2016

CIRCUMSTANCES AFFECTING PRELIMINARY FINAL REPORT

COMPANY DIRECTORS & MANAGEMENT

Directors

Managing Director & CEO	Yuguo Peng
Non-Executive Chairman	Dr Chi Ho (James) Tong
Executive Director	Jun Ou
Non-Executive Director	ZhongHan (John) Wu
Non-Executive Director	Wei-Her (Sophia) Huang
Non-Executive Director	Prof Guangfu Yang

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Deputy General Manager	Zhongxiao Zhu
Deputy General Manager, Enterprise Management	Yijiang Peng
Chief Financial Officer	It Phong Tin
Financial Controller	Shaokui Chen
Chief Geologist	WenMing Yao
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Blackgold International Holdings Limited ("**Company**") refers to its preliminary final report announced to ASX on the 31 December 2015 ("**Appendix 4E**"). The report disclosed that the Company's profit after income tax was AUD17.7 million.

The Company's annual report announced to ASX on 29 January 2016 disclosed the Company's audited profit after income tax to be AUD34.1 million.

The difference is mainly due to the followings:

- i) An impairment loss of non-current assets of AUD4.1 million, and a reversal of impairment of non-current assets of AUD18.9 million (refer to below);
- ii) Changes in fair value of financial liabilities at fair value through profit or loss of AUD2.7 million, and adjustments to interest expense on financial liabilities and foreign exchange differences amounting to AUD0.3 million, to better reflect the value of financial liabilities as at 31 October 2015; and
- iii) Additional depreciation and amortization charges to better reflect the net book value of non-current assets (property, plant and equipment and mine development) amounting to AUD1.4 million.

A recent valuation report dated 21 January 2016 was prepared by Asset Appraisal Limited ("AAL") to assess the value of the four mines as separate cash-generating units. The value-in-use of the Changhong Mine was lower than its carrying amount, whereas the value-in-use of the Heiwan Mine was higher than its carrying amount. Hence an impairment loss of non-current assets of AUD4.1 million, and a reversal of impairment of non-current assets of AUD18.9 million were recognized as at 31 October 2015 (Refer to the Notes 16 and 18 of the financial statements).

A copy of the valuation report is attached with this announcement.

END



Disclaimer

Certain statements included in this announcement constitute forward-looking information. This information is based upon a number of estimates and assumptions made by the Company in light of its experience, current conditions and expectations of future developments, as well as other factors that the Company believes are appropriate in the circumstances. While these estimates and assumptions are considered reasonable, they are inherently subject to business, economic, competitive, political and social uncertainties and contingencies. Many factors could cause the Company's actual results to differ materially from those expressed or implied in any forward-looking information provided by the Company, or on behalf of, the Company. Such factors include, among other things, risks relating to additional funding requirements, commodity prices, exploration, acquisition, development and operating risks, competition, production risks, regulatory restrictions, including environmental regulation and liability and potential title disputes. Forward-looking information is no guarantee of future performance and, accordingly, investors are cautioned not to put undue reliance on forward-looking information due to the inherent uncertainty therein. Forward-looking information is made as at the date of this announcement and the Company disclaims any intent or obligation to update publicly such forward-looking information, whether as a result of new information, future events or results or otherwise, other than as required by law.

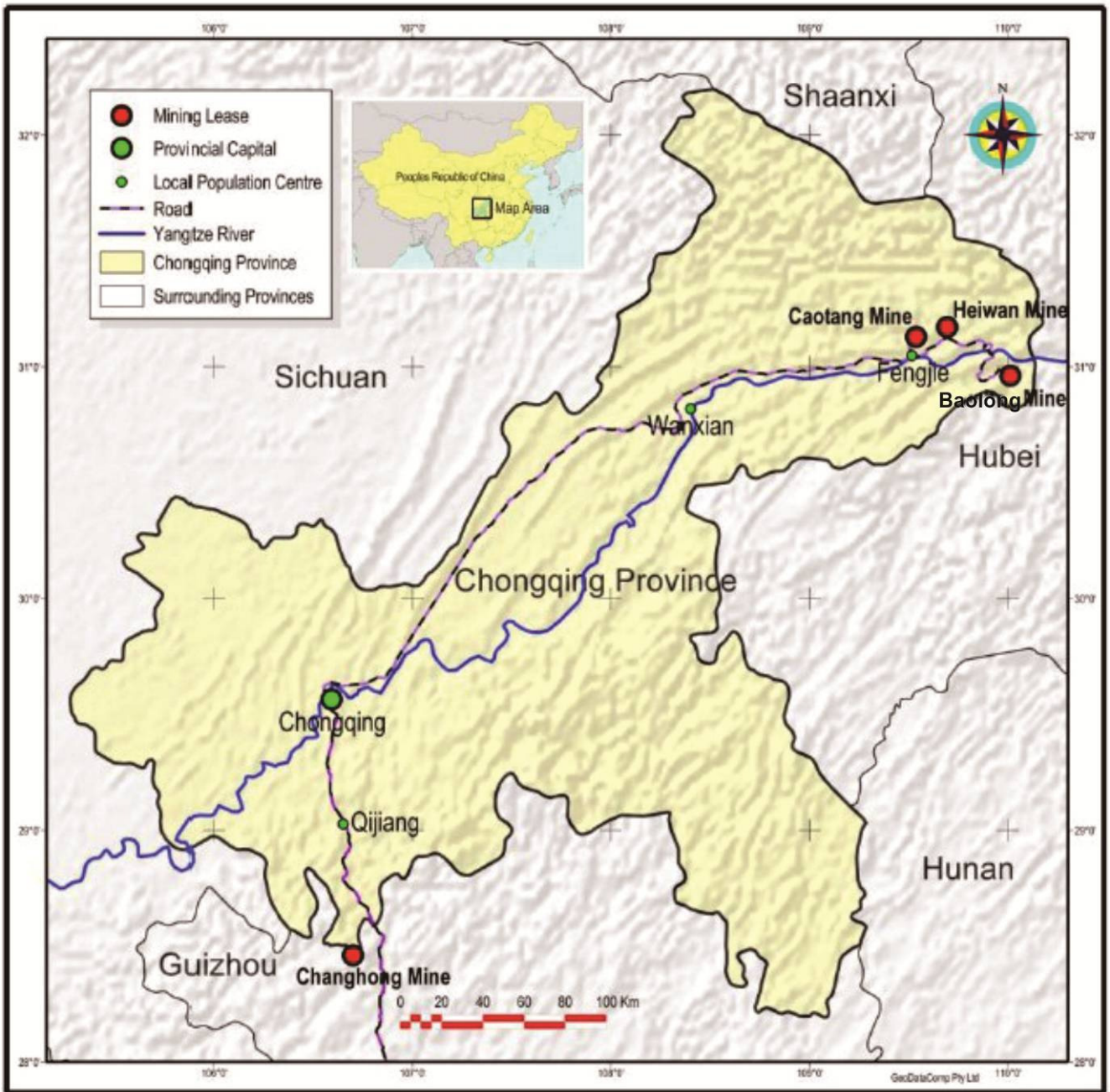
About Blackgold

Blackgold International Holdings Limited (ASX Code: BGG) is a Chongqing, China-based, producer of high value thermal coal. Blackgold was listed on ASX on 22 February 2011.

Blackgold currently operates four existing underground thermal coal mines, the Caotang Mine and the Heiwan Mine in Fengjie County, Chongqing in the PRC, the Baolong Mine in Wushan County, Chongqing in the PRC, and the Changhong Mine in the area bordering Xishui County of Guizhou and Qijiang County of Chongqing in the PRC.



LOCATION OF BLACKGOLD'S MINES





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VALUATION REPORT

OF

COAL MINING PROJECTS

OF

BLACKGOLD INTERNATIONAL HOLDINGS LIMITED

IN

CHONGQING CITY

THE PEOPLE'S REPUBLIC OF CHINA

FOR

BLACKGOLD INTERNATIONAL HOLDINGS LIMITED

PREPARED BY
ASSET APPRAISAL LIMITED
21 JANUARY 2016

EXECUTIVE SUMMARY

This valuation report has been prepared by Asset Appraisal Limited (“AAL”) at the request of **Blackgold International Holdings Limited** (referred to as the “**Company**”) in order to provide an opinion on the recoverable amount of the 4 Coal Mines (the “**Coal Mines**”) of the Company all situated within Chongqing City, the People’s Republic of China. The relevant date of this valuation is **31 October 2015** (the “**Valuation Date**”).

The Coal Mines have been last inspected by AAL on writer conducted a one day site inspection in June 2015. Previous field trips of the Coal Mines for the Company have been conducted before. The writer has read the Independent Qualified Person’s Report of 23 October 2015 prepared by Behre Dolbear Asia, Inc. (the “IQPR”).

The future potential of the Project tenements depends on exploration techniques to further identify economic tantalum mineralisation and subsequently progress through to final feasibility studies to assist viable economic exploitation.

The JORC Code compliant Mineral Reserve Estimates of the Coal Mines as stated in the IQPR are shown in table below.

Mine	Reserve Category (Million Tonnes)		
	Proved	Probable	Total Reserves
Catong Mine	18.82	3.38	22.20
Heiwan Mine	3.15	0.46	3.61
Balong Mine	29.19	26.05	55.24
Changhong Mine	11.89	6.75	18.64
Total	63.05	36.64	99.69

In summary the total coal reserve of the Coal Mines as at the Valuation Date is 99.69 million tonnes comprising proved and probable reserves of 63.05 million and 36.64 million tonnes respectively.

It is the writer’s opinion that the total recoverable amount as at 31 October 2015 of the Coal Mines is measured at RMB2,662 million.

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Our Ref : AAL/AC/8138/15

Date : 21 January 2016

The Board of Directors

Blackgold International Holdings Limited

Level 12, No. 8 Mian Hua Street

Yuzhong District

Chongqing City

The People's Republic of China

Dear Sirs,

Re: Valuation of Coal Mining Properties of Blackgold International Holdings Limited in Chongqing City, the People's Republic of China (the "PRC")

1.0 INSTRUCTIONS

In accordance with the instructions from **Blackgold International Holdings Limited** (referred to as the "**Company**") to value the following coal mining properties (referred to as the "**Coal Mines**") owned by the Company:

- Caotang Coal Mine
- Heiwan Coal Mine
- Baolong Coal Mine
- Changhong Coal Mine

We confirm that we have inspected the Coal Mines, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing our opinion of the recoverable amount of the Coal Mines as at **31 October 2015** (referred to as the "**Valuation Date**").

2.0 PURPOSES OF ITV

The objective of Asset Appraisal Limited (referred to as “AAL”) is to assess the recoverable amount of the Coal Mines for accounting purpose. AAL must point out that this valuation report does not constitute a technical report and does not express opinions on the coal reserves / resources, legal title on mining tenement, technical issues and environmental considerations of the Coal Mines and their mining operations.

The work program for this valuation involved the following tasks:

- review of information provided by the Company, site visits to the Coal Mines in Chongqing, discussions with management of the Company and collection and review of documents provided to AAL. The Coal Mines were last inspected by us in June 2015; and
- analysis of the provided data and information and preparation of this valuation report.

3.0 SCOPE AND LIMITATIONS

This report has been prepared in accordance with the International Financial Reporting Standard (IFRS) 136.

The opinions expressed in this report have been based on the information supplied to AAL by the Company and information contained in *the Independent Qualified Person’s Report on Four Coal Mining Properties of Blackgold International Holdings Limited in Chongqing Municipality, the People’s Republic of China* prepared and issued by Behre Dolbear Asia, Inc. (the “IQPR”). AAL advises that the Company has represented to AAL that full disclosure has been made of all material information and that to the best of its knowledge and understanding, such information is complete, accurate and true. In performing this valuation, AAL has relied upon and assumed the accuracy and completeness of all material information that has been provided to it by the Company and its service providers.

This valuation is valid as at the Valuation Date and refers to the writer's opinion of the value of the Coal Mines at that date. This valuation can be expected to change over time having regard to political, economic, market and legal factors.

The valuation can also vary due to the success or otherwise of any coal resource exploration that is conducted either on the properties concerned or by other explorers on prospects in the near environs. The valuation could also be affected by the consideration of other exploration data, not in the public domain, affecting the properties which have not been made available to the author.

In order to form an opinion as to the value of any property, it is necessary to make assumptions as to certain future events, which might include economic and political factors and the likely exploration success.

The writer has taken all reasonable care in formulating these assumptions to ensure that they are appropriate to the case. These assumptions are based on the writers' technical training and experience in the mining industry.

