THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in **China Qinfa Group Limited (中國秦發集團有限公司)**, you should at once hand this circular with the enclosed form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or the transfer was effected for transmission to the purchaser or the transferee.

This circular appears for information only and does not constitute an invitation or offer to shareholders or any other persons to acquire, purchase, or subscribe for securities of the Company.

中國秦發集團有限公司

CHINA QINFA GROUP LIMITED

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 00866)

VERY SUBSTANTIAL DISPOSAL
CONNECTED TRANSACTION
AND
NOTICE OF EGM

Financial adviser to China Qinfa Group Limited

Alliance Capital Partners Limited
同人融資有限公司

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders of China Qinfa Group Limited

金融有限公司
OCTAL Capital Limited

A letter from the Board is set out on pages 6 to 25 of this circular.

A letter from the Independent Board Committee is set out on pages 26 to 27 of this circular.

A letter from Octal Capital Limited, the Independent Financial Adviser, containing its recommendations to the Independent Board Committee and the Independent Shareholders is set out on pages 28 to 44 of this circular.

A notice convening the EGM to be held at Caine Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Thursday, 24 November 2016 at 2:00 p.m. is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong as soon as practicable but in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so wish and in such case, the form of proxy shall be deemed to be revoked.

26 October 2016

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

"Agreement"	the conditional agreement dated 25 April 2016 (as supplemented by a supplemental agreement dated 11 July 2016 and a letter of exchange dated 19 October 2016) entered into among the Vendor and Purchaser in relation to the Disposal
"Board"	the board of Directors
"Business Day"	a day other than a Saturday, Sunday or public holiday in Hong Kong
"Chongsheng Coal"	Shanxi Shuozhou Pinglu District Huameiao Chongsheng Coal Company Limited (山西朔州平魯區華美奧崇升煤業有限公司), a limited liability company established on 21 March 1998 under the laws of the PRC and a wholly-owned subsidiary of Huameiao Energy
"Coal Business"	services included coal mining and operation, sales of coal in the PRC, which is one of the principal activities performed by the Group prior to the Disposal
"Company"	China Qinfa Group Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
"Competent Person's Report"	has the meaning as defined in Chapter 18 of the Listing Rules
"Complete" or "Completion"	completion of the Disposal pursuant to the terms and conditions under the Agreement
"Completion Date"	2 Business Days after the satisfaction of the last condition precedent or any other date agreed by the Vendor and the Purchaser
"Conditions Precedent"	conditions precedent set out in paragraph headed "Conditions Precedent"

"Consideration"	RMB176,740,000, out of which (i) RMB154,700,000 will be set off against an equivalent amount due to the Disposal Group by the Remaining Group; and (ii) the remaining RMB22,040,000 will be payable in cash by the Purchaser to the Vendor
"Director(s)"	director(s) of the Company
"Disposal"	the proposed disposal of the entire issued equity interest in the Disposal Group by the Company in accordance with the terms and conditions of the Agreement
"Disposal Company"	Hong Kong Qinfa International Trading Limited, a company incorporated in Hong Kong with limited liability and a wholly owned subsidiary of the Group
"Disposal Group"	the Disposal Company and its subsidiaries
"Disposal Group Member"	any of the Disposal Company and its subsidiaries
"EGM"	an extraordinary general meeting of the Company to be held to approve the Disposal
"Encumbrance"	any mortgage, lien, charge, pledge, assignment by way of security, security interest, title retention, preferential right or trust arrangement, claim, covenant, profit á prendre, easement or other security arrangement or any other arrangement having the same effect
"Fengxi Coal"	Shanxi Shuozhou Pinglu District Huameiao Fengxi Coal Company Limited (山西朔州平魯區華美奧馮西煤業有限公司), a limited liability company established on 16 March 1998 under the laws of the PRC and a wholly-owned subsidiary of Huameiao Energy
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC

"Hongyuan Coal"	Shanxi Xinzhou Shenchi Hongyuan Coal Co., Ltd. (山西忻州神池宏遠煤業有限責任公司), a limited liability company established on 14 May 2013 under the laws of the PRC in which the Disposal Company owns 49% equity interest as of the date hereof
"Huameiao Energy"	Shanxi Huameiao Energy Group Company Limited (山西華美奧能源集團有限公司), a limited liability company established on 12 January 2004 under the laws of the PRC in which the Disposal Company owns 80% equity interest as of the date hereof
"Independent Board Committee"	an independent committee of the Board comprising all the independent non-executive Directors, namely Mr. HUANG Guosheng, Mr. LAU Sik Yuen and Mr. XING Zhiying, established to give advice to the Independent Shareholders on the terms of the Agreement
"Independent Financial Adviser" or "Octal Capital"	Octal Capital Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong), the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Agreement
"Independent Shareholder"	Shareholders other than the Vendor and its associates (as defined in the Listing Rules)
"International Shipping Business"	International shipping business, which is one of the principal activities of the Group. Such business is proposed to be retained in the Group after Disposal
"Latest Practicable Date"	19 October 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange

"Mr. XU"	Mr. XU Jihua, an executive Director and a controlling Shareholder (as defined under the Listing Rules)
"PRC"	the People's Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"PRC Shipping Business"	shipping services in the PRC, which is one of the principal activities performed by the Group prior to the Disposal
"Purchaser"	Bo Hai Investment Limited, a company incorporated in the British Virgin Islands with limited liability, which is directly wholly-owned by Mr. XU
"Remaining Group"	the Group other than the Disposal Group
"RMB"	Renminbi, the lawful currency of the PRC
"Share(s)"	share(s) of HK$0.10 each in the capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Vendor"	Qinfa Investment Limited (秦發投資有限公司), a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of the Company
"Xinglong Coal"	Shanxi Xinzhou Shenchi Xinglong Coal Co., Ltd. (山西忻州神池興隆煤業有限責任公司), a limited liability company established on 2 April 2013 under the laws of the PRC in which the Disposal Company owns 49% equity interest as of the date hereof
"Xingtao Coal"	Shanxi Shuozhou Pinglu District Huameiao Xingtao Coal Company Limited (山西朔州平魯區華美奧興陶煤業有限公司), a limited liability company established on 22 February 2010 under the laws of the PRC and a wholly-owned subsidiary of Huameiao Energy

"Zhuhai Qinfa"	Zhuhai Qinfa Logistics Co., Ltd (珠海秦發物流有限公司), a company established in the PRC and a wholly owned subsidiary of the Disposal Company
"%"	per cent.

In this circular, unless the context otherwise requires, the terms "associate(s)", "connected person(s)", "connected transaction(s)", "subsidiary(ies)" and "substantial shareholder(s)" shall have the meanings given to such terms in the Listing Rules, as modified by the Stock Exchange from time to time.

Certain amounts and percentage figures set out in this circular have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables or descriptions and the currency conversion or percentage equivalents may not be an arithmetic sum of such figures.

中國秦發集團有限公司
CHINA QINFA GROUP LIMITED

(Incorporated in Cayman Islands with limited liability)
(Stock Code: 00866)

Executive Directors:
Mr. XU Jihua *(Chairman)*
Mr. XU Da *(Deputy Chairman)*
Mr. BAI Tao *(Chief Executive Officer)*
Ms. WANG Jianfei

Independent Non-executive Directors:
Mr. HUANG Guosheng
Mr. LAU Sik Yuen
Mr. XING Zhiying

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

Principal place of business in Hong Kong:
Room 1303, 13th Floor,
MassMutual Tower,
No. 38 Gloucester Road,
Wan Chai, Hong Kong

26 October 2016

To the Shareholders

Dear Sir and Madam,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION

INTRODUCTION

Reference is made to the Company's announcement dated 14 July 2016.

The Vendor and the Purchaser entered into the Agreement dated 25 April 2016 (as supplemented by a supplemental agreement dated 11 July 2016 and a letter of exchange dated 19 October 2016) pursuant to which the Vendor conditionally agreed to the Disposal at a Consideration of RMB176,740,000, out of which (i) RMB154,700,000 will be set off against an equivalent amount due to the Disposal Group by the Remaining Group; and (ii) the remaining RMB22,040,000 will be payable in cash by the Purchaser to the Vendor.

PRINCIPAL TERMS OF THE AGREEMENT

1. Date

25 April 2016 (as supplemented by a supplemental agreement dated 11 July 2016 and a letter of exchange dated 19 October 2016)

2. Parties

Vendor: Qinfa Investment Limited (秦發投資有限公司); and

Purchaser: Bo Hai Investment Limited (渤海投資有限公司).

The Purchaser is a company wholly-owned by Mr. XU, the ultimate controlling shareholder of the Company.

3. Assets to be disposed of

Pursuant to the Agreement, the Vendor agreed to sell the entire equity interest of the Disposal Company to the Purchaser (i) free from any Encumbrances and (ii) with all rights, including dividend rights, attached or accruing to them on and from the Completion Date and all liabilities (including tax liabilities).

As at the Latest Practicable Date, the Vendor is interested in 100% of the equity interest in the Disposal Company. Upon Completion, the Vendor will cease to hold any equity interests in the Disposal Company, and the Disposal Company will cease to be subsidiary of the Group and the results of the Disposal Group will no longer be consolidated into the consolidated financial statements of the Group.

4. Consideration

The Consideration for the Disposal to be paid by the Purchaser to the Vendor is RMB176,740,000, out of which (i) RMB154,700,000 will be set off against an equivalent amount due to the Disposal Group by the Remaining Group; and (ii) the remaining RMB22,040,000 will be payable in cash by the Purchaser to the Vendor.

The Consideration was determined based on normal commercial terms and after arm's length negotiations between the Purchaser and the Vendor, after taking into consideration the following factors, among other things:

(i) the deteriorating financial performance of the Coal Business of the Disposal Group;

(ii) the net liabilities of the Disposal Group attributable to the equity shareholders of the Company of approximately RMB5,019,605,000 based on its unaudited management accounts as at 31 December 2015 after taking into account the impairments of the coal mining rights, property, plant and equipment of the coal mines and vessels of the Disposal Group;

(iii) the operating cash outflow before changes in working capital, gross loss, as well as loss before interest, tax, depreciation and amortisation of the Disposal Group for the year ended 31 December 2015; and

(iv) the amount due from the Remaining Group to the Disposal Group as at the date of the Agreement.

The cash portion of sale proceeds of the Disposal will be used for the funding of working capital by the Remaining Group. The Directors consider that the terms of the Disposal, which are determined after arm's length negotiations among the parties to the Agreement, are on normal commercial terms and are fair and reasonable, and the Disposal is in the interests of the Company and its shareholders as a whole.

5. Conditions Precedent

Completion is conditional upon the following:

(a) the approval of the Independent Shareholders of the Company to the entry of the Agreement and the transaction contemplated thereunder at an extraordinary general meeting to be convened by the Company having been obtained by the Company in accordance with the Listing Rules;

(b) the full discharge and release of all corporate guarantees granted by the Company in favour of third parties in relation to loans or financing granted to all Disposal Group Members by these third parties;

(c) the discharge of (i) the mortgage created by Super Grace Enterprises Limited over all rights, title and interest over a vessel known as "Super Grace" of deadweight tonnage of approximately 82,000 with IMO Number 9576272 owned by it with Official Number "HK-3309", and (ii) the mortgage created by Oriental Wise Group Limited over all rights, title and interest over a vessel known as "Oriental Wise" of deadweight tonnage of approximately 82,000 with IMO Number 9576260 owned by it with Official Number "HK-3085", respectively, in favour the Export-Import Bank of China; and

(d) the Purchaser having obtained all necessary consent, approval, permission and/or waiver for this Agreement and the transaction contemplated thereunder.

The Vendor may, at its sole and absolute discretion, waive in writing the condition (d) as mentioned above. In the event the Conditions Precedent set out above are not satisfied or waived on or before 31 December 2016 or such other date as the Vendor and the Purchaser may agree, the Agreement shall cease and terminate, and thereafter neither party shall have any obligations and liabilities hereunder save for any antecedent breaches of the terms of the Agreement.

6. Completion

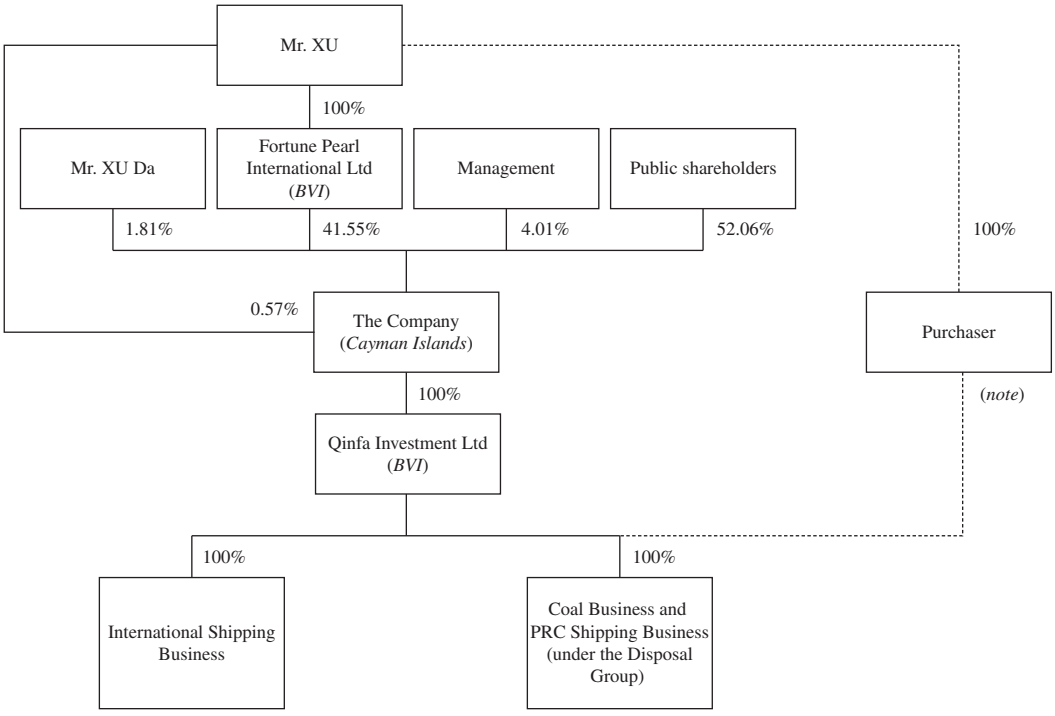
Completion shall take place on the Completion Date.

Upon Completion, the Vendor will cease to hold any equity interest in the Disposal Company, and the Disposal Group will cease to be a subsidiary of the Group. The results of the Disposal Group will no longer be consolidated into the consolidated financial statements of the Group.

As at 31 December 2015, certain loan of the Disposal Group and an associate were secured by the corporate guarantee granted by the Company in favour of the banks. As at the Latest Practicable Date, such corporate guarantee granted for approximately 59.3% of the loan balances of the Disposal Group as at 31 December 2015 has been released.

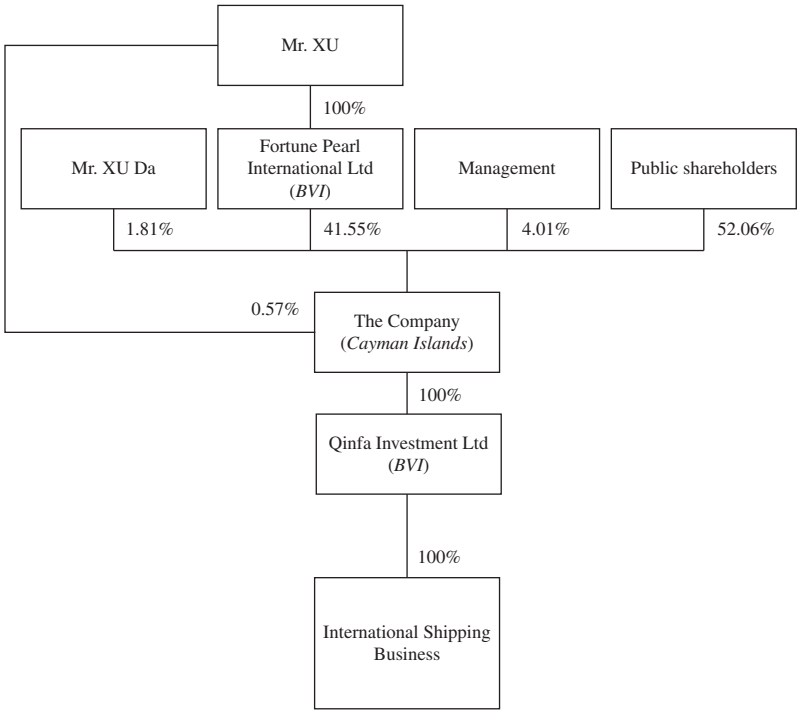
GROUP REORGANISATION

A summary of the structure of the Group comprising the Disposal Group as at the Latest Practicable Date is set out below:



Note: the Purchaser is a company wholly-owned by Mr. Xu, the controlling shareholder of the Company. The Purchaser will acquire the Coal Business and PRC Shipping Business upon Completion.

A summary of the structure of the Group immediately after the implementation of the Group Reorganisation is set out below:



INFORMATION OF THE GROUP AND THE DISPOSAL GROUP

The Group

The Company was incorporated in the Cayman Islands on 4 March 2008 as an exempted company with limited liability under the Companies Law (2007 Revision) of the Cayman Islands. The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 3 July 2009.

The principal activities of the Group was coal mining, purchase and sales, filtering, storage, blending of coal and shipping business.

The Disposal Group

As at the Latest Practicable Date, the Group held the entire equity interest of the Disposal Company. The Disposal Company was established in Hong Kong and is a wholly owned subsidiary of the Group. The principal activities of the Disposal Company are investment holding and trading of coal and the principal activities of the Disposal Group are Coal Business and PRC Shipping Business. The principal assets of the Disposal Group include coal mines, shipping vessels and coal exchange center located in the PRC.

Information of the coal mines of the Disposal Group

As of 30 June 2016, the Disposal Group owned and operated five coal mines in China. The table sets forth certain information about these coal mines.

	Note	**Location**	**Ownership**	**Site area** *(sq. km)*	**Operation status**
Huameiao Energy – Xingtao Coal	*1, 2*	Shuozhou Shanxi	80%	4.3	Under operation
Huameiao Energy – Fengxi Coal	*1, 3*	Shuozhou Shanxi	80%	2.4	Under operation
Huameiao Energy – Chongsheng Coal	*1, 4*	Shuozhou Shanxi	80%	2.9	Under operation
Xinglong Coal	*5, 6*	Xinzhou Shanxi	100%	4.0	Under development
Hongyuan Coal	*5, 7*	Xinzhou Shanxi	100%	4.1	Under operation (Temporarily suspended)

Notes:

(1) The Disposal Group engaged an independent mineral industry consultant to estimate the total coal reserves and resources as of 30 June 2016 in accordance with the JORC Code.

(2) The production capacity for Xingtao coal mine of Huameiao Energy is 1.50 million tonnes per annum, with a total investment budget of (excluding coal washing plant) RMB380 million. The construction was commenced in October 2011. As of 30 June 2016, the accumulated actual investment was RMB380 million. The mine has started joint trial operation for mine no. 4^{-2}, 9 and 11 coal seams since 30 June 2014, and is now subject to testing and inspection.

(3) The production capacity for Fengxi coal mine of Huameiao Energy is 0.9 million tonnes per annum, with a total investment budget of RMB400 million. The construction was commenced in September 2011. As of 30 June 2016, the accumulated actual investment was RMB397 million. The coal mine and coal washing plant put into production on 21 October 2013, and the construction of the coal mine and coal washing plant was completed, delivering a capacity of 0.9 million tonnes per annum.

(4) The production capacity for Chongsheng coal mine of Huameiao Energy is 0.9 million tonnes per annum, with a total investment budget of RMB391 million. The construction was commenced in September 2011. As of 30 June 2016, the accumulated actual investment was RMB392 million. The construction of the coal mine and coal washing plant was completed, delivering a capacity of 0.9 million tonnes per annum. The mine had been put into production on 21 January 2014.

(5) The Disposal Group completed the establishment of two companies, Xinglong Coal and Hongyuan Coal, both wholly-owned by Shenchi Shenda Energy Investment Co., Ltd. during the first half year of 2013.

The Disposal Group engaged an independent mineral industry consultant to estimate the coal reserves and resources as at 30 June 2016 in accordance with the JORC Code.

Pursuant to the estimation, the coal reserves and resources of two coal mines were 63.35 million tonnes and 87.74 million tonnes as of 30 June 2016 respectively.

(6) The production capacity for Xinglong coal mine is 0.9 million tonnes per annum, with a total investment budget of RMB348 million. The construction was commenced in December 2012. As of 30 June 2016, the accumulated actual investment was RMB241 million. The mine construction, civil engineering and installation works are in progress.

(7) The Group acquired Hongyuan coal mine in 2013 and had operation for the two years ended 31 December 2014. The production capacity for Hongyuan coal mine is 0.9 million tonnes per annum, with a total investment budget of RMB446 million. The construction was commenced in March 2013. As of 30 June 2016, the accumulated actual investment was RMB312 million. The operation has been suspended since 2015 pending for further investment.

Current licenses and permits

As at the Latest Practicable Date, Fengxi Coal and Chongsheng Coal had obtained all necessary licenses for coal mining and production. The table below sets forth the status of licenses and permits obtained by the five coal mines of the Disposal Group.

	Note	**Mining license**	**Safety production permit**	**Coal production permit**
Huameiao Energy – Xingtao Coal	*1*	Obtained		Obtained
Huameiao Energy – Fengxi Coal		Obtained	Obtained	Obtained
Huameiao Energy – Chongsheng Coal		Obtained	Obtained	Obtained
Xinglong Coal	*2*			
Hongyuan Coal	*3*	Obtained		

Notes:

1. The Shanxi Land and Resource Ministry has granted Shanxi Shuozhou Huameiao Xingtao Coal Co. Ltd a mining license to explore and mine No. 4^{-1}, 4^{-2}, 9 and 11 coal seams of Xingtao coal mine with the production capacity of 1,500,000 tonnes per annum in October 2011. As at the Latest Practicable Date, the coal production permit for No. 4^{-1} coal seam with production capacity of 60,000 tonnes per annum has been obtained.

2. Notwithstanding that Xinglong Coal does not have the mining license, safety and coal production permits, it currently has no operation.

3. Notwithstanding that Hongyuan Coal does not have safety and coal production permits, its operation is temporarily suspended.

COAL CHARACTERISTICS

Characteristics of the commercial coal produced by the Disposal Group's operating mines are as follows:

Coal Quality Characteristic	**Huameiao Energy – Xingtao Coal**	**Huameiao Energy – Fengxi Coal**	**Huameiao Energy – Chongsheng Coal**
Seam	4	9	9
Moisture (%)	10.55-11.59%	2.03-2.85%	8.50-11.59%
Ash (%)	27.97-29.89%	19.06-26.73%	20.25-22.74%
Sulfur (%)	0.99-1.49%	0.56-0.78%	1.84-2.60%
Volatile Matter (%)	22.45-25.84%	25.01-27.89%	27.84-29.21%
Energy Content (MJ/kg)	17.50-17.74	20.37-21.37	20.78-21.74

OPERATING DATA

Reserves and Resources

The table below sets forth the total coal reserves and resources which represents both proven and probable reserves in the coal mines and the inferred resources in the coal mine estimated by independent mineral industry consultant as of 30 June 2016.

	Huameiao Energy – Xingtao Coal	Huameiao Energy – Fengxi Coal	Huameiao Energy – Chongsheng Coal	Xinglong Coal	Hongyuan Coal	Total
Reserves						
Reserves as of 1 January 2016 (Mt)						
– Proven reserves	63.13	17.19	30.10	22.49	30.16	163.07
– Probable reserves	12.26	27.43	19.51	9.53	1.17	69.90
Total reserves as of 1 January 2016 (Mt)	75.39	44.62	49.61	32.02	31.33	232.97
Less: Total raw coal production for the period from 1 January 2016 to 30 June 2016 (Mt)	(0.22)	(0.30)	(0.25)	n.a.	n.a.	(0.77)
Less: adjustment *(Note)*	–	(0.04)	(0.02)	n.a.	n.a.	(0.06)
Reserves as of 30 June 2016 (Mt)	**75.17**	**44.28**	**49.34**	**32.02**	**31.33**	**232.14**
Resources						
Resources as of 1 January 2016 (Mt)	111.94	69.09	73.70	45.96	41.78	342.47
Less: Total raw coal production for the period from 1 January 2016 to 30 June 2016 (Mt)	(0.22)	(0.30)	(0.25)	n.a.	n.a.	(0.77)
Less: adjustment *(Note)*	(0.06)	(0.14)	(0.11)	n.a.	n.a.	(0.31)
Resources as of 30 June 2016 (Mt)	**111.66**	**68.65**	**73.34**	**45.96**	**41.78**	**341.39**

Note: The adjustment of total coal reserves and resources represents the difference between the estimated figures for the period from 1 October 2011 to 31 December 2015 and the estimation of an independent mineral industry consultant as at 30 June 2016.

FINANCIAL SUMMARY OF THE GROUP, THE DISPOSAL GROUP AND THE REMAINING GROUP

The selected financial information as extracted from (i) the consolidated financial statements of the Group as stated in the annual reports for each of the three years ended 31 December 2015 and interim report for the six months ended 30 June 2016; (ii) the unaudited consolidated financial statements of the Disposal Group for each of the three years ended 31 December 2015 and each of the six months ended 30 June 2015 and 2016 as stated in Appendix II; and (iii) the unaudited pro forma financial information of the Remaining Group as stated in Appendix III is set out below:

The Group

	For the year ended 31 December			For the six months ended 30 June	
	2013	**2014**	**2015**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	*(Audited)*	*(Audited)*	*(Unaudited)*	*(Unaudited)*
Revenue from continuing operations	10,830,133	6,449,446	1,377,207	881,437	204,828
Gross profit/(loss) from continuing operations	1,063,016	(203,274)	(676,678)	(312,480)	(73,622)
Loss before taxation from continuing operations	(14,605)	(1,176,823)	(8,033,305)	(737,242)	(458,313)
Loss after taxation from continuing operations	(136,080)	(1,291,240)	(6,927,780)	(759,987)	(484,515)

	As at 31 December			As at 30 June
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	*(Audited)*	*(Audited)*	*(Unaudited)*
Total assets	18,546,277	14,881,169	5,310,782	5,043,539
Net assets/(liabilities)	3,690,638	2,366,342	(4,629,396)	(5,104,817)

The Disposal Group

	For the year ended 31 December			For the six months ended 30 June	
	2013	**2014**	**2015**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Unaudited)	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*
Revenue	10,770,958	6,379,424	1,295,015	847,023	184,891
Gross profit/(loss)	1,058,396	(240,476)	(708,767)	(342,839)	(78,202)
Profit/(loss) before taxation	136,005	(1,110,666)	(7,988,132)	(709,344)	(444,052)
Loss after taxation	(46,037)	(1,254,498)	(6,882,607)	(732,087)	(470,254)

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Unaudited)	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*
Total assets	16,870,148	13,043,231	5,328,725	5,068,075
Net assets/(liabilities)	3,279,837	1,995,699	(4,875,180)	(5,341,603)

The financial performance of the Group has been declining significantly over the last three years. For the year ended 31 December 2015, the Group recorded a significant loss after taxation from continuing operations, which was more than five times of the loss after taxation from continuing operations recorded for the year ended 31 December 2014. This was mainly due to the loss in Coal Business and impairment loss of the coal mining rights, property, plant and equipment of coal mines and vessels for the PRC Shipping Business of the Disposal Group. Such impairment loss also led to a substantial decrease in total assets of the Group as at 31 December 2015. The Group had net assets of approximately RMB2,366 million as at 31 December 2014, but turned into net liabilities of approximately RMB4,629 million as at 31 December 2015.

For the six months ended 30 June 2016, the Group recorded a significant decrease in revenue from continuing operations to approximately RMB205 million, which represented a decrease of 76.7% compared with the revenue from continuing operations of approximately RMB881 million for the corresponding period in 2015. The loss after taxation from continuing operations for the six months ended 30 June 2016 decreased to approximately RMB485 million, which represented a decrease of loss by 36.2% from approximately RMB760 million in the corresponding period in 2015. The decrease in revenue and loss after taxation from continuing operations were mainly attributable to the decrease in production volume of coal mining activities which was loss making during the period.

The Remaining Group

	For the year ended 31 December 2015
	RMB'000
	(Unaudited)
Revenue from continuing operations	126,969
Gross profit from continuing operations	32,089
Loss before taxation from continuing operations	(884,873)
Loss after taxation from continuing operations	(884,873)

	As at 30 June 2016
	RMB'000
	(Unaudited)
Total assets	448,392
Net assets	403,085

As set out in the unaudited pro forma financial information of the Remaining Group in Appendix III, the Remaining Group had a net asset position of RMB403 million as at 30 June 2016 and recorded a gross profit from continuing operations of approximately RMB32 million for the year ended 31 December 2015. The loss after taxation from continuing operations for the year ended 31 December 2015 amounted to approximately RMB885 million, which was mainly due to (i) the non-cash share based payment to Directors and employees of RMB15 million; (ii) the one-off impairment on interests in associates of RMB24 million; and (iii) the resulting estimated loss of RMB834 million arising from the Disposal as if the Disposal had taken place on 1 January 2015. One of the subsidiaries of the Company was disposed of together with its equity interests in the associates on 30 December 2015. No material liabilities will be remained with the Remaining Group upon completion of the Disposal.

FINANCIAL EFFECTS OF THE DISPOSAL

It is expected that the Group will record a gain of approximately RMB5,586,103,000 from the Disposal assuming the Disposal had completed on 30 June 2016, the details of which are set out as follows:

	RMB'000
Consideration of the Disposal	176,740
Less:	
Estimated direct expenses in relation to the Disposal	(4,606)
Release of exchange reserve of the Disposal Group as at 30 June 2016	(30,066)
Add:	
Net liabilities of the Disposal Group attributable to equity shareholders of the Company as at 30 June 2016	5,444,035
Estimated gain on the Disposal as at 30 June 2016	5,586,103

REASONS FOR AND BENEFITS OF THE DISPOSAL

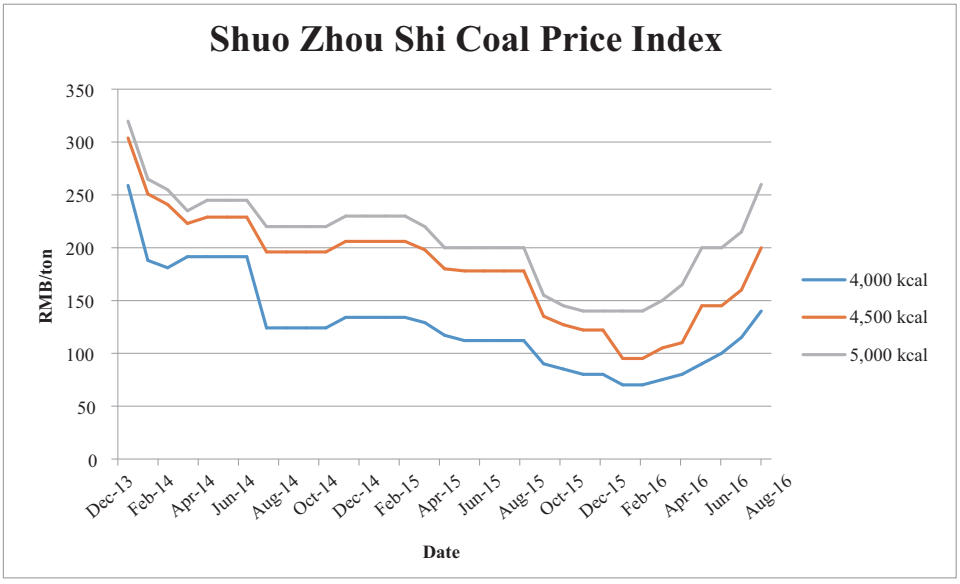
The Group intends to focus on higher profitability business by considering the possibilities of restructuring the business through selling a group of subsidiaries that are engaged in Coal Business and PRC Shipping Business, so that the value of the Group can be better reflected after the Disposal. The Directors consider that the Disposal provides an opportunity to dispose of the loss making business of the Group and to take away the uncertainty of the Coal Business faced by the Group.

Coal Business

i. Unfavourable Coal Business

China's GDP growth has been decelerating which significantly affected the demand for coal-consuming products. The domestic coal prices have then been following a severe downward trend. According to the Shuo Zhou Shi Coal Price Index (朔州市煤炭價格指

數), a historical low price of RMB80 per tonne, RMB122 per tonne, and RMB140 per tonne for 4000 kcal coal, 4500 kcal coal and 5000 kcal coal respectively have been recorded at the end of 2015. As at 31 August 2016, the coal prices have rebounded to RMB140 per tonne, RMB200 per tonne, and RMB260 per tonne for 4000 kcal coal, 4500 kcal coal and 5000 kcal coal respectively which, however, still represented a decrease of approximately 45.9%, 34.2% and 18.8% respectively since 2013.



Source: website of Shuo Zhou Shi Industrial Bureau (www.szmtgy.gov.cn)

China's severe air pollution challenges have led to policies and regulations to restrict coal use in coastal China and to accelerate the increase of alternative energy technologies. According to China's Energy Development Strategy Action Plan (2014-2020), specific targets have been set out for the purpose of reducing coal's share in primary energy consumption to 62% and increasing non-fossil energy's share to 15% by 2020 and to 20% by 2030. Moreover, the PRC authorities imposed certain policies to enhance coal quality, which may lead to incur additional maintenance and improvement expenses for the Coal Business of the Group.

ii. High fixed cost and huge loss of Coal Business

The selling price of coal was generally lower than the mining and selling cost of coal for the past 2 financial years ended 31 December 2014 and 2015. However, since the Group has to incur substantial cost to restart the mining of coal if shutting down the operation temporarily, the Company has yet to shut down all the mining operation for the past few years and is waiting for the turnaround of the Coal Business. While the Company has not yet seen any significant sign of turnaround to profit for the Coal Business, if the Company continues to run the mining business, it may require approximately RMB48 million additional capital expenditure for the year ending 31 December 2016, and may continue to record gross loss for the Group. Moreover, keeping a huge lost making asset in the Group would restrict the Group's ability to obtain financing through either debt and/or equity. This, in turn, restricts the Group from implementing plans which would otherwise assist the Group to turn around sooner.

While there was a significant portion of revenue contributed by the Coal Business, which accounted for 98.8%, 97.6% and 88.6% of the total revenue of the Group from continuing operations for each of the three years ended 31 December 2015 as well as 92.0% and 77.8% of the total revenue of the Group from continuing operations for the six months ended 30 June 2015 and 2016, due to high fixed cost for coal production as well as the impairment recognised for the coal mining rights and the property, plant and equipment of the coal mines, substantial loss before taxation under the Coal Business of RMB7,402 million and RMB165 million was recognised for the year ended 31 December 2015 and the six months ended 30 June 2016. Such amount represented approximately 6 times of the revenue generated from the Coal Business for the year ended 31 December 2015. The Directors consider that such business would no longer contribute long term benefits to the Shareholders as a whole.

iii. Deteriorating financial performance of the Coal Business

Affected by the decrease in coal prices and trading volume in the recent years, the Group's Coal Business recorded a significant decrease in revenue for each of the three years ended 31 December 2015 and each of the six months ended 30 June 2015 and 2016. For the year ended 31 December 2014, the Coal Business segment recorded a turnover of RMB6,292 million, representing a decrease of 41.2% compared with the turnover of RMB10,699 million for the year ended 31 December 2013. The decline was mainly attributable to the decrease of 33.7% in coal handling and trading volume of the Group, which represented approximately 8.10 million tonnes, as compared to the corresponding period in 2013. During the year ended 31 December 2015, the Coal Business segment recorded a turnover of approximately RMB1,220 million, representing a decrease of approximately 80.6% compared with the year ended 31 December 2014. The decline was mainly attributable to the decrease in approximately 75.2% of the coal handling and trading volume as compared to the corresponding period in 2014.

During the six months ended 30 June 2016, the Coal Business segment recorded revenue of approximately RMB159 million, representing a decrease of approximately 80.4% compared with the six month ended 30 June 2015. The decline was mainly attributable to the decrease in approximately 67.5% of the coal handling and trading volume as compared to the corresponding period in 2015.

PRC Shipping Business

i. Unfavourable PRC Shipping Business

With reference to the report issued by the International Monetary Fund in January 2016, China is estimated to grow at a rate of 6.9% in 2015, which is 0.4% lower than the growth rate of 7.3% in 2014. It is also projected that the growth rate in 2016 would be 6.3%, a drop of 0.6% compared to the growth rate in 2015. Given the slow-down in economic growth in China, the overall demand in the shipping market in China is weakened, which causes loss making in the PRC Shipping Business.

ii. Vessels of PRC Shipping Business

The vessels used by the Group in the PRC Shipping Business have been operating for over 21 years on average up to 30 June 2016. These vessels require high maintenance and repair expenses, and have lower fuel efficiency, which results in lower gross profit margin. Hence, the Directors consider that the PRC Shipping Business of the Disposal Group may not be able to bring in significant economic benefits to the Group.