The opinions expressed represent the writer's fair professional opinion at the time of this report. These opinions are not however, forecasts as it is never possible to predict accurately the many variable factors that need to be considered in forming an opinion as to the value of any mining property.

The valuation methodology of mining properties is exceptionally subjective. If an economic reserve is subsequently identified then this valuation may be dramatically low relative to any later valuations, or alternatively if further exploration is unsuccessful it is likely to decrease the value of the tenements.

There are a number of generally accepted procedures for establishing the recoverable amount of mining properties with the method employed depending upon the circumstances of the property.

Where relevant, AAL uses the appropriate methods to enable a balanced analysis. Values are presented as a range and the preferred value is identified.

The readers should form their own opinion as to the reasonableness of the assumptions made and the consequent likelihood of the values being achieved.

The information presented in this report is based on IQPR provided by the Company, supplemented by our own inquiries. At the request of AAL copies of relevant technical reports and agreements were made available.

The Company will be invoiced and expected to pay a fee for the preparation of this report. This fee comprises a normal, commercial daily rate plus expenses.

Payment is not contingent of the results of this report or the success of any subsequent public fundraising. Except for these fees, neither the writer nor his family nor associates have any interest neither in the property reported upon nor in the Company. The Company has confirmed in writing that all technical data known to it has been made available to the writer.

It should be noted that in all cases, the fair valuation of the mining properties presented is analogous with the concept of “value in use” commonly applied to other commercial valuations.

This concept holds that the properties have a particular value only in the context of the usual business of the company as a going concern.

This value will invariably be significantly higher than the disposal value, where, there is not a willing seller. Disposal values for mining projects may be a small fraction of going concern values.

This, coupled with general knowledge of the area and the recent site visit provides sufficient information to form an opinion as to the current value of the Coal Mines.

AAL has based its valuation on information within its own knowledge and/or acquired as a result of its investigations as well as the information presented by the Company and its service providers.

As confirmed by the Company, no material changes have occurred between the Valuation Date and the issue date of this report.

4.0 SOURCE DATA AND INFORMATION

The principal sources of information for this project are:

1. Coal Mines Exploitation Permit of Caotang Coal Mines (Ref No. C5000002009041130019437);
2. Coal Mine Exploitation Permit of Heiwan Coal Mine (Ref No. C5000002009041130019439);
3. Coal Mine Exploitation Permit of Baolong Coal Mine (Ref No. C5000002009041130020052);
4. Coal Mine Exploitation Permit of Changhong Coal Mine (Ref No. 65000002009041130018279);
5. Coal Production Permit of Caotang Coal Mines (Ref No. 205002360477) dated 27 March 2013;
6. Coal Production Permit of Heiwan Coal Mine (Ref No. 205002360401) dated 29 June 2007;
7. Safety Production Permit of Caotang Coal Mine (Ref No. (渝)MK安許証字 (2015)501080);
8. Safety Production Permit of Heiwan Coal Mine (Ref No. (渝)MK安許証字 (2015)501080);
9. Safety Production Permit of Changhong Coal Mine (Ref No. (渝)MK安許証字 (2014)1410018);
10. Business License of Chongqing Caotang Coal Mines Resource Development Co Ltd dated 25 March 2008;
11. Business License of Chongqing Guo Ping Enterprise (Holdings) Co Ltd. Heiwan Coal Mine dated 25 March 2008;
12. Business License of Chongqing Yi Hua Mining Co Ltd. dated 13 October 2008 (in relation to Baolong Coal Mine);
13. Business License (Registration No. 500222000015896) of Qijiang County Changhong Coal Industry Co. Ltd. dated 22 December 2008 in relation to Changhong Coal Mine;
14. Unaudited financial statement of the Coal Mines as at 30 April 2015; and
15. Independent Technical Review Report prepared by Behre Dolbear Asia, Inc.

5.0 COAL INDUSTRY IN THE PRC

Coal is the world's most abundant cost efficient energy source and the global coal fundamentals remain very strong. According to BP Statistical Review of World Energy June 2015, the global primary energy consumption totalled 12,928.4 million tonnes oil equivalent in 2014 (a 0.9% increase year-to-year), of which coal represented 30.03%, equivalent to 3,881.8 million tonnes of oil, respectively. It is expected that energy consumption remains on upward trend globally despite the fact that the expected growth rate would be below historical average due to the stagnant global economy.

The coal consumption was attributable to a number of factors, including volatility in petroleum and natural gas prices, demand for power, growth in industrial production, the competitiveness of coal as a cost efficient energy resource in comparison to other energy sources, advances in coal mining and processing technologies as well as the productivity and growth of the steel industry, which has directly resulted in increased demand for coking coal. Coal serves a vital role in global power generation, and this role is expected to continue in the foreseeable future. Coal is also indispensable for global energy generation. According to World Energy Outlook 2012, global primary energy demand of coal will still be primarily in generating electricity.

Coal consumption at its current levels is sustainable because world coal reserves are abundant. According to BP Statistical Review June 2015 estimates, the world's total proven coal reserve base represents approximately 110 years of production at current mining rates. Coal reserves have a wide distribution pattern, with particular concentrations in the United States, Russia, the PRC, Australia and India. These countries possess 26.6%, 17.6%, 12.8%, 8.6% and 6.8% respectively, of the proven global coal reserves at the end of 2014. Many major coal consumers and producers are located in the Asia-Pacific region.

The PRC is the largest coal producer of coal in the world and is expected to remain so in the foreseeable future. According to BP Statistical Review June 2015, the PRC produced 3,874 million tonnes of coal in 2014, a 2.6% decrease from its 2013 production. From 2006 to 2014, coal production in the PRC grew at a CAGR of 5.23%.

The PRC's coal-producing areas exceed 550,000 square kilometres but these areas generally concentrate in certain regions of the country. According to the PRC's National Bureau of Statistics, in 2011, 87.79% of total proven coal reserves in the PRC are deposited in Shanxi, Inner Mongolia, Shaanxi, and Xinjiang in 2010.

Coal fields in the PRC with good mining conditions are mainly concentrated in Xinjiang, parts of Ningxia, as well as the area referred to in the industry as the "Tri-West Area", which consists of Shanxi, Shaanxi and western Inner Mongolia. The Tri-West Area has favourable geological conditions for coal production. Coal reserves in this area are of high quality and contain a wide variety of coal. However, due to limited local consumption and the remote distance of these reserves from major customers and major ports, these high-quality coal reserves have not been fully exploited. The coal reserves in Jiangsu, Anhui, Shandong and Henan are also of high quality and contain a wide variety of coal. Furthermore, they are close to transportation facilities as they are located near the PRC's more economically developed coastal regions. However, the coal reserves in these provinces are relatively small, and represent only 9.2% of the proven reserves in the PRC.

The coal consumption in the PRC accounted for 50.6% of global coal consumption in 2014. Because the PRC lacks a significant oil and natural gas resource base, coal historically has been, and is expected to remain, the most important energy resource, accounting for 67.50% of its total primary energy consumption in 2014. According to the PRC Coal Industry Association, coal will remain the country's primary source of energy production for at least the next two decades.

There are three common coal pricing mechanisms in the PRC namely mine gate (also called mine mouth), free-on-rail ("FOR") and free-on-board ("FOB"). Mine gate price refers to the sales price of coal sold at the producing mines. FOR price refers to the sales when the coal is loaded onto trains which is mainly impacted by the mine gate price, freight charges (usually short-distance trucking), platform fee and agent fee. FOB price refers to the price of coal loaded onto ships for export markets.

The PRC coal prices have undergone a continuous deterioration through 2014 with thermal coal and coking coal prices declined by 23% and 26% year-to-year respectively. According to the China Coal Association, coal imports fell by 9% year-to-year to 229Mt, the first time that its annual coal imports declined in the last 6 years.

As effort to upgrade the coal industry, the PRC Government has released multiple measures in recent months to support the domestic industry as follows:

- An appeal to cut production and the implementation of capacity control measures;
- Reduction in Provincial-level fees and charges;
- Import tax imposition of 3% on coking coal and 6% on thermal coal;
- Export tax reduction from 10% to 3%; and
- Import quality restrictions, including trace element testing.

The market believes that the government will continue to look to support and protect the domestic industry, but there is also a realisation that output control is necessary if the industry is to return to sustainable levels of profitability. It is expected that PRC coal production to increase by only 0.6% y/y in 2015 to 3.89 bn t.

In addition, the Commercial Coal Quality Interim Measure introduced on 1 January 2015 specifies quality standards for coal specifically produced, sold and used in the PRC market and is intended to support the wider effort to reduce air pollution.

The PRC government has implemented a number of trade policies in order to protect the country's coal producers from foreign competition. These measures include:

Import tax implementation: the government instigated a 3% import tax on coking coal and 6% tax on thermal coal, effective from 10 October 2014.

Export tax reduction: the coal export tax was reduced from 10% to 3%, effective from 01 January 2015.

Import quality checks: as a further measure to limit imports, from 01 January 2015, all imported coal has been required to meet certain quality criteria at PRC ports, including trace element thresholds.

Following implementation of these measures, the PRC's coal imports declined sharply in January 2015, by 53% y/y, to 16.8 Mt. The m/m drop of 38% was also the largest fall since 2000. The decline has been driven primarily by the new quality control measures at PRC ports.

Since the introduction of the quality tests, miners have been frantically trying to obtain the required data from laboratories for their coals to assess whether they meet the restrictions. In addition, buyers and sellers have been in deadlock over who foots the cost if a shipment fails to pass the quality criteria. While it is understood that there have only been a small number of shipments rejected (n.b. primarily thermal coal), the measures have led to long delays at ports of between 10-20 days and there has been a significant reduction in trading activity to the PRC in recent weeks, with suppliers looking to sell elsewhere, due to the uncertainty and delays caused to deliveries.

Nonetheless, based on reports received by us that almost all coal import cargoes in January and February were well below trace element thresholds, it seems that buyers and sellers are becoming more comfortable with the new testing standards and the existing quality measures are not expected to impact future arrivals from the major seaborne suppliers.

The PRC government is clearly attempting to limit coal imports to support domestic miners. If weak market conditions prevail in the PRC, there is certainly potential for the government to enforce even tighter restrictions going forward, including stricter trace element limits affecting phosphorus, chlorine and arsenic.

6.0 DESCRIPTION OF CAOTANG COAL MINES

6.1 Location and Background

Caotang Coal Mine is located at a distance of 14.4km north of the township of Feng Jie County within the municipality of Chongqing City. The coal field covers a total area of 9.0995km² and is delineated by the following 25 inflexion points:

Table 1: Coordinates of Caotang Mining Site

Plan Coordinate	X	Y
1	3447241	37359230
2	3447571	37360053
3	3447400	37360955
4	3448220	37361545
5	3447897	37363187
6	3446869	37363193
7	3446061	37362732
8	3446064	37362589
9	3446678	37362590
10	3446812	37362806
11	3447233	37362561
12	3447009	37362228
13	3446880	37362218
14	3446768	37362048
15	3446749	37361864
16	3446403	37361404
17	3446000	37360952
18	3445433	37360664
19	3445213	37361218
20	3444406	37361030
21	3447282	37360020
22	3444921	37358943
23	3445417	37358866
24	3446183	37358812
25	3446500	37358551

The permitted mining altitude of Caotang Coal Mine is between 970 metres and 300 metres.

The coal field infrastructure is reasonable with truck roads with a total traveling distance of approximately 20 kilometres connecting the coal field to the nearby coal wharf at Bei Di Town along the Chang Jiang River. Given its location, the coal field is under the administration of Bei Di Town and Fen He Town.

The general exploration program for Caotang Coal Mine (formerly known as Ye Ji Ping Coal Mines) was carried out by the Sichuan 205th Geological Brigade in November 1980. Subsequently, more detailed field investigation for the Coal Mines was conducted by the Sichuan 137th Geological Brigade in 1992 by which relatively abundant geologic data concerning the characteristics of the coal seams and coal quality were accumulated. In 2003, a coal resource survey report was prepared by the Chongqing 136th Geological Brigade. With the above exploration programs coupled with the excavation work over the recent years of mining operations, the understanding of the coal resource measures of the coal seams has been greatly improved.