In addition, the PRC vessels are pledged to certain banks in the PRC together with other fixed assets of the Disposal Group for a total of approximately RMB1,514 million bank borrowings as at 30 June 2016, which were used by the Disposal Group. Significant portion of the revenue from the PRC Shipping Business come from the Coal Business. In this connection, the Directors consider that it is reasonable to dispose of the PRC Shipping Business together with the Coal Business in the PRC.

iii. Deteriorating financial performance of the PRC Shipping Business

Regarding the revenue generated from the PRC Shipping Business, the Group recorded revenue of approximately RMB47 million for the year ended 31 December 2014, representing a decrease of approximately 26.6% compared with revenue of approximately RMB64 million for the year ended 31 December 2013 and a revenue of approximately RMB31 million for the year ended 31 December 2015, representing a decrease of approximately 34.0% compared with the corresponding period in 2014. The decreasing trend was in line with the slow-down in the overall economic growth in China and the weakening demand in the shipping market in the PRC.

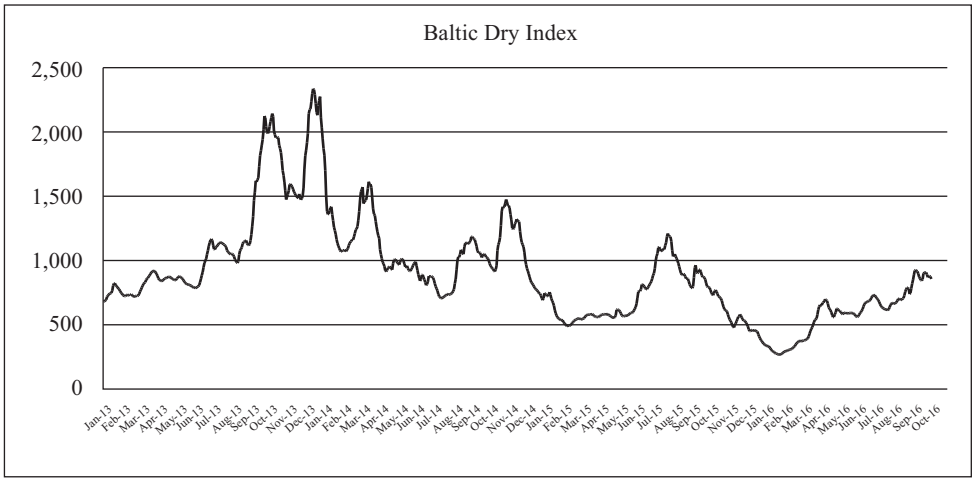
In this connection, the Directors consider that it is reasonable to dispose of the PRC Shipping Business together with the Coal Business in the PRC.

International Shipping Business of the Group after the Disposal

The Directors are of the view that the International Shipping Business is the most profitable segment among others before the Disposal.

Upon Completion, the Group will cease to have any interest in the Disposal Group, and the Group will no longer be engaged in the Coal Business and PRC Shipping Business. The Group will then be principally engaged in provision of international shipping services ("**International Shipping Business**") and the major assets of the Remaining Group will be vessels for such business. The International Shipping Business has been established since the date of listing.

i. Improving operating environment for the Remaining Group



Source: Bloomberg

The Directors consider that International Shipping Business, like other trade-related international businesses, is inevitably sensitive to the global economy. In particular, the performance of the Remaining Group is correlated to the level indicated by the Baltic Dry Index ("**BDI**"), which is in line with the industry norm. The average BDI had been dropping by approximately 8.4% and approximately 35.0% for each of the two years ended 31 December 2015 respectively.

The Directors are aware of signs which indicate that the BDI has shown an increasing trend in the first three quarters of 2016. The index has seen the lowest of 290 points at the beginning of the year and rebounded to 872 points as at 19 October 2016. The Remaining Group's existing two vessels have an expected life expectancy of 30 years each and the Directors expect that they will continue to serve the Group in the foreseeable future.

ii. Reasons for retaining the International Shipping Business

A substantial amount of the net assets of the Remaining Group is related to the vessels used in the International Shipping Business.

The vessels owned by the Remaining Group has been operating for only less than 5 years. They have the highest loading volume capacity of an aggregate deadweight tonnage of 164,000 amongst all the vessels in the Group. The modern vessels can also benefit the Remaining Group with low fuel costs, as well as repair and maintenance costs.

Furthermore, the vessels used for International Shipping Business have been chartered to external customers comprising several multinational charterers, large ship operators and shipping companies for many years. The Directors believe the long-standing relationship with those customers is attributable to its reliable services and integrity in conducting business, both of which are the essence of the enterprise culture.

iii. Renewed business model of the Remaining Group

The Company seeks to increase its revenues and profits over the next few years through strengthening its International Shipping Business. The Company expects to adopt the following strategies:

Firstly, the Company intends to strengthen the existing relationship with its key customers as well as broaden the customer base by seeking new customers. The Company also aims to enhance its marketing and branding activities and develop the after-sales initiatives in order to better serve the existing customers and to seek new customers in the market.

Secondly, the Company intends to capture the appropriate time to place order for construction of new vessels, for instance, at times where the vessel price is relatively low but market displays potential growth. This enables the Group to procure new vessels at lower costs. After the Disposal, the Group can largely improve the financial position (including the profitability and net asset position) and maintain business under going concern after the Disposal. It is believed that the improved gearing ratio after the Disposal may enhance the Group's fund raising ability and financial resources to expand the shipping teams and purchase vessels. By expanding the number of vessels, the Company aims at maintaining a stable business volume that can generate steady cash flow and increase market share.

Moreover, in addition to the chartering services provided by the vessels, the Remaining Group will also enter into chartering contracts with external vessel providers to enlarge the shipping team and capitalise on the Group's customer network and expertise.

The Directors consider that the Disposal is in the best interests of the Company and the Shareholders as a whole due to the following factors and reasons:

(a) the Disposal is for the purpose of maximising shareholders' value. The Directors are of the view that the Group will be able to improve from net liability position to net asset position after the Disposal. The Remaining Group was able to record gross profit from continuing operations of RMB32 million for the year ended 31 December 2015 based on the unaudited pro forma consolidated statement of comprehensive income of the Remaining Group as stated in Appendix III, whereas the Group was in gross loss from continuing operations of RMB677 million for the same year;

(b) prior to the Disposal, the Group has going concern issues which bars the Group from further fund raising activities. Lacking the support from the PRC government, the Directors are of the view that the Coal Business is unlikely to continuously contribute profit to the Group. The carving out of the Coal Business and PRC Shipping Business is a process which helps the Group to restructure its business and rebuild a more solid platform for future growth;

(c) the Company has been engaged in International Shipping Business before its listing on the Stock Exchange in July 2009. The Disposal is the restoration of the Group's original business model from the vertically integrated model it adopted since 2012;

(d) the Directors consider that sufficient working capital can be maintained for the operation of the International Shipping Business. However, in the event that the Disposal cannot proceed, the Group may have very tight working capital and continue to have significant amount of liabilities. This will adversely affect the Group's operations; and

(e) the Directors intend to further strengthen the business of the Remaining Group after the Disposal, but it would be difficult to do so currently as the overall financial performance would be materially dragged down by the Coal Business, barring the Group from any fund raising activities in supporting the business of the Remaining Group.

Non-competition and undertaking from the Controlling Shareholder

The Purchaser and Mr. Xu had undertaken to the Company not to, directly and indirectly, carry on or be engaged or interested in the principal businesses of the Company including the International Shipping Business unless they cease to be the controlling shareholders of the Company or the Shares cease to be listed on the Stock Exchange ("**Non-competition Undertaking**").

Mr. XU, the Controlling Shareholder of the Company, is committed to support the Remaining Group, and undertakes to the Company that he will not, directly or indirectly, dispose of the Shares held by him or Fortune Pearl International Ltd, and/or reduce his shareholding interest in the Company for 12 months from the date of the Completion.

In case the Remaining Group requires funding to acquire new vessels, the Controlling Shareholder will provide financial assistance for not more than RMB100 million for acquisition of vessels. In addition to the financial assistance provided by the Controlling Shareholder, should there be any shortfall of the funding for acquisition of new vessels, the Company intends to seek bank or debt financing.

Corporate Governance measures

Under the Non-competition Undertaking, Mr. Xu and the Purchaser undertake not to compete with the Group in the principal business of the Company including the International Shipping Business. The following corporate governance measures will be taken by Mr. Xu, the Purchaser and the Company to manage potential conflict of interests and execution of the Non-competition Undertaking:

(a) New business opportunity

Upon Completion, the Purchaser and Mr. Xu will undertake that if it is offered an opportunity to invest in any shipping services in non-PRC locations, they will refer such business opportunity to the Company for evaluation. The senior management of the Company will provide their evaluation to the Board (including the independent non-executive Directors) for review. The Company's independent non-executive directors who do not have a material interest will form an independent board committee to review the evaluation and consider whether such business opportunity is in the interest of the Group and the Shareholders as a whole to pursue such business opportunity.

Furthermore, the Company will not co-invest in any projects in International Shipping Business with the Purchaser and Mr. Xu. The above undertaking from the Purchaser and Mr. Xu will terminate if they cease to be the Controlling Shareholders, or the Company's shares cease to be listed on the Stock Exchange.

(b) Annual review by independent non-executive directors

- Independent non-executive directors will review, on an annual basis, the compliance with the Non-competition Undertaking by Mr. Xu and the Purchaser;

- Mr. Xu and the Purchaser undertake to provide all information requested by the Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the Non-competition Undertaking;

- the Company will disclose decisions on matters reviewed by independent non-executive Directors relating to compliance and enforcement of the Non-competition Undertaking in the annual report of the Company; and

- Mr. Xu and the Purchaser will make confirmation on compliance with their Non-Competition Undertaking in the annual report of the Company.

IMPLICATIONS UNDER THE LISTING RULES

As at the Latest Practicable Date, Mr. XU and his associates are interested in approximately 48.66% of the issued share capital of the Company and Mr. XU owns 100% equity interest in the Purchaser. By virtue of Mr. XU's interests in the Company and the Purchaser, the Disposal constitutes a connected transaction for the Company under the Chapter 14A Listing Rules. As one or more of the applicable percentage ratios for the Disposal exceed 75%, the Disposal also constitutes a very substantial disposal of the Company under Rule 14.06 of the Listing Rules. Accordingly, Completion is conditional on, amongst others, the approval by the Independent Shareholders at the EGM.

Pursuant to Rule 13.39(4) of the Listing Rules, all votes for the Shareholders at a general meeting must be taken by poll. As such, all resolutions to be proposed at EGM will be put to vote by way of poll.

Mr. XU and his associates, which together hold 1,213,364,861 Shares, representing approximately 48.66% of the issued shares of the Company as at the Latest Practicable Date, are required to abstain from voting in respect of any resolution that would be proposed to approve the Disposal at the EGM. The votes casted on the resolution regarding the Disposal at the EGM will be taken by poll.

Save as disclosed above, to the best knowledge of the Directors and having made all reasonable enquiries, no other Shareholder has a material interest in the Disposal and is required to abstain from voting at the EGM.

EGM

The notice convening the EGM is set out on pages EGM-1 to EGM-2 of this circular.

A form of proxy for use at the EGM is enclosed with this circular and such form is also available for download at the websites of the Company at http://www.qinfagroup.com and the Stock Exchange at http://www.hkexnews.hk. Whether or not you are able to attend the EGM in person, please complete and return the form of proxy in accordance with the instructions printed thereon to the Company's branch registrar and transfer office in Hong Kong, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the EGM if you so wish.

Shareholders whose names appear on the register of members of the Company on Thursday, 24 November 2016 shall be entitle to attend and vote at the EGM. In order for the Shareholders to qualify for attending and voting at the EGM, all properly completed transfer documents, accompanied by the relevant share certificates, must be lodged for registration at the Company's branch share registrar and transfer office in Hong Kong, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong not later than 4:00 p.m. on Monday, 21 November 2016.

After the closure of the EGM, the poll results will be published on the Company's website at http://www.qinfagroup.com and the Stock Exchange's website at http://www.hkexnews.hk.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising all of the independent non-executive Directors of the Company has been established to advise the Independent Shareholders regarding the terms and conditions of the Agreement and the transaction contemplated thereunder.

The Company has, with the approval of the Independent Board Committee, appointed Octal Capital Limited as the Independent Financial Adviser to advise the Independent Board committee and the Independent Shareholders as to whether the terms and conditions of the Agreement and the transaction contemplated thereunder are fair and reasonable, and whether it is in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

The Directors consider that the terms of the Agreement and the transaction contemplated thereunder are in the interests of the Company and the Shareholders as a whole and accordingly recommend the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM for approving the Agreement and the transaction contemplated thereunder.

FURTHER INFORMATION

Your attention is also drawn to the letter from the Independent Board Committee as set out on pages 26 to 27 of this circular, the letter from the Independent Financial Adviser as set out in pages 28 to 44 of this circular and further information contained in the appendices to this circular.

On behalf of the Board
China Qinfa Group Limited
Mr. XU Jihua
Chairman

中國秦發集團有限公司
CHINA QINFA GROUP LIMITED
(Incorporated in Cayman Islands with limited liability)
(Stock Code: 00866)

26 October 2016

To the Independent Shareholders

Dear Sir and Madam,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION

We refer to the circular of the Company dated 26 October 2016 (the "**Circular**") of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to consider and to advise the Independent Shareholders as to whether, in our opinion, the terms of the Agreement and the transaction contemplated thereunder are on normal commercial terms, are fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole.

Octal Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Agreement and the transaction contemplated thereunder are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole; and advise the Independent Shareholders how to vote in respect of the resolutions. Details of its recommendations and advice, together with the principal factors taken into consideration in arriving at such recommendations and advice, are set out on page 28 to 44 of the Circular.

We wish to draw your attention to the "Letter from the Board" set out on pages 6 to 25 of the Circular, as well as the "Letter from Octal Capital" set out on pages 28 to 44 of the Circular.

Having taken into account (i) the factors referred to in the section headed "Reasons for and benefits of the Disposal" in the letter from the Board; and (ii) the factors referred to in the letter from Octal Capital, we consider that the terms of the Agreement and the Disposal are on normal commercial terms, and fair and reasonable so far as the interests of the Independent Shareholders are concerned, and that the entering into the Agreement and the transaction contemplated thereunder are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote for the resolution approving the Agreement and the transaction contemplated thereunder.

Yours faithfully,
Independent Board Committee

Mr. HUANG Guosheng	**Mr. LAU Sik Yuen**	**Mr. XING Zhiying**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

金融有限公司
OCTAL Capital Limited

802-805, 8th Floor, Nan Fung Tower
88 Connaught Road Central
Hong Kong

26 October 2016

To the Independent Board Committee and the Independent Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL
AND
CONNECTED TRANSACTION

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the "**Letter from the Board**") in the circular of the Company to the Shareholders dated 26 October 2016 (the "**Circular**"), of which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in the Circular.

The Vendor and the Purchaser entered into the Agreement dated 25 April 2016 (as supplemented by a supplemental agreement dated 11 July 2016 and a letter of exchange dated 19 October 2016) pursuant to which the Vendor conditionally agreed to the Disposal at a Consideration of RMB176,740,000, out of which (i) RMB154,700,000 will be set off against an equivalent amount due to the Disposal Group by the Remaining Group; and (ii) the remaining RMB22,040,000 will be payable in cash by the Purchaser to the Vendor.

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Disposal exceed 75%, the Disposal constitutes a very substantial disposal for the Company under Chapter 14 of the Listing Rules, and is therefore subject to the reporting, announcement and shareholders' approval requirements set out in that Chapter.

As the Purchaser is the controlling shareholder of the Company and hence a connected person of the Company, the Disposal also constitutes a connected transaction of the Company as defined under Chapter 14A of the Listing Rules on the grounds that Mr. Xu owns 100% equity interests in the Purchaser. Accordingly, the Disposal is subject to, among other things, the approval by Independent Shareholders at a general meeting of the Company, whereas Mr. XU is required to abstain from voting in respect of any resolution regarding the Disposal. The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Huang Guosheng, Mr. Lau Sik Yuen and Mr. Xing Zhiying, has been formed to advise the Independent Shareholders in respect of the terms of the Agreement and the transactions contemplated thereunder. We, Octal Capital, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

As at the Latest Practicable Date, we, Octal Capital, are not connected with the Directors, chief executive and substantial shareholders of the Company, the Purchaser or any of their respective subsidiaries or associates and are therefore considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. During the last two years, we did not have any engagement with the Company or the Directors, chief executive and substantial shareholders of the Company or the Purchaser and no arrangement exists whereby we will receive any fees or benefits from the Company or the Purchaser or the Directors, chief executive and substantial shareholders of the Company or the Purchaser or any of their respective subsidiaries or associates.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the date of the Circular. We have also relied on our discussion with the management of the Company regarding the Group, the Agreement, the Disposal including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material fact has been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, the Disposal Group, the Purchaser and their respective associates nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion on the terms of the Agreement and the transactions contemplated thereunder, we have taken into account the following principal factors and reasons:

(A) Information on the Group

(i) Background and business of the Group

The Group has been engaged in the Coal Business involving purchase and sales, filtering, storage, blending of coal and shipping business (comprising the PRC Shipping Business and International Shipping Business, of which involving coal transportation service for domestic market and trade-related transportation service for international market respectively) since the listing of the Company in July 2009. Since November 2010, the Group had acquired several coal mines in the PRC with a total consideration of around RMB4,366 million. Since then, the Coal Business has became the major operation of the Group and the business model of the Group had gradually changed and formed a

vertical integration of the coal supply chain business, including the coal mining and trading business and the shipping business. However, due to the continuous decrease in the coal price as well as a general downturn in international trade activities over the last few years, the Group's business performance, particularly its coal related business, has been affected. In view of the above, the Directors propose to dispose of the Group's Coal Business and PRC Shipping Business and focus the Group's operations in International Shipping Business, which the Directors expect would recover sooner than those of the Disposal Group.

In addition, according to the announcement of the Company dated 13 August 2015, the Group had successfully disposed of companies related to non-core business, which was the disposal of Zhuhai Qinfa Port Co., Limited. As note from the annual report of the Company for the year ended 31 December 2015 ("**Annual Report 2015**"), the gain on disposal of Zhuhai Qinfa Port Co., Limited was approximately RMB71 million.