Caotang Coal Mine has been developed since 1982 under the approval of the Sichuan Province Planning Committee and the Sichuan Coal Administration Bureau and commenced mining operations in 1988 with an annual output capacity of 60,000 tonnes. The mine was subsequently transferred to Chong Qing Guo Ping Enterprise (Holdings) Co Ltd. (重慶國平實業(集團)有限公司). The Coal Mines effectively operate 300 or more production days per year on a 24-hour, 7-day per week basis. Major festival periods and national holidays constitute the idle operating days during which maintenance programs for the infrastructure works and equipment are implemented.

Present mine layout consists of 3 production portals namely the No. 1, 2 and 3 which shall be joined to form a single production system as per the Government requirements for Caotang Coal Mine consolidation. At present, the following adits have been constructed and utilized for mining operations:

Table 2: Adits constructed in Caotang Mining Site

Location	Type of Adit	Distance (metres)
Pit No. 1	Primary Transport Adit	1,425
Pit No. 1	Ventilation Adit	1,200
Pit No. 1	Auxiliary Adit	1,000
Pit No. 2	Primary Transport Adit	1,550
Pit No. 2	Ventilation Adit	1,400
Pit No. 2	Auxiliary Adit	1,750
Pit No. 2	Auxiliary Adit	1,500
Pit No. 3	Primary Transport Adit	2,000
Pit No. 3	Ventilation Adit	1,200
Pit No. 3	Auxiliary Adit	1,400
Pit No. 3	Auxiliary Adit	1,400



Fig. 1 Primary Transport Adit of Pit No. 1 of Caotang Mine



Fig. 2 Primary Transport Adit of Pit No. 2 of Caotang Mine



Fig. 3 Primary Transport Adit of Pit No. 3 of Caotang Mine



Fig. 4 Primary Transport Adit of Pit No. 3 of Caotang Mine

The mining method is semi-mechanized retreating longwall panels with caving. The face is drilled and blasted for advance. Individual hydraulic props with link bars are used for support. Coal and rock is loaded on to rope haulage chain conveyors laid along the face discharging on to tubs at the tailgate road.

Transport of coal to surface is by means of tubs hauled by locomotive. Exhaust fans have been installed at the portal of ventilation adits so as to maintain reasonable air quality of the working faces.



Fig. 5 Locomotive for tub haulage of Caotang Mine

As confirmed by the Chongqing 136th Geological Brigade, the relative gas outflow of the Coal Mines was $3.93\text{m}^3 / \text{t}$ and Caotang Coal Mine can be characterized as a low gas mine. To ensure safety, regular gas monitoring of return air is carried out by mining field supervisors. It is further confirmed by the Company that there is no serious injury or fatal accident since the Company has taken over control of Caotang Coal Mine. The primary coal seam of the Caotang Coal Mine is subject to risk of dust explosion and spontaneous combustion and therefore regular measures have been taken for dust suppression and monitoring of undue heating of the area.

Surface facilities of Caotang Coal Mine include administration offices, materials and parts storage, repair workshops, change rooms, canteen, bathhouse and miner accommodation.



Fig. 6 Administration Building of Caotang Mine



Fig. 7 Miners Quarters of Caotang Mine



Fig. 8 Miners Bathroom and Quarters of Caotang Mine



Fig. 9 Repair Workshop and Storage of Caotang Mine

Raw coal produced from Caotang Coal Mine is generally transported by trucks for about 25 km to the Yangtze River port for shipping to the customers.

6.2 Coal Seams and Coal Quality

Caotang Coal Mine is characterized by two minable coal seams namely K1 and K2 of which K1 is the primary coal seam with an average thickness of 1.2 metres and K2 is the secondary producer with an average thickness of 0.99 metre.

Coal is presented in various categories ranging from peat to anthracite referred to as the rank of coal. The classification of coal is dependent on the level of coalification, the degree of change undergone by a coal as it matures from peat to anthracite.

Lignite and sub-bituminous coals are categorized as low rank coals, which are typically softer, friable materials with a dull, earthy appearance. They are characterised by high moisture levels and lower levels of carbon and energy.

Coking coals and anthracite are categorized as higher rank coals, which are generally harder and stronger and often have a black, vitreous lustre. They contain more carbon, have lower moisture content, and produce more energy.

The energy content of coal is commonly measured as the heat released upon complete combustion in air or oxygen, expressed as the amount of heat (measured in kilocalories) per unit weight of coal (measured in kilograms) or “kcal/kg”. Generally, coal with higher energy content is considered premium quality and commands a higher price.

Thermal coal is primarily used as an input in the power sector to produce electricity and heat. Coking coal is primarily used as an input for the production of coke in coke ovens, which is consumed in blast furnaces in the production of pig iron (pig iron including alloy forms is subsequently converted to steel in an oxygen steel furnace).

Caotang Coal Mine produces thermal coal for local, regional, and national power plants or furnace operators. According to Chongqing 136th Geological Brigade the historical production parameters were:

- Moisture (Mad) content averages 0.43%
- Ash (Aad) content varies from 29.09% to 37.44% averaging 32.24%. The ash content of the upper and lower sections of the K1 seam is relatively low while the central zone, with more partings, has higher ash content
- Sulphur total (Sad) content varies from 1.6% to 3.06% averaging 2.14%. The sulphur is mostly from pyrite decreasing toward the top of the seam
- Phosphorous content ranges from 0.10% to 0.22% with an average of 0.14%. The variation from the top to the bottom of the seam being the opposite of the variation in the ash content.
- Calorific value (AD) varies from 4,818 kcal/kg to 5,902 kcal/kg
- Specific gravity of the K1 and K2 seams is 1.55

The coal is graded as high ash, medium to high sulphur, medium to high phosphorous and medium calorific value coal suitable for the thermal energy market.

As reported by Behre Dolbear in its Independent Technical Review Report, the average undiluted raw coal quality of the coal reserve of Caotang Coal Mine are set out as follows:

Table 3: average undiluted raw coal quality of the coal reserve of Caotang Coal Mine

Moisture (%) ad	Ash (%) ad	Volatile Matter (%) ad	FC (%) ad	Sulphur (%) ad	CV (kcal/kg) Ar
0.63	33.53	7.07	59.32	0.47	4,965

The coal is categorized as anthracite coal with dry volatile matter contents ranging from 1% to 10% under the State Standard of China Coal Classification System (GB5751-86) and ASTM. Vast majority of the coal is suitable for the power generation market and some of it is suitable for use in Pulverized Coal Injection (PCI) systems. The dry ash content of most of the coal indicates that in most instances beneficiation by way of coal washing will be required to facilitate utilization.

6.3 Estimated Coal Reserves and Life of Mine Schedule

According to the Independent Technical Review Report prepared by Behre Dolbear Asia, Inc, the proven and probable reserves of Caotang Coal Mine as at 30 April 2015 are set out as follows:

Table 4: proven and probable reserves of Caotang Coal Mine as at 30 April 2015

Proved Reserve (kt)	Probable Reserve (kt)	Total Reserve (kt)
18,820	3,380	22,200

Under the JORC Code, a Proved coal reserve is defined as the economically mineable part of a measured coal resource and includes diluting materials and allowances for losses which may occur when the material is mined. A Probable coal reserve is defined as the economically mineable part of an indicated coal resource and includes diluting materials and allowances for losses which may occur when the material is mined.

Life of Mine Production Schedule as proposed by the Company is set out as follows:

Table 5: Production Schedule of Caotang Coal Mine

Year	Planned Annual Tonnage (kt)	Cumulative Tonnage Mined (kt)
2016	1,000	1,000
2017	1,200	2,200
2018-2029	1,500 × 12 years	20,200
2030	1,491	21,691

6.4 Mining Rights

As at the date of this report, the following consents, permits and approvals have been issued to Caotang Coal Mine for its mining operations:

Table 6: consents, permits and approvals issued to Caotang Coal Mine for its mining operations

Permits	Permit Holder	Mining Certificate No.	Area (km ²)	Permitted Annual Output (tonnes)	Valid Period
Mining Permit	Chongqing Caotang Coal Mines Resource Development Co Ltd.	C500000200904 1130019437	9.0995	150,000 permitted mining attitude is between 970m to 300m	27 Dec 2013 to 27 Dec 2016
Safety Production Permit	Chongqing Caotang Coal Mines Resource Development Co Ltd.	(渝)MK安許証字 (2015)1501008	--	--	15 May 2015 to 14 May 2018

Our valuation has been arrived at on the basis that Chongqing Caotang Coal Mines Resource Development Co Ltd. shall have no legal impediment and not be subject to any substantial costs to the issue and renewal of the above consent, permits and approvals by the appropriate regulatory bodies and Government authorities for undertaking its coal mining operations in Caotang Coal Mine from time to time until the coal resources of Caotang Coal Mine are fully exploited.

7.0 DESCRIPTION OF HEIWAN COAL MINE

7.1 Location and Background

Heiwan Coal Mine is located at a distance of 27km north of the new township of Feng Jie County within the municipality of Chongqing City. The coal field covers a total area of 3.34km² and is delineated by the following 8 inflexion points:

Table 7: Coordinates of Heiwan Mining Site

Plan Coordinate	X	Y
1	3450510	37375600
2	3450260	37375600
3	3450170	37376200
4	3450820	37376950
5	3452050	37376160
6	3450700	37374070
7	3449690	37374710
8	3450200	37375150

The permitted mining altitude of Heiwan Coal Mine is between 1,300 metres and 1,050 metres.

The coal field infrastructure is reasonable with truck roads with a total traveling distance of approximately 30 kilometres connecting the coal field to the nearby coal wharf at Feng Jie County along the Chang Jiang River. Given its location, the coal field is under the administration of Bei Di Town and Fen He Town.

The general exploration program for the subject locality of Heiwan Coal Mine was carried out by the Sichuan 107th Geological Brigade in between December 1978 and August 1979. Subsequently, more detailed field investigations for Heiwan Coal Mine were conducted by the Sichuan Metallurgy Geology Survey Institute, the Feng Jie Coal Mine Technology Service Centre and Feng Jie County Guo Xing Land Resources Development Consultancy Services Co. Ltd. in 2003, 2005 and 2006 respectively. With the above exploration programs coupled with the excavation work over the recent years of mining operations, the understanding of the coal resource measures of the coal seams has been greatly improved.

Heiwan Coal Mine was developed by Chong Qing Guo Ping Enterprise (Holdings) Co Ltd. (重慶國平實業(集團)有限公司) in 1996 with an annual output capacity of 60,000 tonnes of coal. The coal mine effectively operates 300 or more production days per year on a 24-hour, 7-day per week basis. Major festival periods and national holidays constitute the idle operating days during which maintenance programs for the infrastructure works and equipment are implemented.

The present mine layout consists of 1 primary transport adit, 3 ventilation adits and 1 auxiliary adit as follows:

Table 8: Adits constructed in Heiwan Mining Site

Type of Adit	Distance (metres)
Primary Transport Adit	700
Ventilation Adit No. 1	800
Ventilation Adit No. 2	800
Ventilation Adit No. 3	700
Auxiliary Adit	700



Fig. 10 Primary Transport Adit of Heiwan Mine



Fig. 11 Ventilation Adit of Heiwan Mine

The mining method is semi-mechanized retreating longwall panels with caving. The face is drilled and blasted for advance. Individual hydraulic props with link bars are used for support. Coal and rock is loaded on to rope haulage chain conveyors laid along the face discharging on to tubs at the tailgate road.

Transport of coal to surface is by means of manually hauled tubs. As advised by the Company, as a move to ramp up coal production, the coal moving tubs will be hauled by locomotive in the near future. Exhaust fans have been installed at the portal of ventilation adits so as to maintain reasonable air quality of the working faces.



Fig. 12 Locomotive for tub haulage of Heiwan Mine

As confirmed by the Chongqing 136th Geological Brigade, Heiwan Coal Mine can be characterized as a low gas mine. To ensure safety, regular gas monitoring of return air is carried out by mining field supervisors. It is further confirmed by the Company that there is no serious injury or fatal accident since the Company has taken over control of the coal mine. The primary coal seam of Heiwan Coal Mine is subject to risk of dust explosion and spontaneous combustion and therefore regular measures have been taken for dust suppression and monitoring of undue heating of the area.

Surface facilities of Heiwan Coal Mine include administration offices, materials and parts storage, repair workshops, change rooms, canteen, bathhouse and miner accommodation.



Fig. 13 Administration Building of Heiwan Mine

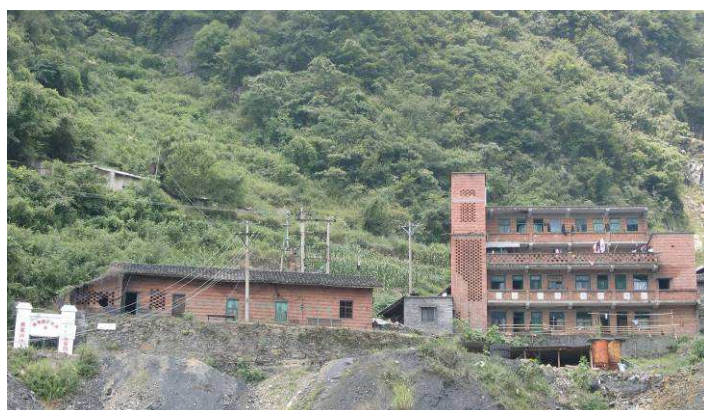


Fig. 14 Miners Quarters of Heiwan Mine

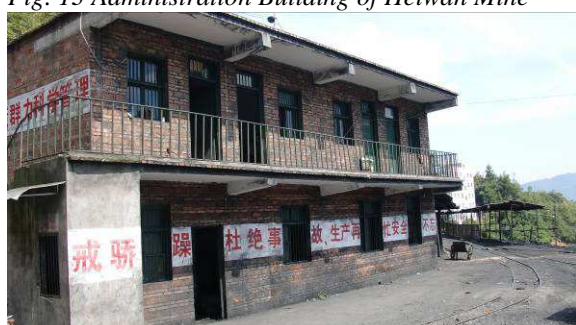


Fig. 15 Miners Quarters of Heiwan Mine



Fig. 15 Repair Workshop and Miners Quarters of Heiwan Mine

Raw coal produced from Heiwan Coal Mine is transported by trucks for a distance of 35km to the Fengjie Jinpeng coal dock along a tributary of Yangtze River.

7.2 Coal Seams and Coal Quality

Heiwan Coal Mine is characterized by five coal seams namely K1, K2, K3, K4 and K5 of which K3 is the primary coal seam with an average thickness of 0.4 metres.

The Coal Mine produces thermal coal for local, regional and national power plants or furnace operators. According to the Chongqing Wenzhou Quantity and Quality Examination Centre, coal taking from Heiwan Coal Mine exhibited the following coal quality:

- Moisture (M_{ad}) content 0.7%
- Ash (A_d) content 31.4%
- Sulphur (S_{td}) content 1.2%
- Calorific value (AD) 5,061kcal/kg
- Specific gravity of all seams was determined as 1.4

The coal is graded as high ash, low sulphur and medium calorific value coal suitable for the thermal energy market.

As reported by Behre Dolbear in its Independent Technical Review Report, the average undiluted raw coal quality of the coal reserve of Heiwan Coal Mine are set out as follows:

Table 8: average undiluted raw coal quality of the coal reserve of Heiwan Coal Mine

Moisture (%) ad	Ash (%) ad	Volatile Matter (%) ad	FC (%) ad	Sulphur (%) ad	CV (kcal/kg) Ar
0.76	26.53	6.92	65.56	0.74	5,630

The coal is categorized as anthracite coal with dry volatile matter contents ranging from 1% to 10% under the State Standard of China Coal Classification System (GB5751-86) and ASTM. Vast majority of the coal is suitable for the power generation market and some of it is suitable for use in Pulverized Coal Injection (PCI) systems. The dry ash content of most of the coal indicates that in most instances beneficiation by way of coal washing will be required to facilitate utilization.

7.3 Estimated Coal Reserves and Life of Mine Schedule

According to the Independent Technical Review Report prepared by Behre Dolbear Asia, Inc, the proven and probable reserves of Heiwan Coal Mine as at 30 April 2015 are set out as follows:

Table 9: proven and probable reserves of Heiwan Coal Mine as at 30 April 2015

Proved Reserve (kt)	Probable Reserve (kt)	Total Reserve (kt)
3,150	460	3,610

Life of Mine Production Schedule as proposed by the Company is set out as follows:

Table 10: Production Schedule of Heiwan Coal Mine

Year	Planned Annual Tonnage (kt)	Cumulative Tonnage Mined (kt)
2016	200	200
2017	360	560
2018-2021	600 × 4 years	2,960
2022	565	3,525

7.4 Mining Rights

As at the date of this report, the following consents, permits and approvals have been issued to Heiwan Coal Mine for its mining operations:

Table 11: consents, permits and approvals issued to Heiwan Coal Mine for its mining operations

Permits	Permit Holder	Mining Certificate No.	Area (km ²)	Permitted Annual Output (tonnes)	Valid Period
Mining Permit	Chongqing Guoping Heiwan Coal Mines Resource Development Co Ltd	C5000002009041 130019439	3.3413	60,000 permitted mining attitude is between 1,300m to 1,050m	1 Apr 2014 to 23 Jun 2016
Safety Production Permit	Chongqing Guoping Heiwan Coal Mines Resource Development Co Ltd	(渝)MK安許証字 (2015)1501006	--	--	13 Mar 2015 to 12 Mar 2018

Our valuation has been arrived at on the basis that Chongqing Guoping Heiwan Coal Mines Resource Development Co Ltd shall have no legal impediment and not be subject to any substantial costs to the issue and renewal of the above consent, permits and approvals by the appropriate regulatory bodies and Government authorities for undertaking its coal mining operations in Heiwan Coal Mine from time to time until the coal resources of Heiwan Coal Mine are fully exploited.

8.0 DESCRIPTION OF BAOLONG COAL MINE

Baolong Coal Mine, which is currently a green field coal mine, is located at a distance of 17km southeast of the township of Wu Shan County within the municipal of Chongqing City. As confirmed by the Company, the coal field covers an exploration area of 23.12km² and is delineated by the following 7 inflexion points:

The permitted mining altitude of Baolong Coal Mine is between 200 metres and 900 metres.

Table 12: Coordinates of Baolong Mining Site

Plan Coordinate	Rectangular Coordinate		Geographic Coordinate	
	X	Y	B ° ' "	L ° ' "
1	3429287	37400093	30 58 48.0	109 57 15.0
2	3429258	37406674	30 58 49.0	110 01 23.0
3	3428439	37408764	30 58 23.0	110 02 42.0
4	3425993	37406619	30 57 03.0	110 01 22.0
5	3425981	37404575	30 57 02.0	110 00 05.0
6	3424492	37402331	30 56 13.0	109 58 41.0
7	3424482	37400074	30 56 12.0	109 57 16.0

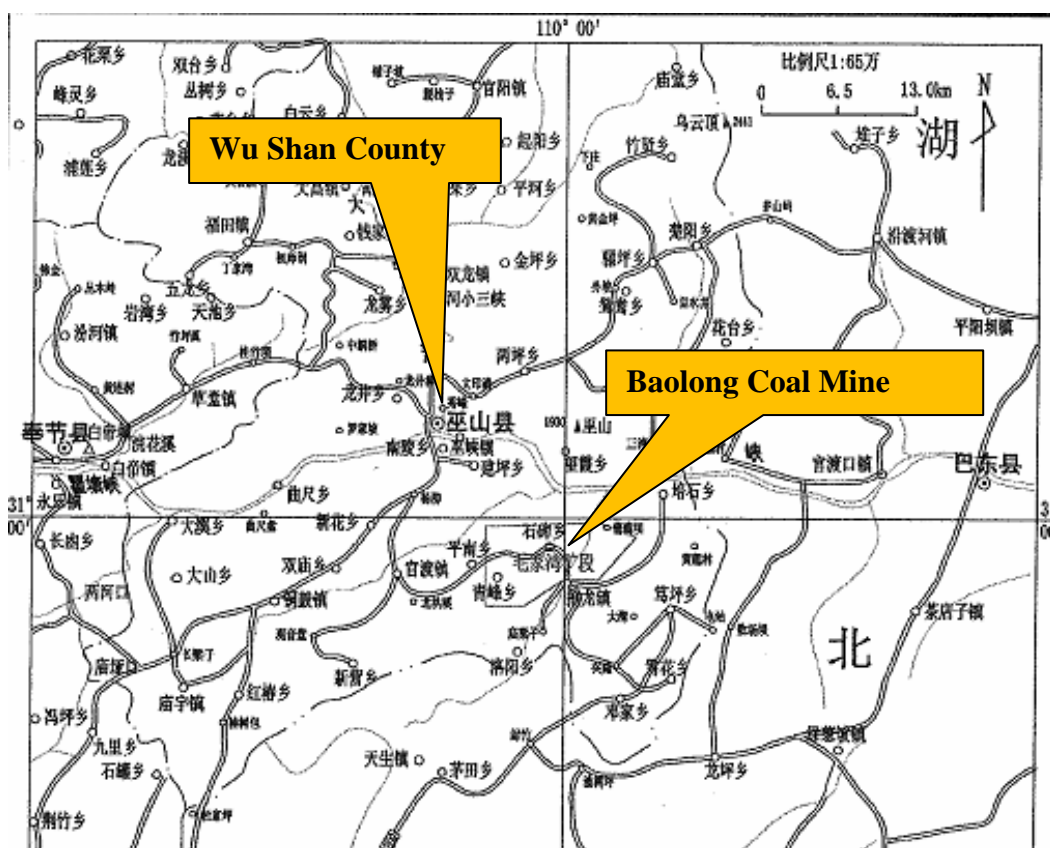


Fig. 16 Location Plan of Baolong Coal Mine



Fig. 17 Licence Boundaries of Baolong Coal Mine



Fig. 18 Main pit portal of Baolong Coal Mine

The coal field infrastructure is reasonable with asphalt roads with a total traveling distance of approximately 80km from Wu Shan County, and 70km to Jian Shi County. The nearby coal wharf is at Pu Tao Dam along the Yangtze Jiang River through which coal can be transported to Yichang, Wuhan, Shanghai, Wanzhou and Chongqing. Given its location, the coal field is under the administration of Bao Long Town Wu Shan County.

The general exploration program for Baolong Coal Mine was carried out by the Chongqing 136th Geological Brigade from April 2005 to December 2007. Subsequently, more detailed field investigation for the coal mine was conducted by the Chongqing 136th Geological Brigade in June 1996 by which relatively abundant geologic data concerning the characteristics of the geological, hydrogeological, geological profile and nearby old coal mine were accumulated. In June 2005, a drill team carried out deep prospecting in Baolong Coal Mine. After the accomplishment of field work in 26 August 2007, it started to compile the survey report. In December 2007, the Baolong (previously known as “Maojiawan”) Coal Mine Coal Resource Survey Report was issued by Chongqing 136th Geological Brigade.

Primary adits are being developed at the Baolong No. 1 eastern adit, while development in the Baolong No. 2 adit will continue when the new mining permit is ratified.

8.1 Coal Seams and Coal Quality

Baolong Coal Mine is characterized by two minable coal seams namely K1 and K2. NO. 1 reference unit with an average thickness of 40 meters lies below K1 minable coal seam which is commonly referred to as the base floor of K1. Similarly, NO.2 reference unit with an average thickness of 5 meters lies below K2 minable coal seam which is commonly referred to as the sign of K2.

Baolong Coal Mine produces thermal coal for local, regional and national power plants or furnace operators. According to the Chongqing 136th Geological Brigade, coal exploited from the Coal Mine exhibited the following coal quality:

K1 coal seam:

- Moisture (M_{ad}) content varies from 1.32% to 12.31% (average 6.5%)
- Ash (A_d) content varies from 33.50% to 41.53% (average 38.29%)
- Volatile (V_d) content varies from 7.37% to 8.43% (average 7.9%)
- Fixed Carbon (F_{cd}) content varies from 42.49% to 55.28% (average 49.6%)
- Sulphur (S_{td}) content varies from 2.42% to 10% (average 5.03%)
- Calorific value (CV) varies from 4,100 to 4,760kcal/kg (average 4,420kcal/kg)
- Phosphor (P_d) varies from 0.002% to 0.007% (average 0.004%)
- Chlorine (Cl_d) varies from 0.084% to 0.098% (average 0.091%)
- Arsenic (As_d) varies from 2 mg/kg to 5 mg/kg (average 4.5mg/kg)
- Fluorine (F_d) varies from 200 mg/kg to 248 mg/kg (average 224mg/kg)
- Specific Gravity was determined to be 1.55

The national norm GB/T15224.1-2004, GB/T15224.2-2004, and GB/T15224.3-2004 classifies the K1 raw seam as high ash (HA), high sulphur (HS), special low phosphorus (SLP), low chlorine (LCI), low calorific value (LQ), and blind coal (WY). It can be used for industrial uses coal and also in domestic consumption.