(ii) Financial information of the Group

The table below sets out the financial results from continuing operations of the Group for the three financial years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 under Hong Kong accounting standards:

	For the year ended 31 December			**For the six months ended 30 June**	
	2013	**2014**	**2015**	**2015**	**2016**
	RMB million (audited)	*RMB million* (audited)	*RMB million* (audited)	*RMB million* (unaudited)	*RMB million* (unaudited)
Revenue	10,830	6,449	1,377	881	205
Gross Profit/(Loss)	1,063	(203)	(677)	(312)	(74)
Loss attributable to owners of the Company	(248)	(1,183)	(6,037)	(665)	(443)

Revenue from Coal Business and PRC Shipping Business, being the operation of the Disposal Group, represented major source of revenue of the Group for each of the past three financial years. For further information on the operating performance of the Coal Business and PRC Shipping Business, please refer to sub-section headed "Principal Factors and Reasons Considered – Background Information on the Disposal Group" in this letter.

The Group has recorded net losses in recent years. Apart from the unsatisfactory performance of the Coal Business and PRC Shipping Business, the significant loss for the financial year ended 31 December 2014 was mainly attributable to a significant decrease in revenue as a result of a decreasing trend of coal price and sluggish coal demand for the year ended 31 December 2014.

For the year ended 31 December 2015, the loss attributable to the owners of the Company widened to approximately RMB6,037 million, which was due to a significant decrease in revenue and an impairment loss of coal mining rights and property, plant and equipment of approximately RMB5,746 million which were based on their value in use with reference to respective professional valuation reports issued by an independent firm of professional qualified valuers, as stated in the Annual Report 2015.

For the six months ended 30 June 2016, the loss attributable to the owners of the Company narrowed to approximately RMB443 million while the revenue decreased by 76.7% to approximately RMB205 million. Such decrease in revenue was mainly due to the decrease in production volume of coal mining activities which was loss making during the period.

The table below is an overview of the financial position of the Group as at 31 December 2013, 2014 and 2015 and 30 June 2016 based on information in the annual reports and interim report of the Group.

	As at 31 December			As at 30 June
	2013	**2014**	**2015**	**2016**
	RMB million (audited)	*RMB million* (audited)	*RMB million* (audited)	*RMB million* (unaudited)
Non-current assets	11,453	11,871	4,387	4,230
Current assets	7,093	3,010	924	814
Total assets	18,546	14,881	5,311	5,044
Non-current liabilities	(3,928)	(4,226)	(2,787)	(2,675)
Current liabilities	(10,928)	(8,288)	(7,153)	(7,474)
Total liabilities	(14,856)	(12,514)	(9,940)	(10,149)
Net assets/(liabilities)	3,690	2,367	(4,629)	(5,105)

As at 30 June 2016, the Group had net liabilities of approximately RMB5,105 million. Non-current assets primarily consisted of property, plant and equipment and coal mining rights, which amounted to approximately RMB4,225 million and accounted for approximately 83.8% of total assets, as at 30 June 2016. Non-current liabilities primarily consisted of borrowings from banks, which amounted to approximately RMB2,498 million and accounted for approximately 24.6% of total liabilities, as at 30 June 2016.

(B) Background information on the Disposal Group

(i) Background and business of the Disposal Group

The principal activities of the Disposal Company are investment holding and trading of coal and the principal activities of the Disposal Group are Coal Business and PRC Shipping Business.

Apart from property, plant and equipment, the principal assets of the Disposal Group are the mining licenses of five operating coal mines in Shanxi, of which three coal mines namely Xingtao Coal ("Xingtao Coal"), Fengxi Coal ("Fengxi Coal") and Chongsheng Coal ("Chongsheng Coal") are located in Shuozhou District, and two coal mines namely Xinglong Coal ("Xinglong Coal") and Hongyuan Coal ("Hongyuan Coal") are located in Xinzhou District.

As set out in the Annual Report 2015, during the year ended 31 December 2015, all self-produced raw coal were extracted from Xingtao Coal, Fengxi Coal and Chongsheng Coal, which amounted to approximately 452,000 tonnes, 545,000 tonnes and 445,000 tonnes respectively. We understand that the coal mines located in Xinzhou District, namely Xinglong Coal and Hongyuan Coal, have halted production of coal since 2015 because the Directors considered that the coal demand and the coal price have been low, the output from the coal mines in Shuozhou District have been enough to satisfy purchase orders received by the Group.

Set out below is the resources (including Measured, Indicated and Inferred resources under the JORC Code) and reserves level of the abovementioned coal mine:

	Resources *(Mt)*	**Reserves** *(Mt)*
Total resources/reserves as at 31 December 2011	361.4	252.1
Less:		
Actual output in 2012	5.7	5.7
Actual output in 2013	7.1	7.1
Actual output in 2014	5.0	5.0
Actual output in 2015	1.4	1.4
Actual output for the six months ended 30 June 2016	0.8	0.8
Resources/reserves as at 30 June 2016	341.4	232.1

(ii) Financial information of the Disposal Group

The unaudited financial information of the Disposal Group has been reviewed by the Moore Stephens CPA Limited ("**Moore Stephens**") in accordance with the Listing Rules. Set out below are the highlights of the combined financial results of the Disposal Group for the three years ended 31 December 2015 and the six months end 30 June 2016 as extracted from Appendix II to the Circular:

	For the year ended 31 December			For the six months ended 30 June	
	2013	**2014**	**2015**	**2015**	**2016**
	RMB million (unaudited)	*RMB million* (unaudited)	*RMB million* (unaudited)	*RMB million* (unaudited)	*RMB million* (unaudited)
Revenue	10,771	6,379	1,295	847	185
Cost of Sales	(9,713)	(6,620)	(2,004)	(1,190)	(263)
Gross Profit/(Loss)	1,058	(241)	(709)	(343)	(78)
Loss for the year/period	(46)	(1,254)	(6,883)	(732)	(470)
Loss for the year/period attributable to owners of the Company	(158)	(1,161)	(5,992)	(637)	(428)

Performance for the six months ended 30 June 2016

Revenue of the Disposal Group for the six months ended 30 June 2016 was approximately RMB185 million, representing a significant decrease of approximately 78.2% as compared with 2015. The decrease in revenue was mainly attributable to (i) the decrease in the average coal selling prices ("**Average Coal Price**") which decreased from RMB342 per tonne for six months ended 30 June 2015 to RMB197 per tonne for the six months ended 30 June 2016; and (ii) the decrease in the average monthly handling and trading volume ("**Average Volume**") which decreased from 402 thousand tonnes for the six months ended 30 June 2015 to 135 thousand tonnes for the six months ended 30 June 2016. The decrease in Average Coal Price and Average Volume were principally because of the slow down in the growth of economics in the PRC and the sluggish coal demand during 2016.

For the six months ended 30 June 2016, the net loss attributable to owners of the Company was approximately RMB428 million. During the period, the net loss of the Disposal Group during the period was mainly attributable to the decrease in revenue as mentioned above.

Performance for the year ended 31 December 2015

Revenue of the Disposal Group for the year ended 31 December 2015 was approximately RMB1,295 million, representing a significant decrease of approximately 79.7% as compared with 2014. The decrease in revenue was mainly attributable to (i) the decrease in the Average Coal Price which decreased from RMB395 per tonne for the year ended 31 December 2014 to RMB309 per tonne for the year ended 31 December 2015; and (ii) the decrease in Average Volume which decreased from 1,328 thousand tonnes for the year ended 31 December 2014 to 329 thousand tonnes for the year ended 31 December 2015. The decrease in Average Coal Price and Average Volume were principally because of the deceleration of growth in the PRC and resulting the sluggish coal demand during 2015, as well as the decline of international energy prices which aggravated the adjustment of coal price in the PRC during 2015.

For the year ended 31 December 2015, the net loss for the year attributable to owners of the Company was approximately RMB5,992 million. During the year, the Disposal Group recorded non-recurring expenses including (i) impairment loss on property, plant and equipment of approximately RMB3,068 million; (ii) impairment loss on coal mining rights of approximately RMB2,678 million; (iii) impairment loss on interest in an associate of approximately RMB47 million; (iv) impairment loss on trade receivables of approximately RMB502 million; and (v) impairment loss on prepayments and other receivables of approximately RMB395 million. Save for the non-recurring expenses above, the net loss during the year was also mainly attributable to the decrease in revenue as mentioned above.

Performance for the year ended 31 December 2014

Revenue of the Disposal Group for the year ended 31 December 2014 was approximately RMB6,379 million, representing a significant decrease of approximately 40.8% as compared with 2013. The decrease in revenue was mainly attributable to (i) the decrease in the Average Coal Price which decreased from RMB445 per tonne for the year ended 31 December 2013 to RMB395 per tonne for the year ended 31 December 2014; and (ii) the decrease in the Average Volume which decreased from 2,003 thousand tonnes for the year ended 31 December 2013 to 1,328 thousand tonnes for the year ended 31 December 2014. The decrease in Average Coal Price and Average Volume were principally because of the slow down in the growth of the overall demand for coal in the PRC during 2014, which was a result of the uncertainties in the global economic development and the slow growth in the manufacturing sector in the PRC.

For the year ended 31 December 2014, the net loss for the year attributable to owners of the Company was approximately RMB1,161 million. During the year, the Coal Business recorded non-recurring expenses including (i) loss on disposal of a subsidiary of approximately RMB163 million; (ii) impairment loss on property, plant and equipment of approximately RMB19 million; and (iii) impairment loss on prepayments and other receivables of approximately RMB42 million. Save for the non-recurring expenses above, the net loss during the year was also mainly attributable to the decrease in revenue as mentioned above.

Set out below is the summary of the financial position of the Disposal Group as at 31 December 2013, 2014 and 2015 and 30 June 2016 respectively, as extracted from Appendix II to the Circular:

	As at 31 December			As at 30 June
	2013	**2014**	**2015**	**2016**
	RMB million (unaudited)	*RMB million* (unaudited)	*RMB million* (unaudited)	*RMB million* (unaudited)
Property, plant and equipment	4,215	4,853	2,022	1,870
Coal mining rights	4,971	4,634	1,943	1,936
Other non-current assets	210	77	6	5
Total non-current assets	9,396	9,564	3,971	3,811
Inventories	399	325	87	104
Trade and bill receivables	2,696	1,247	580	518
Prepayments and other receivables	1,441	786	186	157
Cash and cash equivalents	394	37	12	19
Other current assets	2,544	1,084	493	459
Total current assets	7,474	3,479	1,358	1,257
Trade and bill payables	(1,581)	(1,046)	(1,084)	(972)
Borrowings	(6,256)	(4,692)	(3,303)	(3,527)
Other current liabilities	(2,657)	(2,124)	(3,030)	(3,236)
Total current liabilities	(10,494)	(7,862)	(7,417)	(7,735)
Borrowings	(1,744)	(1,877)	(2,602)	(2,498)
Other non-current liabilities	(1,352)	(1,309)	(185)	(177)
Total non-current liabilities	(3,096)	(3,186)	(2,787)	(2,675)
Total assets	16,870	13,043	5,329	5,068
Total liabilities	(13,590)	(11,048)	(10,204)	(10,410)
Net current liabilities	(3,020)	(4,383)	(6,059)	(6,478)
Net assets/(liabilities)	3,280	1,995	(4,875)	(5,342)
Net assets/(liabilities) attributable to the owners of the Company	2,119	960	(5,020)	(5,444)

As at 30 June 2016, the Disposal Group had total assets of approximately RMB5,068 million, which mainly comprised (i) property, plant and equipment of approximately RMB1,870 million; (ii) coal mining rights of approximately RMB1,936 million; and (iii) trade and bill receivables of approximately RMB518 million.

As at 30 June 2016, the Disposal Group had total liabilities of approximately RMB10,410 million, which mainly comprised (i) borrowings of approximately RMB6,025 million; and (ii) trade and bill payables of approximately RMB972 million.

With reference to the above, the Disposal Group had net liabilities of attributable to the owners of the Company of approximately RMB5,444 million as at 30 June 2016. Due to the material uncertainty relating to the going concern basis including (i) combined net loss of RMB470 million for the six months ended 30 June 2016; (ii) net current liabilities of RMB6,478 million; (iii) capital deficiency of RMB5,342 million; and (iv) outstanding borrowings of RMB3,527 million are due on demand or within one year, Moore Stephens expressed a disclaimer of conclusion on their review report in respect of the unaudited financial information of Disposal Group.

(C) Reasons for and benefits of entering into of the Agreement

As stated in the section headed Letter from the Board contained in the Circular, the Disposal Group is primarily engaged in Coal Business and PRC Shipping Business.

As further set out in the Letter from the Board, in the past few years, the performance of the Coal Business was deteriorating and the Group recorded a significant drop in the revenue and incurred more loss in its Coal Business in the two years ended 31 December 2015, which was mainly attributable to the decrease in the total coal output of the Disposal Group and the decrease in the selling price of coal due to the sluggish coal demand in the PRC and the general decline of international energy prices. Due to these macroeconomic factors, the worsening performance of the Coal Business continued in 2015 which was demonstrated by the further decline in revenue, widening gross loss and negative operating cash flow as compared to the corresponding period in 2014. The Directors consider that the operating environment of the coal industry in the PRC would remain challenging and do not foresee the Coal Business could be turnaround in coming years.

We understand that coal mining is an industry that incurs a relatively high proportion of fixed costs against variable costs. According to the Annual Report 2015, staff costs, depreciation and amortisation, being considered as fixed costs, amounted to approximately RMB285 million, representing 63.9% of the cost of self-produced coal for the year ended 31 December 2015. Given the high proportion of fixed cost and low level of output due to sluggish market demand of coal, based on the financial result of the Disposal Group, the Disposal Group recorded an increase in gross loss by approximately 1.9 times to RMB709 million for the year ended 31 December 2015 as compared with RMB241 million for the year ended 31 December 2014.

We have identified comparable companies (the "**Comparable Companies**") of the Group for our comparison analysis based on the selection criteria that these companies: (a) are primarily engaged in coal production in the PRC and (b) had a market capitalisation of not more than approximately HK$2,000 million as at Latest Practicable Date. The selection criteria have provided us with reasonably sufficient samples for comparison purpose. The Comparable Companies, namely Winsway Enterprises Holdings Limited (stock code: 1733) ("**Winsway**"), Asia Coal Limited (stock code: 835) ("**ACL**") and Nan Nan Resources Enterprise Limited (stock code: 1229) ("**Nan Nan**") with a view to compare their operating performance in terms of revenue growth and net profit margin.

	FY 2014	**FY 2015**
Year-on-year ("YOY") revenue growth/(decline):		
– Winsway	(38.8)%	(30.6)%
– ACL	222.8%	(71.1)%
– Nan Nan	1.1%	(51.9)%
– The Group	(40.1)%	(78.2)%
Net profit/(loss) margin:		
– Winsway	(42.8)%	(28.8)%
– ACL	(62.3)%	(431.7)%
– Nan Nan	(4.4)%	(133.0)%
– The Group	(18.3)%	(425.3)%

As set out in the above table, the Comparable Companies and the Group recorded decreases in all indicators, except (i) an increase by 222.8% of the ACL's YOY revenue growth in FY2014 which was primarily due to the commencement of the coal trading business; and (ii) an increase by 1.1% of the Nan Nan's YOY revenue growth in FY2014. According to the relevant annual reports of the Comparable Companies, their financial performances were primarily subjected to factors including falling selling prices and decreasing output volume, which are consistent with the challenges faced by the Group.

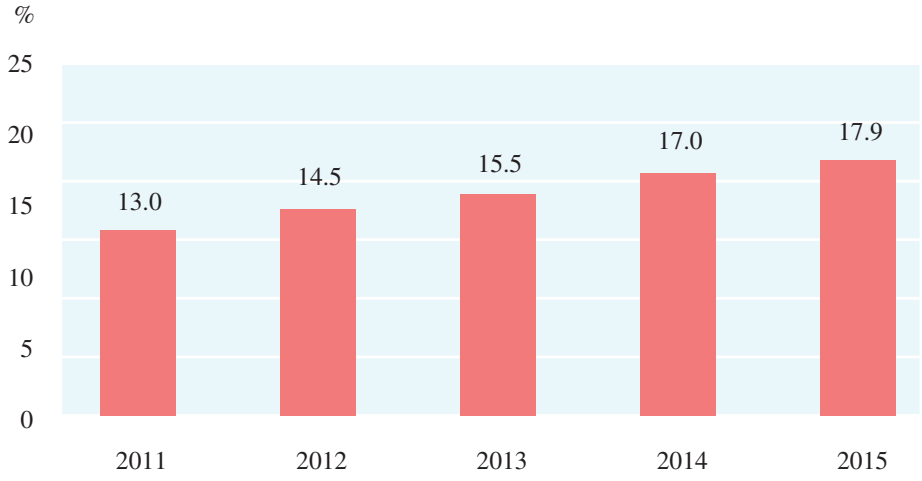
As per our discussion with the management of the Group regarding the operating cost of the coal mines, if the coal mines are shut down temporarily, the Group expects to incur substantial cost to restart the mining and hence, it is the plan of the Company to keep a minimal operation at the mines to keep it running. While the Company has not yet seen any significant sign of turnaround to profit for the Coal Business, the Group has to obtain new financing to sustain its operation and cover its finance cost for the year ending 31 December 2016 and will require further funding if the Group continue to record losses in the coming years. The Directors consider that continuing the loss-making business, which requires constant external funding to support its operation, will detriment to the interest of the Shareholders.

In addition, the recent tightening policies and regulations of the PRC government have further brought long-term negative impact to the coal mining industry. According to China's Energy Development Strategy Action Plan (2014-2020), National Energy Administration

("**NEA**"), a department of China responsible for formulating and implementing energy development plans, aims to reduce air pollution by promoting the use of clean energy and on the other hand cutting the PRC's reliance on coal. The plan sets a cap on annual coal consumption at 4.2 billion tonnes until 2020, which will reduce the current coal consumption of the PRC's energy consumption to 62%. Meanwhile, the share of natural gas will increase to over 10% and the share of non-fossil gas will increase to over 15% by 2020 and 20% by 2030 to balance economic activity and environmental protection.

According to the Statistical Communique of the People's Republic of China on the 2015 National Economic and Social Development issued on 29 February 2016, the consumption of coal declined by approximately 3.7% from 2014 to 2015. The proportion of consumption of coal in total energy consumption decreased from 66% in 2014 to 64% in 2015, while clean energy, such as hydropower, wind power, nuclear power and natural gas, as shown in the table below, the proportion of clean energy consumption in total energy increased from 13% in 2011 to 17.9% in 2015, representing a compound annual growth rate of approximately 6.6%. With an increasing trend of clean energy consumption and government policies towards coal industry, we are of the view that the coal industry of the PRC in the near future is pessimistic.