K2 coal seam:

- Moisture (M_{ad}) content varies from 3.72% to 5.62% (average 4.39%)
- Ash (A_d) content varies from 15.86% to 39.02% (average 25.2%)
- Volatile (V_d) content averagely 8.55%
- Fixed Carbon (F_{cd}) content varies from 48.03% to 71.19% (average 63.32%)
- Sulphur (S_{td}) content varies from 0.89% to 3.7% (average 1.82%)
- Calorific value (CV) varies from 4,200 to 6,620kcal/kg (average 5,420kcal/kg)
- Phosphor (P_d) content averagely 0.014%
- Chlorine (Cl_d) content averagely 0.018%
- Arsenic (As_d) content averagely 8 mg/kg
- Fluorine (F_d) content averagely 266 mg/kg
- Specific Gravity was determined to be 1.50

The national norm GB/T15224.1-2004, GB/T15224.2-2004, and GB/T15224.3-2004 classifies the K2 raw seam as medium ash (MA), medium high sulphur (MHS), medium calorific value (MQ), and blind coal (WY). It can be used for thermal power generation, motive power or civilian coal.

As reported by Behre Dolbear in its Independent Technical Review Report, the average undiluted raw coal quality of the coal reserve of Baolong Coal Mine are set out as follows:

Table 13: average undiluted raw coal quality of the coal reserve of Baolong Coal Mine

Moisture (%) ad	Ash (%) ad	Volatile Matter (%) ad	FC (%) ad	Sulphur (%) ad	CV (kcal/kg) Ar
0.58	28.39	6.87	62.39	0.57	5,494

The coal is categorized as anthracite coal with dry volatile matter contents ranging from 1% to 10% under the State Standard of China Coal Classification System (GB5751-86) and ASTM. Vast majority of the coal is suitable for the power generation market and some of it is suitable for use in Pulverized Coal Injection (PCI) systems. The dry ash content of most of the coal indicates that in most instances beneficiation by way of coal washing will be required to facilitate utilization.

8.2 Estimated Coal Reserves and Life of Mine Schedule

According to the Independent Technical Review Report prepared by Behre Dolbear Asia, Inc, the proven and probable reserves of Baolong Coal Mine as at 30 April 2015 are set out as follows:

Table 14: proven and probable reserves of Baolong Coal Mine as at 30 April 2015

Proved Reserve (kt)	Probable Reserve (kt)	Total Reserve (kt)
29,190	26,050	55,240

Life of Mine Production Schedule as proposed by the Company is set out as follows:

Table 15: Production Schedule of Baolong Coal Mine

Year	Planned Annual Tonnage (kt)	Cumulative Tonnage Mined (kt)
2016	0	0
2017	510	510
2018	1,000	1,510
2019	1,500	3,010
2020-2048	1,800 × 29 years	55,210
2047	30	55,240

8.3 Mining Rights

As at the date of this report, the following consents, permits and approvals have been issued to Baolong Coal Mine for its mining operations:

Table 16: consents, permits and approvals issued to Baolong Coal Mine for its mining operations

Permits	Permit Holder	Mining Certificate No.	Area (km ²)	Permitted Annual Output (tonnes)	Valid Period
Coal Mine Exploitation Permit	Chongqing YiHua Mining Co Ltd	T50120090301025873	23.12	--	22 Mar 2015 to 22 Mar 2017
Mining Permit	Chongqing Baolong Mining Co Ltd	C5000002009041130020052	2.8736	60,000 permitted mining attitude is between 900m to 200m	23 Jul 2014 to 21 Sep 2017

Chongqing Yi Hua Mining Co Ltd also owns an exploration license, which covers 23.12km² and is directly adjacent to the Baolong mining permit area. As confirmed by the management of the Company, Chongqing Yi Hua Mining Co Ltd have been vested the exploitation rights on the entire coal resources of Baolong Coal Mine having a total mining site area of 25.98km² and Coal Mine Exploitation Permit for the remaining portion of Baolong Coal Mine shall be issued to Chongqing Yi Hua Mining Co Ltd without additional coal resources surcharge payable to the Government.

Our valuation has been arrived at on the basis that Chongqing Yi Hua Mining Co Ltd shall have no legal impediment and not be subject to any substantial costs to the issue and renewal of the above consent, permits and approvals by the appropriate regulatory bodies and Government authorities for undertaking its coal mining operations in Baolong Coal Mine from time to time until the coal resources of Baolong Coal Mine are fully exploited.

9.0 DESCRIPTION OF THE CHANGHONG COAL MINE

9.1 Location and Background

Changhong Coal Mine, which is an underground coal mine, is located near the border between Qijiang County of Chongqing City and Xishui County of Guizhou Province and is at a distance of approximately 62 kilometres to the south of the township of Qijiang County. It is under the jurisdiction of Wanlong Village, Shihao Town.

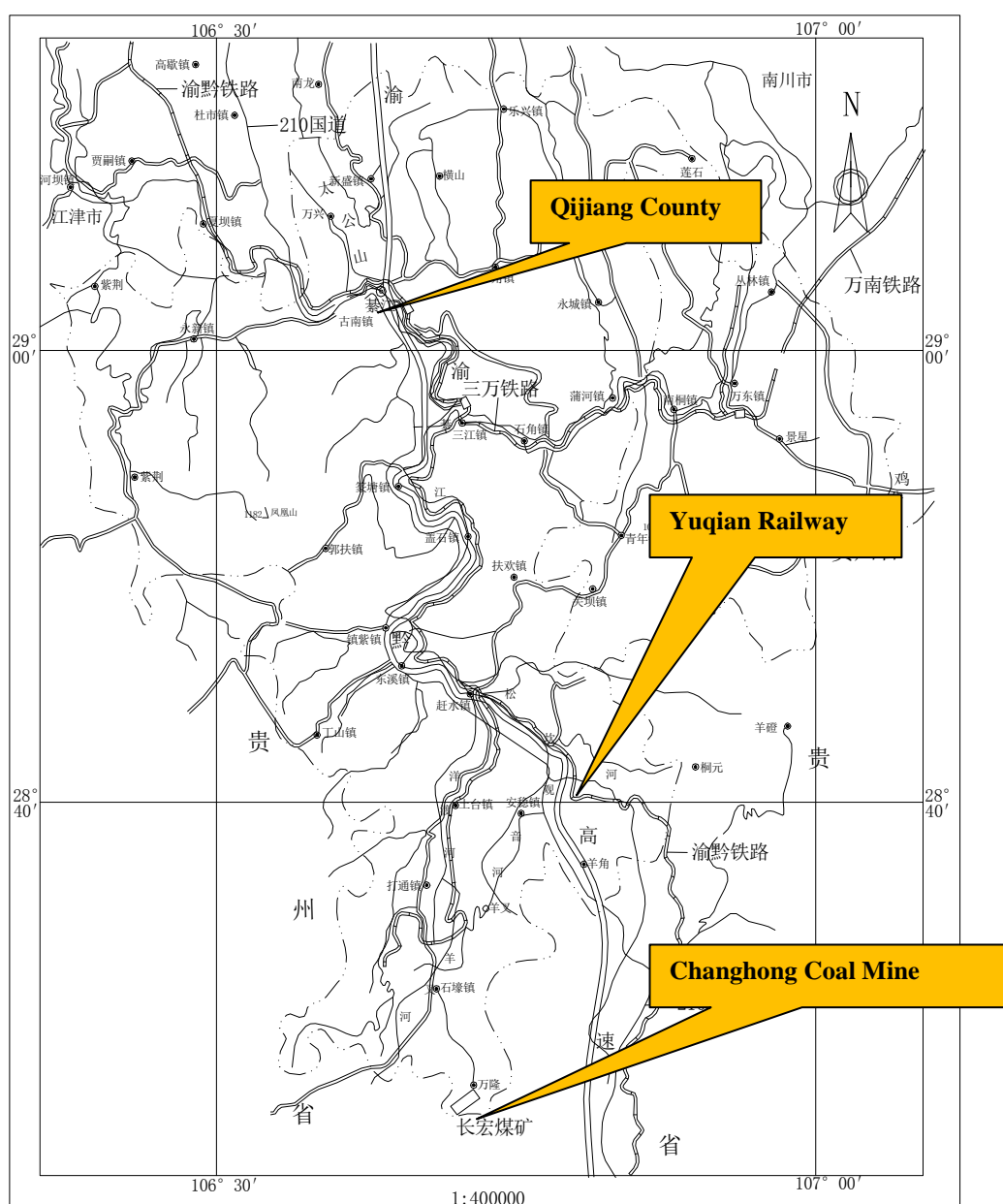


Fig. 19 Location Map of Changhong Coal Mine

The coal field covers a total area of 0.7719km² and is delineated by the following 14 inflexion points:

Table 17: Coordinates of Changhong Mining Site

Plan Coordinate	Rectangular Coordinate	
	X	Y
1	3150135.68	36372004.93
2	3150395.68	36372221.93
3	3150427.68	36372168.93
4	3150537.68	36372311.93
5	3150649.69	36372756.93
6	3150786.69	36372889.93
7	3150210.69	36373271.93
8	3149924.68	36372841.94
9	3149881.69	36372874.94
10	3149852.68	36372831.94
11	3149591.69	36373014.94
12	3149527.69	36372912.94
13	3149831.68	36372700.94
14	3149709.68	36372518.94

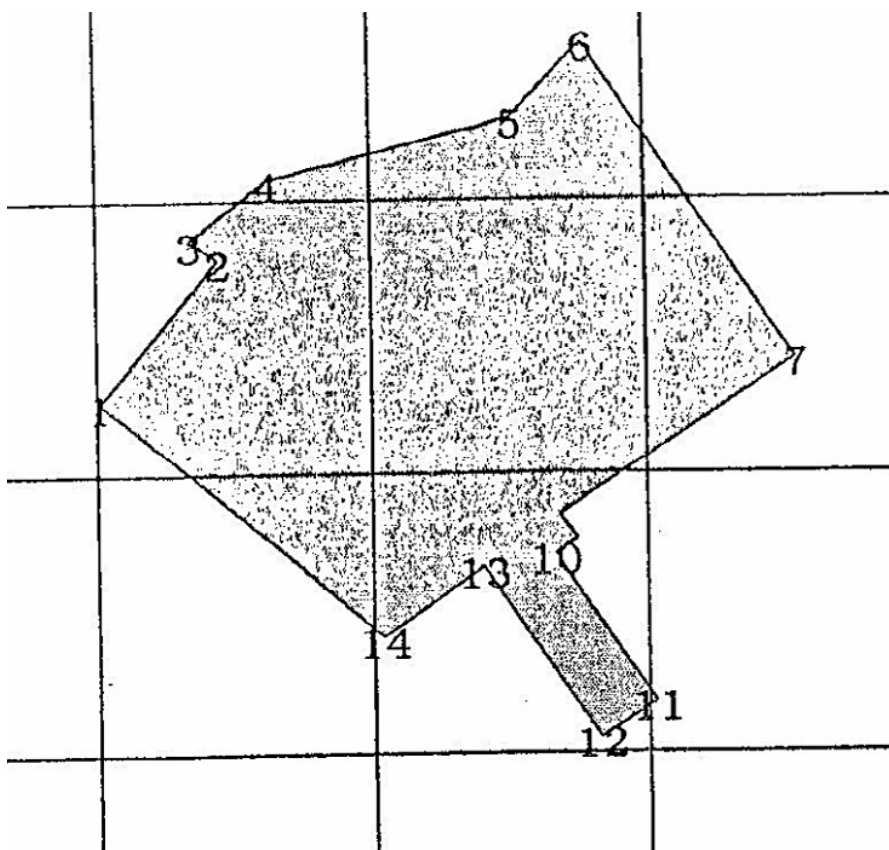


Fig. 20 Licence Boundary of Changhong Coal Mine

The permitted mining altitude of Changhong Coal Mine is between 800 metres and 1,350 metres.

For transportation, the coal field is about 3km from the nearest highway namely the Chongqing-Guizhou Expressway which provides a direct vehicular access to Shihao Town of Qijiang County and Xianquan County of Guizhou Province. Travel distance to Shihao County is approximately 28km which serves as a coal transportation hub where cross provincial highway and railway are available.

Changhong Coal Mine has been established by means of integration of three coal mines namely Changhong Coal Mine, Shanshuwan Coal Mine (杉樹灣煤礦) and Jixing Coal Mine (吉興煤礦). It is bordered by the Nanniwan Coal Mine (南泥灣煤礦) at the west and the Zhanghegou Coal Mine (張河溝煤礦) at the north-east. The licence boundary of the Coal Mine has been delineated by the Land Administration Bureau of Chongqing City which has confirmed that no dispute on illegal encroachment of adjacent coal mines by the Changhong Coal Mine has occurred.

The general regional exploration program for subject locality of Changhong Coal Mine was carried out by the Sichuan Geological Bureau Aviation Zone Geological Survey Team in between 1977 and 1980. Subsequently, more detailed field investigations for the Coal Mine were conducted by the Chongqing 136th Geological Brigade (for the former Changhong Coal Mine), the Ruiqi Mining Industry Development Consultancy Service Department (for the former Shanshuwan Coal Mine) and the Chongqing Geological Mine Resources Development Bureau 205th Geological Brigade (for the former Jixing Coal Mine) which submitted the Coal Resources Report between 2004 and 2005. All these reports have been examined and approved by the experts of the Chongqing Geological Mining Industry Association.

Changhong Coal Mine is commanding two sources of power supply, including the Xianyang Power Substation at Xishui County which is approximately 7 kilometres from the Coal Mine and the 10kV Long Distance Haoyang Power Line which is approximately 17.5km from the Coal Mine. Water supply to Changhong Coal Mine for both production and domestic consumption is satisfied by a local water spring. Backup water supply to Changhong Coal Mine is provided via the Zhanghe River Gully and an unnamed river gully nearby.

At present, two adits for coal mining and two ventilation adits have been constructed for coal mining operations. To enhance the output capacity of Changhong Coal Mine, a main shaft in the form of an adit with a designed total length of 600 metres is currently under construction and is expected to commence operations in 2016. By that time, the designed annual output capacity of Changhong Coal Mine will be boosted up to 900,000 tonnes.



Fig. 21 Primary Transport Adit of Changhong Mine



Fig. 22 Ventilation Adit of Changhong Mine



Fig. 23 Administrative Building of Changhong Mine



Fig. 24 Miners Bathroom and Store Room of Changhong Mine



Fig. 25 Repair Workshop and Storage of Changhong Mine



Fig. 26 Miners Quarters of Changhong Mine

The mining method is long wall blast mining with manual extraction after timber support of the roof. Raw coal produced from Changhong Coal Mine is transported by trucks for a distance of 60km to the nearby railhead for sale. Some is also then transferred approximately 20km to the river port on a tributary of Yangtze River.

9.2 Coal Seams and Coal Quality

The coal bearing stratum of Changhong Coal Mine is the Upper Permian Longtan Formation which is characterized by two minable coal seams namely M6 and M8.

M6 coal seam is located in the middle upper part of the Longtan Formation (P₂1) with seam thickness ranging from 0.4 to 1.6 metres (average 0.95 metres) with simple coal seam structure. Its dip is approximately 30°. Variations of thickness and inclination along its strike are not material. Its entirety is considered a workable coal seam.

M8 coal seam is located in the lower part of the Longtan Formation (P₂1) at a distance of 27.4 metres to 31.7 metres (average 29.1 metres) below M6 coal seam. Its seam thickness ranges from 0.53 to 2.00 metres (average 1.3 metres) with simple coal seam structure. Its dip is approximately 30°. Its entirety is considered a workable coal seam.

Changhong Coal Mine produces thermal coal for local, regional and national power plants or furnace operators. According to the sample test performed by the Coal Quality Supervision and Inspection Station of Chongqing, coal exploited from the Coal Mine exhibited the following coal quality:

M6 coal seam:

- Moisture (M_{a,d}) content is 2.24%
- Ash (A_d) content is 33.24%
- Volatile (V_d) content is 10.3%
- Sulphur (S_{td}) content 5.75%
- Fixed Carbon (F_{c,d}) content is 56.46%
- Calorific value (CV) 5,168kcal/kg
- Specific Gravity was determined to be 1.50

The coal is graded as high ash, high sulphur anthracite with medium calorific value coal suitable for the anthracite energy market. It could be used for industrial uses and domestic consumption.

M8 coal seam:

- Moisture (M_{ad}) content is 2.28%
- Ash (A_{ad}) content is 13.32%
- Volatile (V_{ad}) content is 9.04%
- Sulphur (S_{td}) content 1.84%
- Fixed Carbon (FC_{ad}) content is 77.64%
- Calorific value (CV) 7,144kcal/kg
- Specific Gravity was determined to be 1.45

The coal is graded as medium ash, medium sulphur anthracite with high calorific value coal suitable for the anthracite energy market. It could be used for industrial uses and domestic consumption.

As reported by Behre Dolbear in its Independent Technical Review Report, the average undiluted raw coal quality of the coal reserve of Changhong Coal Mine are set out as follows:

Table 18: average undiluted raw coal quality of the coal reserve of Changhong Coal Mine

Moisture (%) ad	Ash (%) ad	Volatile Matter (%) ad	FC (%) ad	Sulphur (%) ad	CV (kcal/kg) Ar
0.49	18.02	8.89	67.40	2.64	6,788

The coal is categorized as anthracite coal with dry volatile matter contents ranging from 1% to 10% under the State Standard of China Coal Classification System (GB5751-86) and ASTM and relatively high sulphur content. Vast majority of the coal is suitable for the power generation market and some of it is suitable for use in Pulverized Coal Injection (PCI) systems. The dry ash content of most of the coal indicates that in most instances beneficiation by way of coal washing will be required to facilitate utilization.

9.3 Estimated Coal Reserves and Life of Mine Schedule

According to the Independent Technical Review Report prepared by Behre Dolbear Asia, Inc, the proven and probable reserves of Changhong Coal Mine as at 30 April 2015 are set out as follows:

Table 19: proven and probable reserves of Changhong Coal Mine as at 30 April 2015

Proved Reserve (kt)	Probable Reserve (kt)	Total Reserve (kt)
11,890	6,750	18,640

Life of Mine Production Schedule as proposed by the Company is set out as follows:

Table 20: Production Schedule of Changhong Coal Mine

Year	Planned Annual Tonnage (kt)	Cumulative Tonnage Mined (kt)
2016	150	90
2017	450	600
2018 to 2037	900 × 20 years	18,600
2038	40	18,640

9.4 Mining Rights

As at the date of this report, the following consents, permits and approvals have been issued to Changhong Coal Mine for its mining operations:

Table 21: consents, permits and approvals issued to Changhong Coal Mine for its mining operations

Permits	Permit Holder	Ref No.	Area (km ²)	Permitted Annual Output (tonnes)	Valid Period
Mining Permit	Qijiang County Changhong Coal Industry Co., Ltd.	C5000002009041 130018279	0.7719	120,000 permitted mining attitude is between 1,350m to 800m	29 Oct 2015 to 31 Jan 2018
Safety Production Permit	Qijiang County Changhong Coal Industry Co., Ltd.	(渝)MK安许证字[2014]1410018	n.a.	n.a.	24 Nov 2014 to 23 Nov 2017

Our valuation has been arrived at on the basis that Qijiang County Changhong Coal Industry Co., Ltd. shall have no legal impediment and not be subject to any substantial costs to the issue and renewal of the above consent, permits and approvals by the appropriate regulatory bodies and Government authorities for undertaking its coal mining operations in Changhong Coal Mine from time to time until the coal resources of Changhong Coal Mine are fully exploited.

10.0 BASIS OF VALUATION

Under IFRS 136, recoverable amount is defined as the higher of the fair value less costs of disposal and the value in use of an asset or a cash-generating unit as at the Valuation Date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Costs of disposal are incremental costs directly attributable to the disposal of an asset or cash-generating unit, excluding finance costs and income tax expense.

Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

As no transaction of assets similar to the Coal Mines at the locality can be identified, it is not possible to determine their fair values less costs of disposal sell because there is no basis for making a reliable estimate of the amount obtainable from the sale of the Coal Mines in an arm's length transaction between knowledge and willing parties. Therefore, the Recoverable Amount of the Coal Mines have been measured based on their values in use.

Our appraisal included discussions with the management of the Company in relation to the history and nature of the Coal Mines' operations; a study of the financial information; a review of the information provided by the management in connection with the strategy of and the plan of action to be taken to implement the business plans. AAL has assumed that such information, opinions and representation provided to us are true and accurate. Before arriving at our opinion of value of the Coal Mines, AAL has considered the following major factors:

- i. the nature and the prospect of the concerned business operations of the Coal Mines;
- ii. the specific economic and competitive element affecting the Coal Mines, the industry and the market in which the Coal Mines are participating;
- iii. the market-derived investment returns of enterprises engaged in a similar line of business;
- iv. the business risk of the operations of the Coal Mines;
- v. the coal resources of the Coal Mines as estimated by independent geological and mining experts engaged by the holders of the Coal Mines; and
- vi. the financial information and the past operating results of the Coal Mines.

In view of the general environment and the particular situation in which the Coal Mines are operating, the following assumptions have been adopted in our valuation in order to sufficiently support our concluded value:

- i. there will be no major change in the existing political, legal and economic conditions in the PRC;
- ii. save for those proposed changes on taxation policies announced by the Tax Bureau of the PRC, there will be no major change in the current taxation law and tax rates as prevailing and that all applicable laws and regulations on taxation will be complied with by the holders of the Coal Mines;
- iii. the interest rates and exchange rates will not differ materially from those presently prevailing;
- iv. the availability of finance will not be a constraint on the forecast growth of the Coal Mines;
- v. as part of our analysis, AAL has reviewed financial and business information from public sources together with such financial information, management representation, project documentation and other pertinent data that are specific to the project and made available to us by the management of the Company during the course of our valuation. AAL has assumed the accuracy of, and have relied on the information and management representations provided in arriving at our opinion of value. The profit forecast of the Coal Mines revealed to us by the Company have been compiled based on fair and reasonable assumptions that can be materialized by the Coal Mines;

- vi. for this valuation, AAL has prepared a DCF spreadsheet based on information provided by the Instructing Party, AAL further confirm that the key assumptions used in the DCF model being future coal price, mining and production costs, administration expenses and capital expenditure were formulated by AAL based on our industry knowledge, historical operating data of the Coal Mines and relevant external data where appropriate;
- vii. the facilities, systems and technology utilized by the Coal Mines are all sound and capable in performing their designed functions for supporting the mining operations and shall not infringe any relevant regulations and law;
- viii. save for those liabilities stated in the financial statement of the Coal Mines, the Coal Mines and the operating assets thereof are free from any off balance sheet encumbrance and liability including but not limited to mortgage, charge, land / resource premium to the Government and relocation compensation;
- ix. the holders of the Coal Mines shall have uninterrupted rights to operate the Coal Mines subject to no further land / resource premium or any other payments of substantial amount to the Government until the resources are fully exploited;
- x. the holders of the Coal Mines or their successors in title shall have no impediment to obtain and renew all necessary permits and licenses to carry out mining activities and businesses in the Coal Mines;
- xi. the Coal Mines will secure and retain competent management, key personnel, marketing and technical staff to carry out and support its mining and processing operations;
- xii. the coal reserves of the Coal Mines as at 30 April 2015 has been reasonably estimated and reported by the Mining Expert;
- xiii. as estimated by the Company, the further capital costs for developing Caotong Coal Mine are in the order of RMB95.7 million and this amount shall be expended over a period of 2 years (from 2016 to 2017);
- xiv. as estimated by the Company, the further capital costs for developing Heiwan Coal Mine are in the order of RMB33.392 million and this amount shall be expended over a period of 2 years (from 2016 to 2017);
- xv. as estimated by the Company, the further capital costs for developing Baolong Coal Mine are in the order of RMB671.74 million and this amount shall be expended over a period of 23 years (from 2017 to 2039);
- xvi. as estimated by the Company, on further capital costs for developing Changhong Coal Mine is necessary; and
- xvii. the estimated fair market values do not include consideration of any extraordinary financing or income guarantees, special tax considerations or any other atypical benefits which may influence the fair market values.

11.0 VALUATION METHODOLOGY

The recoverable amounts of the Coal Mines have been measured on value in use basis. Under the IFRS 136, the following elements shall be reflected in the calculation of an asset's value in use:

- i. an estimate of the future cash flows the entity expects to derive from the asset;
- ii. expectations about possible variations in the amount or timing of those future cash flows;
- iii. the time value of money, represented by the current market risk-free rate of interest;
- iv. the price for bearing the uncertainty inherent in the asset; and
- v. other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.

Estimates of future cash flows shall include:

- i. projections of cash inflows from the continuing use of the asset;
- ii. projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- iii. net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

11.1 Production Schedule

Production schedule of each of the Coal Mines revealed in the IQPR and adopted in the DCF model are set out in table 5, 10, 15 and 20 above.