The Proportion of Clean Energy Consumption in Total Energy Consumption 2011-2015



Source: Statistical Communiqué of the PRC on the 2015 National Economic and Social Development

On the other hand, the PRC Shipping Business is an integral part of the Group's coal operation, and it is targeted to complement the coal trading segment of the Group's Coal Business. In daily operation, coal produced by the Group or purchased from the PRC domestic market is transported through the shipping transportation service provided by the Group's PRC Shipping Business from Qinhuangdao port to ports designated by customers along the coastal regions in the PRC. As a result of the strong correlation between Coal Business and PRC Shipping Business, the unsatisfactory performance of the Coal Business has adversely affected the revenue of PRC Shipping business. The decreasing trend was in line with the performance of Coal Business and the weakening demand in coal transportation as a result of the regulations to restrict coal use in coastal cities in the PRC. Given the loss-making performance of PRC Shipping Business and vertical integration relationship with Coal Business, the Directors consider that it is reasonable to dispose of the PRC Shipping Business together with the Coal Business.

We note that the Company has considered several financing activities including (i) bank borrowing – the Company has approached commercial banks, but it was unable to obtain any new and additional financing due to the fact that the banks have cautious attitude towards the Group due to its business nature. Furthermore, due to the deteriorating performance, net liabilities position and availability of the collaterals of the Group, the banks were not willing to offer any bank facility to the Group; (ii) placing of new Shares – the Group has approached several financial institutions to identify any professional investor or placing agent who wishes to subscribe or place new Shares of the Group by placing. However, after considering the current price of the Share and possible dilution effect, the Directors do not consider it appropriate to conduct placing of new Shares; and (iii) debt-for-equity swap – the Group considered to discuss with its principal bank which offered loan facilities to the Group about the possibility of adopting debt-for-equity swap. As advised by the Company, the Board finally turned down this idea due to the substantial dilution effect under the current price of Share. After taking into account the above financing options, the Directors consider that only the Disposal can (i) provide an immediate exit to the Group to discard the financial burden of the Disposal Group; (ii) reverse the net liabilities situation of the Group; (iii) enable the Group to better reallocate its resources; and (iv) restructure its asset portfolio and focus on the development of the Remaining Group.

Having considered (i) the worsening performance and financial position of the Disposal Group not being turned around in the near future; (ii) the difficult coal industry conditions; (iii) the tightening policies from government; (iv) the strong correlation between Coal Business and PRC Shipping Business; and (v) the absence of feasible financing alternatives except the Disposal, we concur with the view of the Directors that the Disposal is in the interests of the Company and the Shareholders as a whole.

Moreover, as set out in the Letter from the Board, upon Completion, the Group will cease to have any interest in the Disposal Group, and the Group will no longer be engaged in the Coal Business and PRC Shipping Business. The Group will then be principally engaged in provision of International Shipping Business and the major assets of the Remaining Group will be vessels for such business.

As further advised by the Company, in view that (i) International Shipping Business is principally engaged in trade-related international businesses which is sensitive to the global economy and has less impact from government policies; (ii) the BDI index, correlated to the performance of the International Shipping Business, has shown an increasing trend in the first five months of 2016; (iii) low fuel cost and maintenance costs as the vessels owned by the Remaining Group has been operating for only less than 5 years; (iv) chartering arrangement provides flexibility of operation, enlarges the shipping team and capitalise on the Group's customer network and expertise; and (v) the cash proceed of the Disposal will enable the Remaining Group to receive an immediate cash inflow which can be used as working capital for the International Shipping Business, the Company prefers to remain the International Shipping Business after the Disposal.

On this basis, we concur with the Directors' view that the International Shipping Business shall present better growth potential for the Group.

(D) Evaluation of the Consideration

Pursuant to the Agreement, the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the entire equity interest of the Disposal Company.

The aggregate Consideration for the Disposal Group amounts to approximately RMB176,740,000, out of which (i) RMB154,700,000 will be set off against an equivalent amount due to the Disposal Group by the Remaining Group and (ii) the remaining RMB22,040,000 will be payable in cash by the Purchaser to the Vendor. As disclosed in the Letter from the Board, the Consideration for the Disposal of RMB176,740,000 was determined between the Vendor and the Purchaser after arm's length negotiations having taken into account (i) the deteriorating financial performance of the Coal Business of the Disposal Group; (ii) the net liabilities of the Disposal Group attributable to the equity shareholders of the Company; (iii) the operating cash outflow before changes in working capital, gross loss, as well as loss before interest, tax, depreciation and amortisation of the Disposal Group; and (iv) the amount due from the Remaining Group to the Disposal Group as at the date of the Agreement.

As discussed in the above section headed "Background Information on the Disposal Group", the Disposal Group has been loss making in the recent years, with loss for the year widening from approximately RMB46 million for the year ended 31 December 2013 to approximately RMB1,254 million for the year ended 31 December 2014 and further to approximately RMB6,883 million for the year ended 31 December 2015. As disclosed in the Annual Report 2015, the business of the Group has been significantly and negatively affected by the general decline in energy price, the PRC's economic downturn and government policies to reduce the use of coal, as a result of which the Group's revenue has declined and net loss has increased significantly over the years. These factors are similar to our findings as discussed in the section headed "Reasons for and benefits of entering into the Agreement".

We have reviewed the financial information of the Disposal Group according to Appendix II to the Circular and note that the net liabilities attributable to owners of the Company of approximately RMB5,444 million as at 30 June 2016 and the net liabilities position was primarily due to impairment loss recognised in the financial year of 2015 in respect of (i) property, plant and equipment amounted to RMB3,068 million; (ii) coal mining rights amounted to RMB2,678 million; (iii) interest in an associate amounted to RMB47 million; (iv) trade receivables amounted to RMB502 million; and (v) prepayments and other receivables amounted to RMB395 million. The Company performed the impairment assessment of relevant assets with reference to a professional valuation report issued by an independent firm of professionally qualified valuers.

The Disposal Group's operating cash outflow before changes in working capital, gross loss and net loss before interest, tax, depreciation and amortization were approximately RMB686 million, RMB709 million and RMB7,410 million for the year ended 31 December 2015 respectively, representing that the Disposal Group has been facing a severe cash flow problem. We understand from the management of the Group that the Disposal Group has maintained its operation at a low scale to avoid substantial restarting cost from resumption of suspended coal operation and minimise its operating costs in the environment of depressed coal price. However, as some fixed costs including staff costs and other indirect costs could not be saved by reducing coal output, the Disposal Group could not generate sufficient cash flow for its operation.

As advised by the Company, two subsidiaries of the Remaining Group, namely Super Grace Enterprises Limited and Oriental Wise Group Limited respectively, acquired two vessels for shipping business in 2011. After the acquisition of the vessels, the said two subsidiaries had insufficient fund, the Disposal Group acted as a borrower to obtain financing from the Export-Import Bank of China of approximately RMB154.7 million as at the Latest Practicable Date to finance these two subsidiaries. In addition, the Remaining Group borrowed an amount of approximately of RMB22 million from the Disposal Group for working capital and general corporate purposes. As such, the amount due from the Remaining Group to the Disposal Group amounted to approximately RMB176.7 million as at the Latest Practicable Date.

In assessing the fairness and reasonableness of the Consideration, we have considered applying price-to-earnings ratio (the "**P/E Ratio**"), price-to-book ratio (the "**P/B Ratio**") and discounted cash flow method (the "**DCF**").

Given that the Disposal Group recorded net loss for the year ended 31 December 2015 and had a net liabilities position as at 31 December 2015, we considered that the P/E Ratio and P/B Ratio are not applicable for evaluating the Disposal Group.

Regarding the DCF method, given that (a) there is high uncertainty as to whether or when the Disposal Group will be able to generate positive cash flow in the near future; and (b) the DCF requires adoption of numerous assumptions which are valid only under specific and limited circumstance, we are of the view that DCF is not applicable for evaluating the Disposal Group.

Having considered above factors, we concur with the Directors that, under the challenging environment of the Coal Business, the deteriorating financial performance, net liabilities position and severe cash flow problem of the Disposal Group will not be likely rectified in the coming years. Considering the net liabilities attributable to the owners of the Company as at 30 June 2016 of RMB5,444 million and the positive Consideration of RMB177 million, we consider that the Consideration is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

As advised by the Company, the Vendor and the Purchaser did not obtain any valuation when determining the consideration. Notwithstanding this, we consider it is worthwhile to assess the consideration from this perspective and we note that the property valuation report (the "**Property Valuation Report**") was prepared by BMI Appraisals Limited ("**BMI**") in accordance with The HKIS Valuation Standards (the "**HKIS**"). We have reviewed the Property

Valuation Report and understand from BMI that it had conducted on-site inspection, review of documentations and relevant enquires and searches. We also discussed with BMI regarding the assumptions and methodologies adopted for the valuation of the properties held by the Disposal Group (the "**Properties**"). We understand that BMI has assumed the Properties are sold in the open market without the impact of any arrangement affecting the values of the Properties and there is no contractual right affecting the sale of the Properties. We consider that the above assumptions are common in practice and fair and reasonable for the purposes of assessing the value of the Properties.

During our discussion with BMI, we understand that BMI has adopted the Direct Comparison Approach for Property No. 1 in the Property Valuation Report, an office unit located in Guangzhou, with making references to recent comparable sales evidence with similar size, character and location available in the market. In addition, we note that BMI has adopted the Depreciated Replacement Cost approach for the valuation of Property Nos. 2-7 in the Property Valuation Report, parcels of land and various properties located next to the operating coal mines of the Disposal Group, which takes into account the current cost of replacement of those properties less deduction for the age, condition, economic or functional obsolescence. As advised by BMI, the Direct Comparison Approach cannot be used mainly due to the lack of an established market upon which to base comparable transactions.

We have reviewed and enquired the qualification and experience of BMI. As per our findings, we noticed that it has been recognized by stock exchanges in Hong Kong, the PRC, Singapore, Korea, New York, London and other countries. BMI has experiences in undertaking valuations of corporations, properties and securities in relation to IPO and merger and acquisition projects. As such, we are of the view that BMI possess sufficient experience in performing the valuations.

Based on our review of the Property Valuation Report, our discussion with BMI and our understanding of particulars of the Properties, we consider that the valuation approaches adopted are common valuation methodologies in appraising such properties and the assumptions adopted by BMI are fair and reasonable.

For the result of the Property Valuation Report, we noted that the appraised value of the Property No. 1-2 is approximately RMB43 million and RMB23 million respectively in the Property Valuation Report, as advised by BMI that the title certificates of both properties were obtained by the Disposal Group. For the Property Nos 3-7, we noted in the Property Valuation Report that BMI attributed no commercial value to the properties as the properties have not been assigned to the Disposal Group. However, as disclosed in the Property Valuation Report, BMI prepared reference value for the Property Nos 3-7 of approximately RMB2,242 million in total and on the assumption that the relevant title certificates have been obtained by the Disposal Group. Based on above, assuming all relevant title certificates were obtained, the total appraised value of Properties according to the Property Valuation Report would be approximately RMB2,308 million while the corresponding value as per the management account as at 31 August 2016 was approximately RMB1,387 million, representing a surplus of approximately RMB921 million. Given that the net liabilities of the Disposal Group as at 30 June 2016 was RMB5,342 million, the net liabilities position would still exist after considering the surplus over book values of the Properties.

On the other hand, having considered that (i) the title of the property No. 3-7 have not been obtained by the Disposal Group; and (ii) the surplus over book values of Properties is far less than the amount of net liabilities of the Disposal Group, we conclude that the adoption of the appraised value of the Property Valuation Report does not affect our opinion on the Consideration.

(E) Financial impact of the Disposal

Upon Completion, the Disposal Group would cease to be subsidiaries of the Company and their respective financial performance and position would no longer be consolidated into the financial statements of the Company. The financial effects of the Disposal on the Group are as follow:

I. Earnings

The Group recorded net loss from continuing operations of approximately RMB6,928 million for the year ended 31 December 2015. Based on the unaudited pro forma consolidated statement of comprehensive income set out in Appendix III to the Circular, which was prepared on the assumption that the Disposal was completed on 1 January 2015, the Remaining Group would record net loss from continuing operations of approximately RMB885 million for the year ended 31 December 2015. The improvement in its financial performance would be mainly attributable to (i) the deconsolidation of the losses of the Disposal Group of approximately RMB6,883 million; and (ii) the elimination of intra-group transaction of approximately RMB6 million upon Completion net of estimated one-off loss from the Disposal of approximately RMB834 million (the "One-off Loss"). The Independent Shareholders should note that the actual amount of the One-off Loss would be calculated on the basis of the relevant figures as at the date of the Completion and therefore could be different from the amount stated above.

II. Net assets

The Group had net liabilities attributable to owners of the Company of approximately RMB5,105 million as at 30 June 2016. Based on the unaudited pro forma consolidated statement of financial position set out in Appendix III to the Circular, which was prepared on the assumption that the Disposal was completed on 30 June 2016, the Remaining Group would have recorded net assets attributable to owners of the Company of approximately RMB403 million as at 30 June 2016.

III. Working capital

The Group had net current liabilities and cash and cash equivalents of approximately RMB6,660 million and RMB22 million as at 30 June 2016, respectively. Based on the unaudited pro forma consolidated statement of financial position set out in Appendix III to the Circular, the Remaining Group would have recorded net current liabilities and cash and cash equivalents of approximately RMB9 million and RMB25 million as at 30 June 2016, respectively.

IV. Gearing

The Group recorded a net deficit of RMB5,105 million as at 30 June 2016 and therefore we are unable to calculate the gearing ratio. But based on the unaudited pro forma consolidated statement of financial position set out in Appendix III of the Circular, we note that the interest-bearing liabilities would be substantially reduced from RMB6,025 million to zero.

Based on the aforementioned financial effects of the Disposal on the Group, in particular the (i) positive effect on earnings to the Group; (ii) positive impact on the financial position of the Group; (iii) positive impact on working capital of the Group; and (iv) positive impact on gearing of the Group, we are of the view that the Disposal will have an overall positive financial effect on the Group in the long run and be in the interest of the Group and its Shareholders as a whole.

RECOMMENDATION

Having considered the principal factors and reasons as discussed above and in particular the following,

(i) the continuous losses of the Disposal Group in recent years;

(ii) the outlook of the coal industry in the PRC is pessimistic;

(iii) the Disposal would enable the Company to focus on the profitable business, offload its loss-making businesses and allow the Company to improve the Group's result;

(iv) the Consideration is higher than the net liabilities value of the Disposal Group; and

(v) the cash proceed of the Disposal will enable the Remaining Group to receive an immediate cash inflow which can be used as working capital for the International Shipping Business,

we consider that the Disposal is conducted in the ordinary and usual course of business and on normal commercial terms and the terms of the Disposal contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, and we recommend the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Disposal contemplated thereunder.

Yours faithfully,
For and on behalf of
Octal Capital Limited

Alan Fung	**Annie Ho**
Managing Director	*Director*

Note: Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 20 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong. Ms. Annie Ho has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2007. Ms. Ho has more than 10 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions of listed companies in Hong Kong.

1. FINANCIAL INFORMATION OF THE GROUP

The financial information of the Group: (i) for the six months ended 30 June 2016 is disclosed on pages 14-59 of the unaudited interim report of the Company; (ii) for the three years ended 31 December 2013, 2014 and 2015 are disclosed on pages 114-236, 105-232, 76-228 respectively of the Company's annual reports for each of the three years ended 31 December 2013, 2014 and 2015.

All these financial statements have been published on the website of the Stock Exchange (http://www.hkexnews.hk) and the website of the Company (http://www.qinfagroup.com).

2. INDEBTEDNESS

As at the close of business on 31 August 2016, being the latest practicable date for ascertaining information regarding this indebtedness statement, the Group had the following indebtedness:

	The Group				
	Secured		Unsecured		
	Guaranteed	Non-guaranteed	Guaranteed	Non-guaranteed	Total
	RMB'million	*RMB'million*	*RMB'million*	*RMB'million*	*RMB'million*
Bank borrowings	5,046	–	940	–	5,986
Other borrowings	20	10	8	–	38
Amount due to ultimate holding company	–	–	–	7	7
Amount due to a shareholder	–	–	–	93	93
Amount due to a related company	–	–	–	17	17
	5,066	10	948	117	6,141

Bank borrowings

The Group's bank borrowings of approximately RMB5,046 million are secured by:

(i) certain property, plant and equipment of the Group of RMB1,294 million;

(ii) certain coal mining rights of the Group of RMB1,935 million;

(iii) certain lease prepayments of the Group of RMB5 million;

(iv) certain inventories of the Group of RMB87 million;

(v) certain net trade receivables of the Group of RMB0 million (trade receivables before impairment of RMB48 million);

(vi) equity interest in Shanxi Huameiao Energy Group Co., Ltd., Shanxi Shuozhou Pinglu District Huameiao Xingtao Coal Co., Ltd., Shanxi Shuozhou Pinglu District Huameiao Fengxi Coal Co., Ltd., Shanxi Shuozhou Pinglu District Huameiao Chongsheng Coal Co., Ltd., Shanxi Xinzhou Shenchi Xinglong Coal Co., Ltd., Shanxi Xinzhou Shenchi Hongyuan Coal Co., Ltd., Shuozhou Guangfa Energy Investment Co., Ltd., Super Grace Enterprises Limited and Oriental Wise Group Limited;

(vii) equity interest in the Company of Fortune Pearl International Limited, the ultimate holding company of the Group;

(viii) other receivables of a related company of which Mr. Xu is the shareholder; and

(ix) a property held by Mr. Xu.

The remaining amounts of bank borrowings of approximately RMB940 million are unsecured.

Other borrowings

The Group's other borrowings of approximately RMB30 million are secured by:

(i) certain property, plant and equipment of the Group of RMB2 million; and

(ii) a property held by Mr. Xu Da, an executive director.

The remaining amounts of other borrowings of approximately RMB8 million are unsecured.

Amounts due to ultimate holding company, a shareholder and a related company

The amounts due are unsecured.

Contingent liabilities

(a) Outstanding litigations

As at the close of business on 31 August 2016, the following legal proceedings are still outstanding.

(i) Litigation claim relating to the performance of the contract execution between Liaoning Zhonghuitong Asset Management Limited ("Zhonghuitong") and Xinglong Coal and Huameiao Energy

On 29 November 2012, Xinglong Coal acquired certain coal mining machineries at a consideration of RMB94,708,000. On 27 June 2013, Xinglong Coal settled the purchase of machineries by way of bill payables of RMB94,708,000 which was guaranteed by Zhonghuitong. Xinglong Coal eventually repaid the bill payables of RMB59,021,000 and failed to honor its remaining obligation of RMB35,687,000. As a guarantor, Zhonghuitong settled the principal and interest of the bill payables of RMB35,687,000 on behalf of Xinglong Coal. During the year ended 31 December 2015, Zhonghuitong applied to the Liaoning Shenyang Municipal Intermediate People's Court to order Xinglong Coal and Huameiao Energy to repay the principal and interest of the bill payables of RMB35,687,000, late penalty charges of RMB3,788,000 and interest payment of RMB6,888,000, totalling RMB46,363,000, in addition to the court litigation costs. The interest payment was calculated on the basis of 0.05% per day from 28 June 2014 until the settlement.