11.2 Capital Cost Estimate

Capital expenditures for the Coal Mines have been based on the information provided in the IQPR. Some supporting documents have been provided. AAL believes that these capital expenditures are acceptable and reasonable for the type of plant and facilities being acquired, refurbished or recommissioned.

Table 22: Historical and Projected Capital Costs of the Coal Mine

Capital Cost Requirement (RMB,000)	Caotang Mine	Heiwan Mine	Baolong Mine	Changhong Mine	Total
FY 2012 Actual Costs	123,105	88,612	4,041	142,141	357,899
FY 2013 Actual Costs					
Mine Development	96,510	44,118	4,533	79,207	224,368
Equipment	82,897	26,469	40	95,543	204,949
Ground Construction	0	81	368	6,710	7,159
Total	179,407	70,668	4,941	181,460	436,476

FY 2014 Actual Costs					
Mine Development	62,650	34,299	613	31,843	129,405
Equipment	40,982	10,632	48	33,776	85,438
Ground Construction	1,083	1,267	73	643	3,066
Total	104,715	46,198	734	66,263	217,910
1H 2015 Actual Costs					
Mine Development	15,260	6,771	433	0	22,464
Equipment	8,657	1,744	0	0	10,401
Ground Construction	0	0	114	0	114
Total	23,917	8,515	547	0	32,979
Total Capital Cost Incurred (FY2012 through 1H 2015)	431,144	212,993	10,263	389,864	1,044,237
Remaining projected capital costs	95,700	33,392	682,236	0	811,328

Source : IQPR and the Company's estimation

11.3 Operational Costs

AAL has adopted the estimated operating costs revealed from the IQPR and considered that they are fair and reasonable. The table below summarises the average unit cost per tonne of coal exploited from the Coal Mines.

Table 23: Estimated Operating Costs

Operating cost item	Estimated Operating Costs (RMB/ton)			
	Caotang Mine	Heiwan Mine	Baolong Mine*	Changhong Mine
Raw Material Consumed	4.23	1.78	1.78	4.82
Salaries	80.94	109.26	109.26	120.60
Transportation	-	-	-	0.64
Electricity and water	4.67	1.39	1.39	11.03
Compensation	-	-	-	0.24
Labor Protection Fee	0.04	0.12	0.12	0.05
Lease Rental	-	0.44	0.44	-
Labour Insurance	7.57	-	-	3.23
Repair Costs	0.47	0.02	0.02	2.15
Technican Charge	-	-	-	2.39
Soil and Water Conservation Fee	-	-	-	0.95
Sewage Charge	-	-	-	3.82
Silviculture Funds	-	-	-	0.95
Miscellaneous	0.01	-	-	-
Depreciation	18.16	26.18	26.18	107.22
Amortization	13.25	37.23	37.23	6.95
Total Operating Costs	129.34	176.42	176.42	265.04

*Note: As mining operations of Baolong Coal Mine have not started yet and no historical cost of it is not available, the projected operating costs of Baolong Coal Mine are based on the projected costs of Heiwan Mine.

11.4 Coal Prices

The PRC's steam coal market kept fragile in the first half this year. With Bohai-rim Steam-Coal Price Index (BSPI) stood above RMB500/tonne at the beginning of 2015, steam coal are riding on their downward trends with going down to RMB465/tonnes in February and further down to RMB414 per tonne around the Valuation Date. That's down almost 20% from the start of the year and the lowest since August 2007.

15 large-sized coal producers led by Shenhua Group and the PRC Coal proposed to suspend production industry-wide during official holidays such as the National Day holiday, the New Year Day holiday and the Spring Festival holiday. Currently, some producers have not yet made production plans for the forthcoming Spring Festival holiday, and 80% mines have been shut for the vacation in some regions. Large miners are expected to slash production by 20 million tonnes during the holiday, which is likely to boost transactions of imported coal. However, both power generation and usage are at low levels amid an economic slowdown. The short-term output cut is hard to offset negative effects from subdued demand and threats from low-priced imported coal.

11.5 Discount Rate

In DCF method, value depends on the present worth of future economic benefits to be derived from ownership of the Coal Mines. Thus, an indication of value is developed by discounting future debt free cash flows (DFCFs) available for distribution to the owners to their present worth at a market-derived rate of return appropriate for the risks and hazards of investing in similar business.

$$\text{DFCF} = \text{EBIT} + \text{DEPR} - \text{Tax} - \text{CAPEX} - \Delta\text{WC}$$

Where:

DFCF	= projected debt free cash flows
EBIT	= earnings before interest and tax
DEPR	= depreciation and amortization expenses
Tax	= profit tax on EBIT
CAPEX	= capital expenditures
ΔWC	= change in working capital

The appropriate discount rate for the DCF model is the weighted average cost of capital (WACC) which is the weighted average of the return on equity capital and the return on debt capital. The weights are determined by the average leverage position of the peer group and the weights of 65.15% and 34.85% for equity capital and debt capital are considered to be optimal for the Coal Mines.

The cost of equity can be developed using the Capital Asset Pricing Model (CAPM) which states that an investor requires excess returns to compensate for any risk that is correlated to the risk in the return from the well diversified market portfolio (the composite portfolio of the board base equity market index would normally be taken) but requires no excess return for other risks. Risks that are correlated with the return from the market portfolio are referred to as systematic risks. Other risks, which are normally asset specific, are referred to as non-systematic risks. By the CAPM, the appropriate cost of equity for compensating the systematic risk is computed by the following formula:

$$K_e = RF + \beta(MRP) + \Theta$$

where

K_e : Cost of Equity

RF : Risk Free Rate (long-term government bond rate is adopted)

β : price sensitivity which measures how much the asset's return and market return move together. The beta can be estimated by regression, industry comparables and smoothing techniques

MRP : market risk premium i.e. market return minus risk free rate

Θ : company specific risk premium

In our valuation, several listed companies engaging in the coal mining business have been selected as comparable companies and their price sensitivity coefficients (β) as at the Valuation Date have been extracted from the database of Bloomberg L.P.

Table 24: Betas of Comparable Companies

Company Name	Stock Code	Levered Beta	Debt / Equity Ratio	Unlevered Beta
Jizhong Energy Resources Co., Ltd.	000937 CH	1.036	67.91%	0.69
Shanxi Xishan Coal & Electricity Power Co Ltd	000983 CH	0.946	105.90%	0.53
China Shenhua Energy Co Ltd	1088 HK	1.1	43.91%	0.83
Yanzhou Coal Mining Co Ltd.	1171 HK	1.364	226.60%	0.51
China Coal Energy Co Ltd	1898 HK	1.236	124.17%	0.64
Shanxi Lu' An Environmental Energy Development Co Ltd	601699 CH	0.999	116.12%	0.53
SDIC Xinji Energy Co Ltd	601918 CH	1.089	58.57%	0.76
Guizhou Panjiang Refined Coal Co Ltd	600395 CH	1.143	8.64%	1.07
Anhui Hengyuan Coal Industry Co Ltd.	600971 CH	1.049	41.07%	0.80
Median			67.91%	0.69

Source : Bloomberg

Table 25: Business Description of Comparable Companies

Company	Business Description
Jizhong Energy Resources Co., Ltd. (000937 CH)	The company is principally engaged in the mining and processing of coal. The Company is also involved in construction material business and chemical production business. The Company primarily provides coal, cokes, methanol, fiberglass strands, cement, cement clinker, glass fiber products, electricity and polyvinyl chloride (PVC) resins. The Company distributes its products in domestic markets and to overseas markets, with North China and East China as its major markets.
Shanxi Xishan Coal & Electricity Power Co Ltd (000983 CH)	The company is a China-based company principally engaged in the coal, electricity and steam businesses. The Company operates its businesses through production, processing and sale of coals and coal chemical products, as well as the supply of electricity and heat power. The Company's main products portfolio consists of cleaned coking coals, cleaned rich coals, cleaned lean coals, cleaned coals for electricity generation, raw coals, cleaned gas coals and others. The Company also provides light benzol, coke oven gases, cokes and tar, among others. It mainly conducts its businesses in the North China. Through its subsidiaries, the Company is also involved in the development, generation and sales of electricity, housing rental business, property management business, construction materials business, and others.
China Shenhua Energy Company Limited (1088HK)	The company is an integrated energy company. It operates its businesses through coal division, which involves in production of coal and operation of coal mines such as Shendong, Zhunge'er, Shengli, Baorixile and Baotou mines, which provide long frame coal, lignite and non-caking coal, among others; power generation division, which is mainly engaged in the thermal power generation; railway transportation division, which involves in transportation of coal products to ports and foreign markets through railway lines including Shuohuang, Shenshuo, Dazhun, Baoshen and Huangwan Rail Lines; port transportation division, which involves in operation of Huanghua Port and Tianjin Coal Dock, providing coal transportation services, as well as shipping business, among others.
Yanzhou Coal Mining Co. (1171HK)	The company is a mining company with coal, coal chemicals, power generation business and potash resources. The Group is engaged in mining, washing and processing and sales of coal, and production of semi-hard coking coal, semisoft coking coal, pulverized coal injection (PCI) and thermal coal. The Group operates through three business segments: Coal mining, Coal railway transportation, and Methanol, electricity and heat supply. The Coal mining segment is engaged in underground and open-cut mining, preparation and sales of coal and potash mineral exploration. The Coal railway transportation segment provides railway transportation services. The Methanol, electricity and heat supply segment is engaged in the production and sales of methanol and electricity and related heat supply services.
China Coal Energy Company Limited (1898HK)	The company is a China-based company principally engaged in coal production and distribution. The Company operates its businesses through coal business, which involves in production and distribution of steam coals and coking coals; coking business, which provides metallurgy cokes and forging cokes; coke mining equipment business, which offers hydraulic supports, scraper conveyors, loaders, boring machines, shearers and mining electrical motors, among others, as well as other businesses, which include the production and generation of electrolytic aluminum, electric power and coal gas. The Company distributes its products within domestic market and to overseas markets.

Company	Business Description
Shanxi Lu' An Environmental Energy Development Co Ltd (601699 CH)	The company is a China-based company principally engaged in the mining, washing, processing and distribution of coal. The Company's major products are coal and cokes, including pulverized coal, mixed coal, fine washed coal, washed coarse coal and clean power coal. The Company's coal products are used in electricity generation, power, ceramics, glass and chemical industries, among others.
SDIC Xinji Energy Co Ltd (601918 CH)	The company is a company primarily engaged in the exploration, washing, processing and distribution of coal. The Company provides power coal, non-power coal and local sell coal. Through its subsidiaries, the Company is also involved in property management, hotel operation and system integration businesses. The Company operates its businesses primarily in Anhui province and Shanghai, China.
Guizhou Panjiang Refined Coal Co Ltd (600395 CH)	The company is principally engaged in the mining, processing and sale of coal. The Company is also involved in electricity generation. The Company's coal products include refined coal, mixed coal and raw coal. The Company produces approximately 4 million metric tonnes of refined coal, 5 million metric tonnes of mixed coal, 12 million metric tonnes of raw coal and sells approximately 10 million metric tonnes of merchantable coal, the Company generates approximately 470 million kilowatt hours (kwh) of electricity and supplies 400 million kwh of electricity annually. The Company mainly operates its businesses in domestic market.
Anhui Hengyuan Coal Industry Co Ltd. (600971 CH)	The company is principally engaged in the mining, processing and distribution of coal, as well as the generation of electricity. The Company distributes its products within domestic market.

The parameters used in determining the discount rate are shown as below:

Valuation Date	31 October 2015
Indicated Risk Free Rate ¹	3.080%
Risk Premium ²	9.486%
Estimated unlevered Beta ³	0.6864
Estimated levered Beta ⁴	1.0360
	(based on debt-to-equity ratio of 67.91% and a tax rate of 25%)
Add marketability premium ⁵	5.90%
Add company specific risk ⁶	5%
Cost of Equity	23.69%
Cost of Debt ⁷	4.90%
Tax Rate	25.00%
WACC ⁸	15.59%

Notes:

¹ The yield-to-maturity of 10-year PRC Sovereign Bond

² risk premium is cited from Bloomberg database.

³ The average of unlevered betas of the comparable companies.