The principal and interest of bill payables of RMB35,687,000, late penalty charges of RMB3,788,000 and interest charges of RMB6,888,000 had already been recognised as payables to Zhonghuitong included in other payables in the consolidated statement of financial position as at 31 August 2016. Up to the date of this circular, the litigation claim is still in progress.

(ii) Litigation claims relating to damage of properties with local villagers

There were several litigation claims initiated by the local villagers against the Group relating to compensation for properties damage of RMB9,210,000. The properties damage of RMB9,210,000 had already been recognised as payable to the local villagers included in other payables in the consolidated statement of financial position as at 31 August 2016. Up to the date of this circular, the litigation claim are still in progress.

(iii) Litigation claims relating to unsettled property, plant and equipment contract sums with several suppliers of the Group

As at 31 August 2016, there were several litigation claims initiated by the suppliers against the Group to demand immediate repayment of overdue trading debts in relation to purchase of machineries with an aggregate amount of RMB63,894,000 and the late penalty charges of RMB11,851,000. An aggregate amount of RMB65,128,000, including late penalty charges of RMB1,234,000 had already been recognised as payables to these suppliers included in other payables in the consolidated statement of financial position as at 31 August 2016. Up to the date of this circular, the litigation claims are still in progress.

(iv) Litigation claims relating to unsettled considerations in relation to the acquisition of coal mining rights of Xinglong Coal Mine and Hongyuan Coal Mine

During the year ended 31 December 2015, there were litigation claims initiated by the previous owners (the "Previous Owners") of Xinglong Coal Mine and Hongyuan Coal Mine against the Group to demand immediate repayment of the unsettled considerations with an aggregate amount of RMB51,338,000 in relation to the acquisitions of coal mining rights of Xinglong Coal Mine and Hongyuan Coal Mine in 2013. Pursuant to the judgments of the Shanxi Shouzhou Municipal Intermediate People's Court dated 20 April 2015 and 10 December 2015, the Group was ordered to pay the Previous Owners the unsettled consideration of RMB51,338,000, the late penalty charges and interest charges of RMB3,000,000 and corresponding legal costs of RMB350,000. On 23 July 2015 and 4 January 2016, the Group lodged appeal applications to the Shanxi Provincial Higher People's Court.

During the eight months ended 31 August 2016, other previous owners of Xinglong Coal Mine and Hongyuan Coal Mine filed lawsuits to Shuozhou City Pinglu District People's Court and Taiyuan Municipal Intermediate People's Court against the Group to demand immediate repayment of the unsettled considerations of RMB13,500,000 and RMB87,423,000 respectively and the late penalty charges and interest charges of RMB17,487,000 in relation to the acquisitions of coal mining rights of Xinglong Coal Mine and Hongyuan Coal Mine.

The amount of RMB170,098,000, including the late penalty charges and interest charges of RMB17,487,000 and corresponding legal costs of RMB350,000, had already been recognised as payables to the Previous Owners included in other payables in the consolidated statement of financial position as at 31 August 2016. Up to the date of this circular, all of the abovementioned litigation claims are still in progress.

(v) Litigation claims relating to default of repayment of bank borrowings

The Group was in default of its repayment of certain bank borrowings with principal and accrued interest amounting to RMB148,882,000 and RMB328,000 respectively (the "Defaulted Bank Borrowings"). In 2015, a bank filed a lawsuit in Zhuhai Municipal Intermediate People's Court against the Group to demand immediate repayment of the Defaulted Bank Borrowings. The principal of RMB148,882,000 and interest charges of RMB328,000 had already been recognised as borrowings and accrued expenses included in other payables respectively in the consolidated statement of financial position as at 31 August 2016. Pursuant to the judgment, several bank accounts of the Group were frozen for one year from the date of the judgement and the coal mining rights of the Group and two properties of the Group's related companies were frozen for three years from the date of judgement. In addition, the Group was ordered to make immediate repayment of the Defaulted Bank Borrowings. Up to the date of this circular, the Group was in the process of negotiating with the bank to renew or roll over the Defaulted Bank Borrowings.

As at the Latest Practicable Date, the Directors of the Company are of the opinion that the provision for the above litigation is sufficient in the consolidated statements of financial position as at 31 August 2016.

Other than the disclosure of above, as at the Latest Practicable Date, the Group was not involved in any other material litigation or arbitration. As far as the Group was aware, the Group had no other material litigation or claim which was pending or threatened against the Group. As at the Latest Practicable Date, the Group was the defendant of certain non-material litigations, and also a party to certain litigations arising from the ordinary course of business. The likely outcome of these contingent liabilities, litigations or other legal proceedings cannot be ascertained at present, but the management of the Group believes that any possible legal liability which may be incurred from the aforesaid cases will not have any material impact on the financial position of the Group.

(b) Financial guarantees issued

As at the close of business on 31 August 2016, the Group has issued the guarantees to certain banks in respect of borrowings made by Tongmei Qinfa (Zhuhai) Holdings Co., Ltd. ("**Tongmei Qinfa**"), an associate. Under the guarantee, the Group that is a party to the guarantee are jointly and severally liable for any of the borrowings of Tongmei Qinfa from those banks.

As at close of business on 31 August 2016, the Directors of the Company do not consider it probable that a claim will be made against the Group under any of the guarantees. The maximum liability of the Group at 31 August 2016 under the guarantees issued is a portion of the outstanding amount of the borrowings of Tongmei Qinfa amounting to RMB640,600,000.

Save as aforesaid, and apart from intra-group liabilities and normal trade payables, the Group did not have any outstanding bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance lease, hire purchases commitments, which were either guaranteed, unguaranteed, secured or unsecured, guarantees or other material contingent liabilities at the close of business on 31 August 2016.

3. WORKING CAPITAL

As at 30 June 2016, the Group's current liabilities exceeded its current assets by approximately RMB6,660 million. Below details the financing measures undertaken by the Directors to finance the working capital of the Group for at least the next 12 months from the date of this circular:

(i) The Group applies cost control measures in cost of sales and administrative expenses;

(ii) The Group is currently in the process of negotiating with certain banks to renew its existing borrowings with an aggregate amount of RMB364 million;

(iii) For borrowings which will be matured before 30 June 2017, the Group will actively negotiate with the banks when they fall due to secure necessary fund to meet the Group's working capital and financial requirements in the future. The directors of the Company, have evaluated all the relevant facts available to them, are of the opinion that the Group would be able to renew such borrowings upon maturity.

(iv) On 25 April 2016, the Group entered into a share sale and purchase agreement (as supplemented by a supplemental agreement dated 11 July 2016 and a letter of exchange dated 19 October 2016) with the Purchaser in relation to the Disposal. The Consideration is expected to be approximately RMB177 million.

As at 30 June 2016, the Disposal Group was in net current liabilities position of RMB6,478 million. The Directors considered that the Group would be able to substantially improve its financial position by easing its debt burden and enhancing its flexibilities of fund utilisation upon completion of the Disposal.

The Directors, after due and careful enquiry, are of the opinion that, after taking into account (i) the Group's internally generated cash flows; (ii) that the Group is able to renew the borrowings upon maturity; and (iii) that the Disposal can be completed as currently envisaged, the Group will have sufficient working capital for at least 12 months from the date of this circular.

However, if the Group fails to renew the borrowings or complete the Disposal, the Group will not have sufficient working capital for at least 12 months from the date of this circular.

4. MATERIAL ADVERSE CHANGE

Save as disclosed in the interim report for the six months ended 30 June 2016, the Directors are not aware of any material adverse change in the financial position of the Group since 31 December 2015, the date to which the latest published audited financial statement of the Group were made up.

5. MANAGEMENT DISCUSSION AND ANALYSIS OF THE REMAINING GROUP

Set out below is the management discussion and analysis on the Remaining Group for the three years ended 31 December 2015 and the six months ended 30 June 2016.

For the six months ended 30 June 2016

Financial review

For the six months ended 30 June 2016, the revenue from continuing operations of the Remaining Group recorded approximately RMB20 million, representing a decrease of approximately 63.6%, as compared with approximately RMB55 million in the corresponding period in 2015. The decrease was mainly attributable to reduction in number of voyages for shipping services during the period.

The gross profit from continuing operations of the Remaining Group for the six months ended 30 June 2016 was approximately RMB5 million, representing a significant decrease of approximately RMB25 million or approximately 83.3%, as compared with approximately RMB30 million in the corresponding period in 2015. The loss after taxation from continuing operations of the Remaining Group for the six months ended 30 June 2016 was approximately RMB14 million, representing a decrease of approximately RMB14 million or approximately 50.0%, as compared with loss after taxation from continuing operations approximately RMB28 million in the corresponding period in 2015. The decrease was mainly attributable to significant reduction in other expenses during the period.

Liquidity, financial resources and capital structure

As at 30 June 2016, the Remaining Group incurred net current liabilities of approximately RMB181 million as compared to approximately RMB170 million at 31 December 2015. The increase in net current liabilities was mainly attributable to the increase in amount due to the Disposal Group as at 30 June 2016.

As at 30 June 2016, the bank balances and cash of the Remaining Group amounted to approximately RMB3 million.

As at 30 June 2016, there were no interest-bearing bank and other borrowings owed by the Remaining Group. Therefore, as at 30 June 2016, the gearing ratio of the Remaining Group is nil.

Pledge of assets

As at 30 June 2016, the Remaining Group pledged the vessels in an aggregate amount of approximately RMB412 million to banks for the Disposal Group's borrowing. Such pledges will be released before Completion.

Employees

As at 30 June 2016, the Remaining Group maintained an aggregate of 59 employees as compared with 61 employees at 31 December 2015.

During the six months ended 30 June 2016, the staff costs from continuing operations (including directors' remuneration in the form of salaries and other allowances) were approximately RMB11 million, representing a decrease of approximately 35.3%, as compared with approximately RMB17 million in the corresponding period in 2015. The decrease was mainly attributable to the reduction in the equity-settled share based payment during the period.

The salary and bonus policy of the Remaining Group is principally determined by the performance and working experience of the individual employee and with reference to prevailing market conditions.

Risk in foreign exchange

Since all of the Remaining Group's business activities are transacted in United States dollars ("US$"), the Directors consider that the Remaining Group was exposed to risk in foreign exchange. Also, as at 30 June 2016, the Remaining Group was exposed to an exchange rate risk mainly arose out of the foreign currency bank balances of approximately RMB3 million which were held in US$.

Significant investment held

There was no other significant investment held by the Remaining Group during the period.

Material acquisition and disposal

There was no other material acquisition or disposal of subsidiaries and associated companies by the Remaining Group during the period.

Contingent liabilities

As at 30 June 2016, the Remaining Group did not have any other material contingent liabilities.

For the year ended 31 December 2015

Financial review

For the year ended 31 December 2015, the revenue from continuing operations of the Remaining Group recorded approximately RMB127 million, representing an increase of approximately 15.5%, as compared with approximately RMB110 million in the corresponding period in 2014. The increase was mainly attributable to the increase in the freight shipping rates as a result of an increase in chartering vessels to external customers during the year.

The gross profit from continuing operations of the Remaining Group for the year ended 31 December 2015 was approximately RMB32 million, representing a decrease of approximately RMB5 million or approximately 13.5%, as compared with approximately RMB37 million in the corresponding period in 2014. The loss after taxation from continuing operations of the Remaining Group for the year ended 31 December 2015 was approximately RMB51 million, representing a decrease in profit of approximately RMB52 million, as compared with the profit after taxation from continuing operations of approximately RMB1 million in the corresponding period in 2014. The decrease was mainly attributable to the increase in non-cash expenses such as the impairment loss on interest in an associate and equity-settled share based payment expenses.

Liquidity, financial resources and capital structure

As at 31 December 2015, the Remaining Group incurred net current liabilities of approximately RMB170 million as compared to approximately RMB895 million at 31

December 2014. The decrease in net current liabilities was mainly attributable to the disposal of port business which was in net current liabilities position.

As at 31 December 2015, the bank balances and cash of the Remaining Group amounted to approximately RMB9 million.

As at 31 December 2015, there were no interest-bearing bank and other borrowings owed by the Remaining Group whereas there were RMB1,084 million of interest-bearing bank borrowings as at 31 December 2014. Therefore, the gearing ratio of the Remaining Group is nil.

Pledge of assets

As at 31 December 2015, the Remaining Group pledged the vessels in an aggregate amount of approximately RMB410 million to banks for the Disposal Group's borrowings.

Employees

As at 31 December 2015, the Remaining Group maintained an aggregate of 61 employees, the same number of employees at 31 December 2014.

During the year ended 31 December 2015, the staff costs from continuing operations (including directors' remuneration in the form of salaries and other allowances) were approximately RMB30 million, representing an increase of approximately 87.5%, as compared with approximately RMB16 million in the corresponding period in 2014. The increase was mainly attributable to the increase in the equity-settled share based payment during the year.

The salary and bonus policy of the Remaining Group is principally determined by the performance and working experience of the individual employee and with reference to prevailing market conditions.

Risk in foreign exchange

Since all of the Remaining Group's business activities are transacted in US$, the Directors consider that the Remaining Group was exposed to risk in foreign exchange. Also, as at 31 December 2015, the Remaining Group was exposed to an exchange rate risk mainly arose out of the foreign currency bank balances of approximately RMB4 million and RMB5 million which were held in HK$ and US$ respectively.

Significant investment held

There was no other significant investment held by the Remaining Group during the year.

Material acquisition and disposal

On 26 June 2015, Hong Kong Qinfa Trading Limited (a wholly-owned subsidiary of the Company) ("**Qinfa Trading**") entered into a conditional disposal agreement with Zhuhai Port

Logistics Centre Co., Limited (珠海港物流中心有限公司) ("**Zhuhai Port**"), pursuant to which Qinfa Trading conditionally agreed to sell, and Zhuhai Port conditionally agreed to purchase, 60% of equity interest in Zhuhai Qinfa Port Co., Ltd. for a total cash consideration of RMB350 million. All conditions of the disposal agreement had been met, and the disposal was completed in accordance with terms and conditions of the conditional disposal agreement on 7 August 2015.

On 30 December 2015, Bright Rock Holdings Limited, a subsidiary of the Company was disposed of, together with its equity interests in associates companies, for a consideration of Australian Dollar 20,000 (equivalent to RMB95,000).

Save as the above, there was no other material acquisition or disposal of subsidiaries and associated companies by the Remaining Group during the year.

Contingent liabilities

As at 31 December 2015, the Remaining Group did not have any other material contingent liabilities.

For the year ended 31 December 2014

Financial review

For the year ended 31 December 2014, the revenue from continuing operations of the Remaining Group recorded approximately RMB110 million, representing an increase of approximately 93.0%, as compared with approximately RMB57 million in the corresponding period in 2013. The increase was mainly attributable to the increase in the number voyages for shipping services during the year.

The gross profit from continuing operations of the Remaining Group for the year was approximately RMB37 million, representing a significant increase of approximately RMB32 million or approximately 640.0%, as compared with approximately RMB5 million in the corresponding period in 2013. The profit after taxation from continuing operations of the Remaining Group for the year was approximately RMB1 million, compared with loss after taxation from continuing operations of approximately RMB90 million in the corresponding period in 2013. This was mainly attributable to the significant increase in revenue during the year.

Liquidity, financial resources and capital structure

As at 31 December 2014, the Remaining Group incurred net current liabilities of approximately RMB895 million as compared to approximately RMB815 million as at 31 December 2013. The reason for having a net current liabilities was mainly due to the liabilities of port business.

As at 31 December 2014, the bank balances and cash of the Remaining Group amounted to approximately RMB16 million.

As at 31 December 2014, there were a total of RMB1,084 million of interest-bearing bank borrowings owed by the Remaining Group. The gearing ratio of the Remaining Group was approximately 116.3%. The gearing ratio is calculated based on the amount of bank and other borrowings divided by net assets.

Pledge of assets

As at 31 December 2014, the Remaining Group pledged the vessels and the port in an aggregate amount of approximately RMB2,168 million to banks for the Disposal Group's and the Remaining Group's borrowing.

Employees

As at 31 December 2014, the Remaining Group maintained an aggregate of 61 employees, the same number of employees at 31 December 2013.

During the year ended 31 December 2014, the staff costs from continuing operations (including directors' remuneration in the form of salaries and other allowances) were approximately RMB16 million, representing a decrease of approximately 23.8%, as compared with approximately RMB21 million in the corresponding period in 2013. The decrease was mainly attributable to the reduction in the direct labour cost incurred in shipping activities and cost saving in administrative staff during the year.

The salary and bonus policy of the Remaining Group is principally determined by the performance and working experience of the individual employee and with reference to prevailing market conditions.

Risk in foreign exchange

Since all of the Remaining Group's business activities are transacted in US$, the Directors consider that the Remaining Group was exposed to risk in foreign exchange. As at 31 December 2014, there is no material bank balance held in foreign currency.

Significant investment held

The Remaining Group had invested in unlisted equity investments of RMB24 million, representing 26.3% and 33.6% equity interest in two entities, respectively. The principal activities of the investees are the provision of coal exploration, evaluation and development in Australia.

Material acquisition and disposal

There was no other material acquisition or disposal of subsidiaries and associated companies by the Remaining Group during the year.

Contingent liabilities

As at 31 December 2014, the Remaining Group did not have any other material contingent liabilities.

6. FINANCIAL AND TRADING PROSPECTS

Upon the Completion of the Disposal, the Remaining Group will focus on the international shipping business.

The Company's two self-owned vessels have a weighted average age of 5 years. As the vessels are comparatively new and possess improved design features which can provide more efficient and reliable services to its customers. The Directors expect that the vessels can reduce off-hire days due to repair and maintenance, which may be affected by age and conditions of a vessel. The Directors believe that the vessels are able to have more operating days on an annual basis and higher utilisation rates.

During the 3 years ended 31 December 2015, the Company's two self-owned vessels achieved over 90% fleet utilisation rates. The Directors believe that the use of newer vessels also enhances its reputation as a high quality shipping company and enables the Group to better control vessel maintenance and repair costs, lower fuel costs, obtain lower insurance rates and reduce the cost of debt financing.