⁴ Unleveraged beta is translated into leveraged beta based on the following formula:

$$\beta_L = \beta_U \{1 + [(1-t) \times \text{debt} / \text{equity}]\}$$
 where

β_L = leveraged beta

β_U = unleveraged beta

t = profit tax rate (25.00%)

debt / equity = the average debt / equity ratio of the comparable companies

⁵ Marketability premium is added to the cost of equity to reflect the fact that the share capital of the Business Enterprise is currently not publicly traded securities as opposed to the share capital of the comparable companies which can be publicly traded on relevant stock exchanges.

⁶ Company specific risk is allowed with consideration that the Coal Mines are still green field Coal Mines and the mining operations have not yet commenced.

⁷ bank borrowing rate for loan over 5 years as laid down by the People's Bank of China

⁸ An additional risk premium of 1% is added to the WACC applicable to Baolong Coal as the mining operations of the coal mine have not yet commenced as at the Valuation Date

Free cash flows projections of the Coal Mines for the first 6 years of the forecasting period are set out as follows:

Year (RMB mil)	Caotang Coal Mine	Heiwan Coal Mine	Baolong Coal Mine	Changhong Coal Mine
2016	107.60	15.16	-	5.515
2017	104.94	37.27	46.45	42.56
2018	191.16	89.98	143.18	99.66
2019	190.47	87.40	233.79	95.77
2020	189.76	84.74	282.11	91.77
2021	189.03	75.78	275.11	87.65

Given the projected free operating cash flows and the expected WACC applicable for discounting, the Values in Use of the Coal Mines as at the Valuation Date have been measured at the following amounts:

Caotang Coal Mine	:	RMB972,200,000
Heiwan Coal Mine	:	RMB262,400,000
Baolong Coal Mine	:	RMB1,026,300,000
Changhong Coal Mine	:	RMB401,100,000
Total	:	RMB2,662,000,000

12.0 LIMITING CONDITIONS

AAL has accepted such information as the nature of the Coal Mines and their Mining Rights and in the identification of the Coal Mines from the Company. AAL has had no reason to doubt the truth and accuracy of the information provided to us by the instructing party. ALL was also advised by the Company that no material factors have been omitted from the information to reach an informed view, and has no reason to suspect that any material information has been withheld.

AAL has not carried out detailed site measurements to verify the correctness of the mining areas of the Coal Mines but have assumed that the areas shown on the legal documents provided to us are correct. Based on our experience of valuation of similar assets in the PRC, AAL considers the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions and areas are approximations.

For this valuation, AAL has conducted site inspections of the Coal Mines but no structural survey has been conducted. Our valuation has been made on the basis that the underground conditions and services of the Coal Mines are satisfactory and that no extraordinary expenses or delays will be incurred during the mining operations.

No allowance has been made in our valuation for any charges, mortgages, outstanding land and development payment or amounts owing on the Coal Mines nor for any expenses or taxation which may be incurred in effecting a sale. Save for those debts stated on book, it is assumed that the Coal Mines are free from off-balance sheet encumbrances, restrictions and outgoings of an onerous nature which could affect their value.

13.0 OPINION OF VALUE

Based upon the investigation and analysis outlined above, our valuation basis, valuation assumptions and appraisal method employed, we are of the opinion that the total Recoverable Amount on Value in Use basis of the Coal Mines as at **31 October 2015** free from encumbrance are reasonably represented by the amounts of **RMB2,662,000,000 (RENMINBI TWO BILLION SIX HUNDRED SIXTY TWO MILLION ONLY)** which is broken down into the followings:

Caotong Coal Mine

RENMINBI NINE HUNDRED SEVENTY TWO MILLION AND TWO HUNDRED THOUSAND ONLY (RMB972,200,000).

Heiwan Coal Mine

RENMINBI TWO HUNDRED SIXTY TWO MILLION AND FOUR HUNDRED THOUSAND ONLY (RMB262,400,000).

Baolong Coal Mine

RENMINBI ONE BILLION TWENTY SIX MILLION AND THREE HUNDRED THOUSAND ONLY (RMB1,026,300,000).

Changhong Coal Mine

RENMINBI FOUR HUNDRED ONE MILLION AND ONE HUNDRED THOUSAND ONLY (RMB401,100,000).

14.0 SENSITIVITY ANALYSIS

Sensitivity analysis for the Values in Use of the Coal Mines are arrived at using the income approach and have been performed whereby each of the parameters involved in the valuation have been tested independently in order to test the fair market value change in response to variations of the magnitudes of the parameters.

14.1 Caotong Coal Mine

A. Discount Rate

Discount Rate	Variance from base case	Enterprise Value (RMB)	% change (from base case value)
12.59%	-3%	1,121,200,000	15.33%
13.59%	-2%	1,067,600,000	9.81%
14.59%	-1%	1,018,100,000	4.72%
15.59% (base case)	0%	972,200,000	0.00%
16.59%	+1%	929,700,000	-4.37%
17.59%	+2%	890,100,000	-8.44%
18.59%	+3%	853,400,000	-12.22%

B. Annual Growth Rate of Coal Selling Price

Annual Growth Rate of Coal Selling Price	Variance from base case	Enterprise Value (RMB)	% change (from base case value)
-10%	-10%	558,000,000	-42.60%
-7.5%	-7.5%	640,300,000	-34.14%
-5%	-5%	733,300,000	-24.57%
0% (base case)	0%	972,200,000	0.00%
+5%	+5%	1,310,500,000	34.80%
+7.5%	+7.5%	1,531,200,000	57.50%
+10%	+10%	1,794,700,000	84.60%

C. Annual Growth Rate of Cost of Production

Annual Growth Rate of Coal Selling Price	Variance from base case	Enterprise Value (RMB)	% change (from base case value)
0%	-3%	995,600,000	2.41%
+1%	-2%	988,400,000	1.67%
+2%	-1%	980,600,000	0.86%
+3% (base case)	0%	972,200,000	0.00%
+4%	+1%	963,200,000	-0.93%
+5%	+2%	953,400,000	-1.93%
+6%	+3%	942,900,000	-3.01%

14.2 Heiwan Coal Mine

A. Discount Rate

Discount Rate	Variance from base case	Enterprise Value (RMB)	% change (from base case value)
12.59%	-3%	288,600,000	9.98%
13.59%	-2%	279,400,000	6.48%
14.59%	-1%	270,700,000	3.16%
15.59% (base case)	0%	262,400,000	0.00%
16.59%	+1%	254,400,000	-3.05%
17.59%	+2%	246,800,000	-5.95%
18.59%	+3%	239,600,000	-8.69%

B. Annual Growth Rate of Coal Selling Price

Annual Growth Rate of Coal Selling Price	Variance from base case	Enterprise Value (RMB)	% change (from base case value)
-10%	-10%	60,300,000	-77.02%
-7.5%	-7.5%	110,400,000	-57.93%
-5%	-5%	159,500,000	-39.21%
0% (base case)	0%	262,400,000	0.00%
+5%	+5%	386,600,000	47.33%
+7.5%	+7.5%	457,900,000	74.50%
+10%	+10%	536,100,000	104.31%

C. Annual Growth Rate of Cost of Production

Annual Growth Rate of Coal Selling Price	Variance from base case	Enterprise Value (RMB)	% change (from base case value)
0%	-3%	291,700,000	11.17%
+1%	-2%	282,200,000	7.55%
+2%	-1%	272,500,000	3.85%
+3% (base case)	0%	262,400,000	0.00%
+4%	+1%	251,900,000	-4.00%
+5%	+2%	241,100,000	-8.12%
+6%	+3%	230,000,000	-12.35%

14.3 Baolong Coal Mine

A. Discount Rate

Discount Rate	Variance from base case	Enterprise Value (RMB)	% change (from base case value)
12.59%	-3%	1,243,500,000	21.16%
13.59%	-2%	1,163,800,000	13.40%
14.59%	-1%	1,091,700,000	6.37%
15.59% (base case)	0%	1,026,300,000	0.00%
16.59%	+1%	966,700,000	-5.81%
17.59%	+2%	912,300,000	-11.11%
18.59%	+3%	862,500,000	-15.96%

B. Annual Growth Rate of Coal Selling Price

Annual Growth Rate of Coal Selling Price	Variance from base case	Enterprise Value (RMB)	% change (from base case value)
-10%	-10%	-381,400,000	-137.16%
-7.5%	-7.5%	-116,400,000	-111.34%
-5%	-5%	196,300,000	-80.87%
0% (base case)	0%	1,026,300,000	0.00%
+5%	+5%	2,452,700,000	138.98%
+7.5%	+7.5%	3,625,500,000	253.26%
+10%	+10%	5,335,200,000	419.85%

C. Annual Growth Rate of Cost of Production

Annual Growth Rate of Coal Selling Price	Variance from base case	Enterprise Value (RMB)	% change (from base case value)
0%	-3%	1,300,300,000	26.70%
+1%	-2%	1,219,800,000	18.85%
+2%	-1%	1,129,100,000	10.02%
+3% (base case)	0%	1,026,300,000	0.00%
+4%	+1%	906,000,000	-11.72%
+5%	+2%	761,500,000	-25.80%
+6%	+3%	587,800,000	-42.73%

14.4 Changhong Coal Mine

A. Discount Rate

Discount Rate	Variance from base case	Enterprise Value (RMB)	% change (from base case value)
12.59%	-3%	466,700,000	16.36%
13.59%	-2%	443,100,000	10.47%
14.59%	-1%	421,300,000	5.04%
15.59% (base case)	0%	401,100,000	0.00%
16.59%	+1%	382,400,000	-4.66%
17.59%	+2%	365,000,000	-9.00%
18.59%	+3%	348,900,000	-13.01%

B. Annual Growth Rate of Coal Selling Price

Annual Growth Rate of Coal Selling Price	Variance from base case	Enterprise Value (RMB)	% change (from base case value)
-10%	-10%	-309,300,000	-177.11%
-7.5%	-7.5%	-175,800,000	-143.83%
-5%	-5%	-14,700,000	-103.66%
0% (base case)	0%	401,100,000	0.00%
+5%	+5%	992,800,000	147.52%
+7.5%	+7.5%	1,429,100,000	256.30%
+10%	+10%	2,005,800,000	400.07%

C. Annual Growth Rate of Cost of Production

Annual Growth Rate of Coal Selling Price	Variance from base case	Enterprise Value (RMB)	% change (from base case value)
0%	-3%	569,300,000	41.93%
+1%	-2%	518,700,000	29.32%
+2%	-1%	462,900,000	15.41%
+3% (base case)	0%	401,100,000	0.00%
+4%	+1%	328,800,000	-18.03%
+5%	+2%	241,500,000	-39.79%
+6%	+3%	138,000,000	-65.59%

AAL hereby certify that it has neither a present nor prospective interest in the appraised assets or the value reported.

This conclusion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

AAL has not investigated the title to or any liabilities against the asset appraised.

This valuation report is issued subject to our General Service Conditions attached herewith.

Yours faithfully,
for and on behalf of
Asset Appraisal Limited



Tse Wai Leung
CFA, MRICS, MHKIS
Director

GENERAL SERVICE CONDITIONS

The services provided by Asset Appraisal Limited have been performed in accordance with professional appraisal standard. Our compensation is not contingent in any way upon our conclusions of value. We assume, without independent verification, the accuracy of all data provided to us. We will act as an independent contractor and reserve the right to use subcontractors. All files, working papers or documents developed by us during the course of the engagement will be our property. We will retain this data for at least five years.

Our report is to be used only for the specific purpose stated herein and any other use is invalid. No reliance may be made by any third party without our prior written consent. You may show our report in its entirety to those third parties who need to review the information contained herein. No one should rely on our report for any purchase price determination purpose or as a substitute for their own due diligence. No reference to our name or our report, in whole or in part, in any document you prepare and/or distribute to third parties may be made without our consent.

You agree to indemnify and hold us harmless against and from any and all losses, claims, actions, damages, expenses, or liabilities, including reasonable attorneys' fees, to which we may become subject in connection with this engagement. You will not be liable for our negligence. Your obligation for indemnification and reimbursement shall extend to any controlling person of Asset Appraisal Limited, including any director, officer, employee, subcontractor, affiliate or agent. In the event we are subject to any liability in connection with this engagement, regardless of legal theory advanced, such liability will be limited to the amount of fees we received for this engagement.

Asset Appraisal Limited shall not be required to give testimony or attendance in court or to any government agency by reason of this valuation and with reference to the project described herein unless prior arrangements have been made.

We reserve the right to include your company / firm name in our client list, but we will maintain the confidentiality of all conversations, documents provided to us, and the contents of our reports, subject to legal or administrative process or proceedings. These conditions can only be modified by written documents executed by both parties.

-End of GENERAL SERVICE CONDITIONS -