The Directors consider that once the Disposal is completed, the Group would be able to focus its resources on further developing the business of the Remaining Group, either by acquiring additional vessels or renting more vessels, thereby bringing additional value to the shareholders of the Group.

Also, despite providing chartering services provided by its self-owned vessels, the Company has paid continual efforts in marketing the vessels that were rented from the third parties in order to provide a re-chartering services for their clients. The Directors believe that the both the chartering services and re-chartering services would gain a significant momentum to the worldwide logistic industry.

UNAUDITED CONSOLIDATED FINANCIAL INFORMATION OF THE DISPOSAL GROUP

Set out below are the unaudited consolidated statements of financial position of Hong Kong Qinfa International Trading Limited (the "Target Company") and its subsidiaries (the "Disposal Group") as at 31 December 2013, 2014 and 2015 and 30 June 2016, and the unaudited consolidated statements of comprehensive income, the unaudited consolidated statements of changes in equity and the unaudited consolidated statements of cash flows for each of the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 (the "Relevant Periods") and explanatory notes (collectively the "Unaudited Consolidated Financial Information"), which have been prepared by the Directors in accordance with Rule 14.68(2)(a)(i)(A) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The auditor of China Qinfa Group Limited (the "Company"), Moore Stephens CPA Limited, was engaged to review the Unaudited Consolidated Financial Information of the Disposal Group in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" ("HKSRE 2410") and with reference to Practice Note 750 "Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal" issued by the Hong Kong Institute of Certified Public Accountants. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable the auditor to obtain assurance that the auditor would become aware of all significant matters that might be identified in an audit. Accordingly, the auditor does not express an audit opinion.

The auditor has issued a disclaimer of conclusion which states that:

"**Basis for disclaimer of conclusion**

Limitation of scope in respect of certain consolidated financial statements items

We were unable to obtain sufficient evidence to ascertain the following matters:

(a) the actual originating source or the payees and the nature of the bank receipts of RMB471,567,000 into the Disposal Group's bank account during the year ended 31 December 2013 in relation to settlement of trade receivable balances due from several customers of Shanxi Hun Yuan Ruifeng Coal Co., Ltd. ("Ruifeng") and the accuracy and recoverability of the outstanding trade receivable balances of RMB264,029,000 due from these customers as at 31 December 2013;

(b) validity of the leasing income of RMB137,500,000 from certain tenants of Ruifeng for the year ended 31 December 2013, of which the amount was included in other income, gains and losses for the year ended 31 December 2013, and the related outstanding trade receivable balance of RMB68,750,000 as at 31 December 2013;

(c) the actual originating source or the payees or the nature of the bank receipts of RMB132,270,000 and RMB463,819,000 during the years ended 31 December 2013 and 31 December 2014 respectively in relation to settlement of trade receivable balances due from several customers of the Disposal Group and the accuracy and recoverability of the outstanding trade receivable balances of RMB752,933,000 due from these customers as at 31 December 2013 (the "Trade Receivables");

(d) the recoverability of an outstanding balance of RMB622,327,000 due from non-controlling shareholders as at 31 December 2013 ("Amounts due from NCI"), which the balance was included in prepayments and other receivables as at 31 December 2013; and

(e) the nature and recoverability of prepayments of RMB161,460,000 as at 31 December 2013 which was purported to be prepayments to certain suppliers for purchase of goods (the "Prepayments"), of which the balance was included in prepayments and other receivables as at 31 December 2013.

In relation to above matters (a) and (b), the Company disposed of its entire equity interest in Ruifeng on 29 December 2014 and recognised a loss of RMB162,585,000.

In relation to above matter (c), the Trade Receivables were settled during the year ended 31 December 2014.

In relation to above matter (d), during the year ended 31 December 2014 and the year ended 31 December 2015, non-controlling shareholders have made settlements amounting to RMB285,226,000. Up to the date of this report, the remaining balance of Amounts due from NCI has not been settled. A provision for impairment of the remaining balance of Amounts due from NCI was made during the year ended 31 December 2015.

In relation to above matter (e), the Prepayments of RMB135,171,000 were utilised during the year ended 31 December 2014. A provision for impairment of the remaining balance of Prepayments of RMB26,289,000 was made during the year ended 31 December 2014.

Because of the unavailability of reliable financial information, we were unable to obtain sufficient appropriate evidence and were unable to carry out alternative procedures to satisfy ourselves about the balances as of 31 December 2013 mentioned in matters (a) to (e) above. Any adjustments to these balances as of 31 December 2013 would have effects on the financial performance for the year ended 31 December 2013 and 2014, and the related elements making up the unaudited consolidated statements of changes in equity and unaudited consolidated statements of cash flows.

Multiple uncertainties relating to going concern

As set out in Note 2 to the Unaudited Consolidated Financial Information which indicates that the Disposal Group incurred consolidated net loss of RMB470,254,000 during the six months ended 30 June 2016 and, as of that date, the Disposal Group had net current liabilities of RMB6,478,476,000 and capital deficiency of RMB5,341,603,000, of which the outstanding borrowings of RMB3,526,726,000 are due on demand or within one year. As at 30 June 2016, there were several pending litigation mainly requesting repayment of long outstanding payables with interest against the Disposal Group.

As further explained in Note 2 to the Unaudited Consolidated Financial Information, the directors of the Company are taking certain measures to improve the Disposal Group's liquidity and solvency position. These measures mainly include (i) applying cost control measures in cost of sales and administrative expenses; (ii) obtaining financing from banks through negotiations for extension or renewal of existing borrowings; and (iii) obtaining additional sources of debt financing from banks.

As at the date of approval of the Unaudited Consolidated Financial Information, these measures had not yet been concluded. Whether the Disposal Group is able to implement the abovementioned measures is subject to material uncertainties. The foregoing facts and circumstances indicate the existence of multiple material uncertainties which may cast significant doubt on the Disposal Group's ability to continue as a going concern. The validity of the going concern assumption on which the Unaudited Consolidated Financial Information are prepared is dependent on the successful and favourable outcomes of the measures being taken by the directors of the Company as described in Note 2 to the Unaudited Consolidated Financial Information. The Unaudited Consolidated Financial Information have been prepared on the assumption that the Disposal Group will continue as a going concern and, therefore, do not include any adjustments relating to the realisation of assets, discharging of liabilities and reclassification of non-current assets and non-current liabilities that may be necessary if the Disposal Group is unable to continue as a going concern.

Should the going concern assumption be inappropriate, adjustments might be required to write down the value of assets to the estimated recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments has not been reflected in the Unaudited Consolidated Financial Information.

Disclaimer of conclusion

Because of the significance of the matters described in the basis for disclaimer of conclusion paragraphs, we have not been able to obtain sufficient appropriate evidence to form a conclusion on the Unaudited Consolidated Financial Information. Accordingly, we do not express a conclusion as to whether the Unaudited Consolidated Financial Information is prepared, in all material respects, in accordance with the basis of preparation set out in Note 2 to the Unaudited Consolidated Financial Information."

FINANCIAL INFORMATION OF THE DISPOSAL GROUP

Unaudited Consolidated Statements of Comprehensive Income

For the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	10,770,958	6,379,424	1,295,015	847,023	184,891
Cost of sales	(9,712,562)	(6,619,900)	(2,003,782)	(1,189,862)	(263,093)
Gross profit/(loss)	1,058,396	(240,476)	(708,767)	(342,839)	(78,202)
Other income, gains and losses	181,206	(905)	35,046	8,409	(27,408)
Distribution expenses	(152,005)	(87,740)	(29,714)	(14,899)	(3,187)
Administrative expenses	(272,971)	(217,206)	(178,574)	(80,702)	(78,283)
Other expenses	(152,824)	(58,329)	(6,731,620)	(80,015)	(13,684)
Results from operating activities	661,802	(604,656)	(7,613,629)	(510,046)	(200,764)
Finance income	37,147	50,224	2,822	2,313	612
Finance costs	(566,402)	(556,705)	(370,803)	(194,239)	(243,900)
Net finance costs	(529,255)	(506,481)	(367,981)	(191,926)	(243,288)
Share of profit/(loss) of an associate	3,458	471	(6,522)	(7,372)	–
Profit/(loss) before taxation	136,005	(1,110,666)	(7,988,132)	(709,344)	(444,052)
Income tax (expense)/credit	(182,042)	(143,832)	1,105,525	(22,743)	(26,202)
Loss for the year/period	(46,037)	(1,254,498)	(6,882,607)	(732,087)	(470,254)
Other comprehensive (loss)/income					
Item that may be reclassified subsequently to profit or loss:					
Foreign currency translation differences for foreign operations	(10,748)	1,794	11,728	(407)	3,831
Other comprehensive (loss)/income for the year/period, net of tax	(10,748)	1,794	11,728	(407)	3,831
Total comprehensive loss for the year/period	(56,785)	(1,252,704)	(6,870,879)	(732,494)	(466,423)
(Loss)/profit attributable to:					
Equity shareholders of the Company	(157,722)	(1,160,581)	(5,991,707)	(637,426)	(428,261)
Non-controlling interests	111,685	(93,917)	(890,900)	(94,661)	(41,993)
Loss for the year/period	(46,037)	(1,254,498)	(6,882,607)	(732,087)	(470,254)
Total comprehensive (loss)/income attributable to:					
Equity shareholders of the Company	(168,470)	(1,158,787)	(5,979,979)	(637,833)	(424,430)
Non-controlling interests	111,685	(93,917)	(890,900)	(94,661)	(41,993)
Total comprehensive loss for the year/period	(56,785)	(1,252,704)	(6,870,879)	(732,494)	(466,423)

Unaudited Consolidated Statements of Financial Position

At 31 December 2013, 2014 and 2015 and 30 June 2016

	At 31 December			At 30 June
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets				
Property, plant and equipment	4,214,983	4,852,738	2,022,092	1,870,139
Coal mining rights	4,971,400	4,633,632	1,942,708	1,936,212
Lease prepayments	5,493	5,353	5,213	5,143
Interest in an associate	52,618	53,089	–	–
Deferred tax assets	151,409	19,384	690	–
	9,395,903	9,564,196	3,970,703	3,811,494
Current assets				
Inventories	398,857	324,806	86,929	104,162
Trade and bill receivables	2,696,052	1,246,529	580,395	518,252
Prepayments and other receivables	1,441,197	785,860	185,759	157,292
Amount due from intermediate holding company	514,611	–	–	–
Amount due from immediate holding company	–	580,271	421,192	429,547
Amounts due from fellow subsidiaries	46,424	7,004	25,800	27,176
Pledged and restricted deposits	1,983,604	497,129	45,911	1,353
Cash and cash equivalents	393,500	37,436	12,036	18,799
	7,474,245	3,479,035	1,358,022	1,256,581
Current liabilities				
Trade and bill payables	1,580,949	1,045,889	1,083,852	972,225
Other payables	2,171,264	1,875,538	2,400,254	2,590,039
Amount due to intermediate holding company	–	–	141,533	141,533
Amount due to immediate holding company	20,310	–	–	–
Amounts due to fellow subsidiaries	26,000	1,734	229,352	229,435
Amounts due to directors	–	128	3,501	4,000
Amount due to a related company	–	–	18,969	16,569
Borrowings	6,256,413	4,691,780	3,302,997	3,526,726
Tax payable	438,918	246,904	236,438	254,530
	10,493,854	7,861,973	7,416,896	7,735,057
Net current liabilities	(3,019,609)	(4,382,938)	(6,058,874)	(6,478,476)
Total assets less current liabilities	6,376,294	5,181,258	(2,088,171)	(2,666,982)

	At 31 December			At 30 June
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current liabilities				
Other payables	131,549	95,782	82,195	64,972
Borrowings	1,743,713	1,876,610	2,602,325	2,497,608
Accrued reclamation obligations	81,869	74,693	79,047	81,179
Deferred tax liabilities	1,139,326	1,138,474	23,442	30,862
	3,096,457	3,185,559	2,787,009	2,674,621
Net assets/(liabilities)	3,279,837	1,995,699	(4,875,180)	(5,341,603)
Capital and reserves				
Share capital	560,870	560,870	560,870	560,870
Reserves/(deficit)	1,558,291	399,504	(5,580,475)	(6,004,905)
Total equity/(deficit) attributable to equity shareholders of the Company	2,119,161	960,374	(5,019,605)	(5,444,035)
Non-controlling interests	1,160,676	1,035,325	144,425	102,432
Total equity/(deficit)	3,279,837	1,995,699	(4,875,180)	(5,341,603)

Unaudited Consolidated Statements of Changes in Equity

For the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016

	Attributable to equity shareholders of the Company						Non-	
	Share capital	Merger reserve	Reserves	Exchange reserve	Retained earnings	Total	controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2013	482,249	96,001	448,080	(36,671)	1,219,351	2,209,010	1,048,991	3,258,001
Total comprehensive (loss)/ income for the year								
(Loss)/profit for the year	–	–	–	–	(157,722)	(157,722)	111,685	(46,037)
Other comprehensive loss								
Foreign currency translation differences for foreign operations	–	–	–	(10,748)	–	(10,748)	–	(10,748)
Total other comprehensive loss	–	–	–	(10,748)	–	(10,748)	–	(10,748)
Total comprehensive (loss)/income	–	–	–	(10,748)	(157,722)	(168,470)	111,685	(56,785)
Transactions with equity shareholders, recorded directly in equity								
Issuance of share capital	78,621	–	–	–	–	78,621	–	78,621
Appropriation of maintenance and production funds	–	–	281,507	–	(281,507)	–	–	–
Utilisation of maintenance and production funds	–	–	(49,525)	–	49,525	–	–	–
Appropriation to reserves	–	–	4,505	–	(4,505)	–	–	–
Total transactions with equity shareholders	78,621	–	236,487	–	(236,487)	78,621	–	78,621
At 31 December 2013	560,870	96,001*	684,567*	(47,419)*	825,142*	2,119,161	1,160,676	3,279,837

	Attributable to equity shareholders of the Company							
	Share capital *RMB'000*	Merger reserve *RMB'000*	Reserves *RMB'000*	Exchange reserve *RMB'000*	Retained earnings/ (accumulated losses) *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
At 1 January 2014	560,870	96,001	684,567	(47,419)	825,142	2,119,161	1,160,676	3,279,837
Total comprehensive income/(loss) for the year								
Loss for the year	–	–	–	–	(1,160,581)	(1,160,581)	(93,917)	(1,254,498)
Other comprehensive income								
Foreign currency translation differences for foreign operations	–	–	–	1,794	–	1,794	–	1,794
Total other comprehensive income	–	–	–	1,794	–	1,794	–	1,794
Total comprehensive income/(loss)	–	–	–	1,794	(1,160,581)	(1,158,787)	(93,917)	(1,252,704)
Transactions with equity shareholders and non-controlling interests, recorded directly in equity								
Disposal of a subsidiary	–	–	–	–	–	–	(31,434)	(31,434)
Appropriation of maintenance and production funds	–	–	103,661	–	(103,661)	–	–	–
Utilisation of maintenance and production funds	–	–	(70,157)	–	70,157	–	–	–
Appropriation to reserves	–	–	2,644	–	(2,644)	–	–	–
Release of maintenance and production funds upon disposal of a subsidiary	–	–	(59,778)	–	59,778	–	–	–
Release of reserve upon disposal of a subsidiary	–	–	(15,434)	–	15,434	–	–	–
Total transactions with equity shareholders and non-controlling interests	–	–	(39,064)	–	39,064	–	(31,434)	(31,434)
At 31 December 2014	560,870	96,001*	645,503*	(45,625)*	(296,375)*	960,374	1,035,325	1,995,699

	Attributable to equity shareholders of the Company							
	Share capital *RMB'000*	Merger reserve *RMB'000*	Reserves *RMB'000*	Exchange reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity/ (deficit) *RMB'000*
At 1 January 2015	560,870	96,001	645,503	(45,625)	(296,375)	960,374	1,035,325	1,995,699
Total comprehensive income/(loss) for the year								
Loss for the year	–	–	–	–	(5,991,707)	(5,991,707)	(890,900)	(6,882,607)
Other comprehensive income								
Foreign currency translation differences for foreign operations	–	–	–	11,728	–	11,728	–	11,728
Total other comprehensive income	–	–	–	11,728	–	11,728	–	11,728
Total comprehensive income/(loss)	–	–	–	11,728	(5,991,707)	(5,979,979)	(890,900)	(6,870,879)
Transactions with equity shareholders, recorded directly in equity								
Appropriation of maintenance and production funds	–	–	42,228	–	(42,228)	–	–	–
Utilisation of maintenance and production funds	–	–	(74,699)	–	74,699	–	–	–
Total transactions with equity shareholders	–	–	(32,471)	–	32,471	–	–	–
At 31 December 2015	560,870	96,001*	613,032*	(33,897)*	(6,255,611)*	(5,019,605)	144,425	(4,875,180)

	Attributable to equity shareholders of the Company							
	Share capital *RMB'000*	Merger reserve *RMB'000*	Reserves *RMB'000*	Exchange reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total deficit *RMB'000*
At 1 January 2016	560,870	96,001	613,032	(33,897)	(6,255,611)	(5,019,605)	144,425	(4,875,180)
Total comprehensive income/(loss) for the period								
Loss for the period	–	–	–	–	(428,261)	(428,261)	(41,993)	(470,254)
Other comprehensive income								
Foreign currency translation differences for foreign operations	–	–	–	3,831	–	3,831	–	3,831
Total other comprehensive income	–	–	–	3,831	–	3,831	–	3,831
Total comprehensive income/(loss)	–	–	–	3,831	(428,261)	(424,430)	(41,993)	(466,423)
Transactions with equity shareholders, recorded directly in equity								
Appropriation of maintenance and production funds	–	–	32,105	–	(32,105)	–	–	–
Utilisation of maintenance and production funds	–	–	(29,572)	–	29,572	–	–	–
Total transactions with equity shareholders	–	–	2,533	–	(2,533)	–	–	–
At 30 June 2016	560,870	96,001*	615,565*	(30,066)*	(6,686,405)*	(5,444,035)	102,432	(5,341,603)

* These reserves accounts comprise the consolidated reserves of RMB1,558,291,000, RMB399,504,000 and consolidated deficit of RMB5,580,475,000 and RMB6,004,905,000 in the consolidated statements of financial position as at 31 December 2013, 2014 and 2015 and 30 June 2016, respectively.

	Attributable to equity shareholders of the Company							
	Share capital *RMB'000*	**Merger reserve** *RMB'000*	**Reserves** *RMB'000*	**Exchange reserve** *RMB'000*	**Accumulated losses** *RMB'000*	**Total** *RMB'000*	**Non-controlling interests** *RMB'000*	**Total equity** *RMB'000*
At 1 January 2015	560,870	96,001	645,503	(45,625)	(296,375)	960,374	1,035,325	1,995,699
Total comprehensive loss for the period								
Loss for the period	–	–	–	–	(637,426)	(637,426)	(94,661)	(732,087)
Other comprehensive loss								
Foreign currency translation differences for foreign operations	–	–	–	(407)	–	(407)	–	(407)
Total other comprehensive loss	–	–	–	(407)	–	(407)	–	(407)
Total comprehensive loss	–	–	–	(407)	(637,426)	(637,833)	(94,661)	(732,494)
Transactions with equity shareholders, recorded directly in equity								
Appropriation of maintenance and production funds	–	–	31,215	–	(31,215)	–	–	–
Utilisation of maintenance and production funds	–	–	(54,849)	–	54,849	–	–	–
Total transactions with equity shareholders	–	–	(23,634)	–	23,634	–	–	–
At 30 June 2015	560,870	96,001	621,869	(46,032)	(910,167)	322,541	940,664	1,263,205

Unaudited Consolidated Statements of Cash Flows

For the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash flows from operating activities					
Profit/(loss) before taxation	136,005	(1,110,666)	(7,988,132)	(709,344)	(444,052)
Adjustments for:					
Depreciation of property, plant and equipment	168,530	158,790	197,771	81,594	50,110
Amortisation of coal mining rights	59,252	43,407	12,480	5,959	6,496
Amortisation of lease prepayments	140	140	140	70	70
Property, plant and equipment written off	–	–	204	132	–
Provision for/(reversal of provision for) inventories	8,012	35,650	35,542	34,332	(27,969)
Finance income	(37,147)	(50,224)	(2,822)	(2,313)	(612)
Finance costs	566,402	556,705	370,803	194,239	243,900
Loss/(gain) on disposal of property, plant and equipment	–	–	17	(65)	40,337
Loss on disposal of a subsidiary	–	162,585	–	–	–
Impairment losses on property, plant and equipment	84,500	18,674	3,067,505	–	–
Impairment losses on coal mining right	–	–	2,678,444	–	–
Impairment losses/(reversal of impairment losses) on trade receivables	51,947	(9,011)	502,479	68,875	2,989
Impairment losses on prepayment and other receivables	7,838	42,136	394,855	5,381	(9,723)
Impairment losses on interest in an associate	–	–	46,567	–	–
Share of (profit)/loss of an associate	(3,458)	(471)	6,522	7,372	–
Waiver of amount due to fellow subsidiaries	(9,174)	(45,875)	(8,227)	(4,050)	(3,652)
Operating profit/(loss) before working capital changes	1,032,847	(198,160)	(685,852)	(317,818)	(142,106)
Decrease/(increase) in inventories	89,930	38,431	202,384	(7,864)	10,759
Decrease in trade and bill receivables	952,730	722,864	163,679	286,959	59,154
(Increase)/decrease in prepayments and other receivables	(300,041)	598,043	201,580	130,738	98,527
(Decrease)/increase in trade and bill payables	(1,753,862)	(72,131)	37,910	35,778	(111,638)
Increase in other payables	366,693	69,493	388,501	177,974	35,335
Cash generated from/(used in) operations	388,297	1,158,540	308,202	305,767	(49,969)
Interest paid	(581,913)	(682,613)	(238,361)	(222,148)	(93,032)
PRC Enterprise Income Tax (paid)/refunded	(78,064)	14,180	(1,280)	(3)	–
Net cash (used in)/generated from operating activities	(271,680)	490,107	68,561	83,616	(143,001)

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash flows from investing activities					
Interest received	37,147	50,224	2,822	2,313	612
Net proceeds from disposal of property, plant and equipment	–	–	18,537	92	17,277
Acquisition of property, plant and equipment	(1,158,685)	(1,006,390)	(309,945)	(154,364)	(21,471)
Acquisition of coal mining rights	(105,270)	–	–	–	–
Net proceeds from disposal of a subsidiary	–	79,992	–	–	–
Capital injection in an associate	(39,200)	–	–	–	–
(Increase)/decrease in amount due from intermediate holding company	(388,569)	518,525	–	–	–
(Increase)/decrease in amount due from immediate holding company	–	(583,174)	173,706	17,268	(7,129)
Decrease/(increase) in amounts due from fellow subsidiaries	(2,426)	39,415	(17,285)	(11,089)	(1,347)
Net cash used in investing activities	(1,657,003)	(901,408)	(132,165)	(145,780)	(12,058)
Cash flows from financing activities					
Proceeds from borrowings	10,380,368	6,302,798	3,605,561	2,996,556	1,591,692
Repayment of borrowings	(8,888,532)	(7,736,214)	(4,269,664)	(3,447,978)	(1,472,680)
(Increase)/decrease in pledged and restricted deposits	(342,360)	1,486,475	451,218	448,591	44,558
Increase/(decrease) in amount due to immediate holding company	20,310	(19,616)	–	–	–
Increase in amounts due to fellow subsidiaries	29,063	21,609	228,601	6,277	135
Increase in amounts due to directors	–	128	3,373	5,972	499
Increase/(decrease) in amount due to a related company	–	–	18,969	19,590	(2,400)
Issuance of share capital	78,621	–	–	–	–
Net cash generated from financing activities	1,277,470	55,180	38,058	29,008	161,804
Net (decrease)/increase in cash and cash equivalents	(651,213)	(356,121)	(25,546)	(33,156)	6,745
Cash and cash equivalents at the beginning of the year/period	1,043,143	393,500	37,436	37,436	12,036
Effect of foreign exchange rate changes	1,570	57	146	12	18
Cash and cash equivalents at the end of the year/period	393,500	37,436	12,036	4,292	18,799

NOTE TO THE FINANCIAL INFORMATION

For the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016

1. GENERAL INFORMATION

Hong Kong Qinfa International Trading Limited (the "Target Company") was incorporated in Hong Kong with limited liability on 8 May 2007. The address of its registered office is Unit 1303, 13th Floor, MassMutual Tower, 38 Gloucester Road, Wanchai, Hong Kong. The Target Company is an indirect wholly-owned subsidiary of China Qinfa Group Limited (the "Company"), a company incorporated in the Cayman Islands with limited liability with its shares listed on the Main Board of the Stock Exchange of Hong Kong Limited. The immediate holding company of the Target Company is Qinfa Investment Limited ("Qinfa Investment"), a company incorporated in the British Virgin Islands with limited liability.

The Group has executed an internal group restructuring in which the Target Company has acquired an entire equity interests in (i) More Star Development Limited and its subsidiaries ("More Star Group") on 30 December 2015; (ii) Billion Base Enterprises Limited and its subsidiaries ("Billion Base Group") on 30 December 2015; (iii) Qinfa Chartering Limited ("Qinfa Chartering") on 28 January 2016; and (iv) Perpetual Goodluck Limited ("Perpetual") on 30 March 2016 (collectively refer to the "Group Restructuring"). Upon the completion of the Group Restructuring, the Target Company and its subsidiaries (including More Star Group, Billion Base Group, Qinfa Chartering and Perpetual, collectively refer to the "Disposal Group") would become the only sub-group within the Group of which its principal activities are coal mining, purchase and sales, filtering, storage, blending of coal and shipping transportation in the People's Republic of China.

On 25 April 2016, 11 July 2016 and 19 October 2016, Qinfa Investment entered into a share sale and purchase agreement, a supplemental agreement and a letter of exchange with Bo Hai Investment Limited (the "Purchaser") respectively, pursuant to which Qinfa Investment agreed to sell and the Purchaser agreed to purchase the entire equity interest in the Disposal Group subject to the terms and conditions of the share sale and purchase agreement, the supplemental agreement and the letter of exchange (the "Disposal").

2. BASIS OF PREPARATION AND PRESENTATION OF THE UNAUDITED CONSOLIDATED FINANCIAL INFORMATION

The unaudited consolidated financial information of the Disposal Group for the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 (the "Relevant Periods") (the "Unaudited Consolidated Financial Information") has been prepared in accordance with paragraph 68(2)(a)(i)(A) of Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and solely for the purposes of inclusion in this circular issued by the Company in connection with the Disposal.

The Unaudited Consolidated Financial Information of the Disposal Group has been prepared using the principle of merger accounting as if the current group structure had been in existence throughout the Relevant Periods. Principle of merger accounting is applied from the first day of the Relevant Periods on 1 January 2013 or the earliest date at which the entities within the Disposal Group were incorporated.

The Unaudited Consolidated Financial Information of the Disposal Group has been prepared on the historical cost basis. Except for the abovementioned principle of merger accounting applied by the Disposal Group, the Unaudited Consolidated Financial Information has been prepared using the same accounting policies as those adopted by the Company in the preparation of the consolidated financial statements of the Company and its subsidiaries for the Relevant Periods, which conform with International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IAS") and related Interpretations, promulgated by the International Accounting Standards Board ("IASB").

The Unaudited Consolidated Financial Information of the Disposal Group is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand.

The Unaudited Consolidated Financial Information does not contain sufficient information to constitute a complete set of financial statements as defined in IAS 1 "Presentation of Financial Statements" nor an interim financial report as defined in IAS 34 "Interim Financial Reporting" issued by IASB.

Going concern basis

In preparing the Unaudited Consolidated Financial Information of the Disposal Group, the directors of the Company have given consideration to the future liquidity of the Disposal Group in light of the fact that the Disposal Group incurred consolidated net loss of RMB470,254,000 during the six months ended 30 June 2016 and, as of that date, the Disposal Group's current liabilities exceed its current assets by approximately RMB6,478,476,000 and capital deficiency of RMB5,341,603,000, of which the outstanding borrowings of RMB3,526,726,000 are due on demand or within one year. As at 30 June 2016, there were several pending litigation mainly requesting repayment of long outstanding payables with interest against the Disposal Group.

As at 30 June 2016, the Disposal Group had entered into agreements to construct coal mines thereon which will involve capital expenditures totalling approximately RMB44,190,000. Pursuant to the terms of these agreements, such committed capital expenditure totalling approximately RMB44,190,000 has to be settled within the next twelve months from the date of the Unaudited Consolidated Financial Information.

As at 30 June 2016, certain borrowings of RMB856,193,000 were overdue and carried interest at rates ranging from 4.75% to 12.96% per annum and additional penalty interest at rates ranging from 1.90% to 6.48% per annum. Subsequent to 30 June 2016 and up to the date of approval of the Unaudited Consolidated Financial Information, these borrowings have not been renewed or settled.

These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Disposal Group's ability to continue as a going concern.

The Unaudited Consolidated Financial Information have been prepared on the assumptions that the Disposal Group will continue to operate as a going concern notwithstanding the conditions prevailing as at 30 June 2016 and subsequently thereto up to the date of approval of the Unaudited Consolidated Financial Information. In order to improve the Disposal Group's financial positions, immediate liquidity and cash flows, and otherwise to sustain the Disposal Group as a going concern, the directors of the Company have adopted several measures together with other measures in progress at the date of approval of the Unaudited Consolidated Financial Information which include, but not limited to, the followings:

(i) The Disposal Group applies cost control measures in cost of sales and administrative expenses;

(ii) The Disposal Group is currently in the process of negotiating with certain banks to renew its existing and obtain new borrowings with an aggregate amount of RMB363,822,000;

(iii) For borrowings which will be mature before 30 June 2017, the Disposal Group will actively negotiate with the banks when they fall due to secure necessary fund to meet the Disposal Group's working capital and financial requirements in the future. The directors of the Company, have evaluated all the relevant facts available to them, are of the opinion that the Disposal Group would be able to renew such borrowings upon maturity.

On the basis of the successful implementation of the measures described above in the foreseeable future and after assessing the Disposal Group's current and forecasted cash positions, the directors of the Company are satisfied that the Disposal Group will be able to meet in full the Disposal Group's financial obligations as they fall due for the twelve months from 30 June 2016. Accordingly, the Unaudited Consolidated Financial Information of the Disposal Group has been prepared on the going concern basis.

Should the Disposal Group be unable to continue in business as a going concern, adjustments would have to be made to write down the value of assets to their estimated recoverable amounts, to provide further liabilities that might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effects of these adjustments have not been reflected in the Unaudited Consolidated Financial Information.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

Introduction

The following is a summary of an illustrative and unaudited pro forma consolidated statement of financial position, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Remaining Group (the "Unaudited Pro Forma Financial Information"), which have been prepared on the basis of the notes set out below for the purpose of illustrating the effects of (a) the Disposal on the financial position of the Remaining Group as if the Disposal had been completed on 30 June 2016; and (b) the Group Restructuring, as set out in Appendix II of this circular, and the Disposal on the financial performance and cash flows of the Remaining Group as if the Group Restructuring and the Disposal had taken place on 1 January 2015.

The Unaudited Pro Forma Financial Information of the Remaining Group has been prepared by the Directors of the Company in accordance with Paragraph 4.29 of the Listing Rules for illustrative purposes only, based on their judgments, estimations and assumptions, and because of its hypothetical nature, it may not give a true picture of the financial position of the Remaining Group as at 30 June 2016 or at any future date or the financial performance and cash flows of the Remaining Group for the year ended 31 December 2015 or for any future period following the completion of the Group Restructuring and the Disposal.

The Unaudited Pro Forma Financial Information is prepared based on the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2016 extracted from the unaudited financial statements of the Group for the six months ended 30 June 2016 as set out in the Interim Report 2016, the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2015 extracted from the audited financial statements of the Group for the year ended 31 December 2015 as set out in the Annual Report 2015, after giving effect to the pro forma adjustments relating to the Group Restructuring and the Disposal as described in the accompanying notes. Narrative description of the pro forma adjustments that are (i) directly attributable to the transactions and not relating to future events or decisions; and (ii) factually supported, is summarised in the accompanying notes.

The Unaudited Pro Forma Financial Information is based on a number of assumptions, estimates, and uncertainties. Accordingly, the Unaudited Pro Forma Financial Information does not purport to describe the actual financial position, financial performance and cash flows of the Remaining Group that would have been attained had the Group Restructuring and the Disposal been completed on 30 June 2016 and 1 January 2015, respectively. The Unaudited Pro Forma Financial Information does not purport to predict future financial positions or results of the Remaining Group.

B. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE REMAINING GROUP

	Condensed consolidated statement of financial position of the Group as at 30 June 2016				Unaudited pro forma consolidated statement of financial position of the Remaining Group as at 30 June 2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	
Non-current assets					
Property, plant and equipment	2,288,353	(1,870,139)	(5,835)	–	412,379
Coal mining rights	1,936,212	(1,936,212)	–	–	–
Lease prepayments	5,143	(5,143)	–	–	–
Interest in an associate	–	–	–	–	–
Deferred tax assets	–	–	–	–	–
	4,229,708	(3,811,494)	(5,835)	–	412,379
Current assets					
Inventories	111,522	(104,162)	–	–	7,360
Trade and bill receivables	520,112	(518,252)	–	–	1,860
Prepayments and other receivables	159,126	(157,292)	–	–	1,834
Amount due from immediate holding company	–	(429,547)	429,547	–	–
Amounts due from fellow subsidiaries	–	(27,176)	27,176	–	–
Pledged and restricted deposits	1,353	(1,353)	–	–	–
Cash and cash equivalents	21,718	(18,799)	–	22,040	24,959
	813,831	(1,256,581)	456,723	22,040	36,013
Current liabilities					
Trade and bill payables	975,497	(972,225)	–	–	3,272
Other payables	2,716,982	(2,590,039)	(120,916)	4,606	10,633
Amount due to intermediate holding company	–	(141,533)	141,533	–	–
Amounts due to fellow subsidiaries	–	(229,435)	229,435	–	–
Amounts due to directors	–	(4,000)	4,513	–	513
Amount due to a related company	–	(16,569)	16,569	–	–
Amount due to the Disposal Group	–	–	185,589	(154,700)	30,889
Borrowings	3,526,726	(3,526,726)	–	–	–
Tax payable	254,530	(254,530)	–	–	–
	7,473,735	(7,735,057)	456,723	(150,094)	45,307
Net current liabilities	(6,659,904)	6,478,476	–	172,134	(9,294)
Total assets less current liabilities	(2,430,196)	2,666,982	(5,835)	172,134	403,085

	Condensed consolidated statement of financial position of the Group as at 30 June 2016 *RMB'000* *Note 1*	*RMB'000* *Note 2*	*RMB'000* *Note 3*	*RMB'000* *Note 4*	Unaudited pro forma consolidated statement of financial position of the Remaining Group as at 30 June 2016 *RMB'000*
Non-current liabilities					
Other payables	64,972	(64,972)	–	–	–
Borrowings	2,497,608	(2,497,608)	–	–	–
Accrued reclamation obligations	81,179	(81,179)	–	–	–
Deferred tax liabilities	30,862	(30,862)	–	–	–
	2,674,621	(2,674,621)	–	–	–
Net (liabilities)/assets	(5,104,817)	5,341,603	(5,835)	172,134	403,085
Capital and reserves					
Share capital	211,224	–	–	–	211,224
Perpetual subordinated convertible securities	156,931	–	–	–	156,931
(Deficit)/reserves	(5,575,404)	–	(5,835)	5,616,169	34,930
Total equity attributable to equity shareholders of the Company	(5,207,249)	–	(5,835)	5,616,169	403,085
Non-controlling interests	102,432	–	–	(102,432)	–
Total (deficit)/equity	(5,104,817)	–	(5,835)	5,513,737	403,085

Notes:

1. The condensed consolidated statement of financial position of the Group as at 30 June 2016 is extracted from the unaudited financial statements of the Group for the six months ended 30 June 2016 as set out in the Interim Report 2016.

2. The adjustment represents the exclusion of assets and liabilities of the Disposal Group as at 30 June 2016, as if the Disposal had been completed on 30 June 2016. The unaudited assets and liabilities of the Disposal Company as at 30 June 2016 is set out in Appendix II to this Circular.

3. The adjustment represents the exclusion of intra-group transaction elimination adjustments made by the Group as if the Disposal had been completed on 30 June 2016. The adjustment is not expected to have a continuing effect on the Group.

4. The adjustment represents (i) the consideration receivable of RMB176,740,000 from the Disposal, out of which RMB154,700,000 will directly set off against amount due to the Disposal Group; (ii) estimated expenses directly attributable to the Disposal of RMB4,606,000 recorded in other payables; and (iii) the resulting estimated gain arising from the disposal as if the Disposal had completed on 30 June 2016, based on the consideration of RMB176,740,000. The calculation of the estimated gain on the disposal is as follows:

	RMB'000
Consideration for the Disposal	176,740
Less: Estimated professional costs directly attributable to the Disposal	(4,606)
Estimated net proceeds from the Disposal	172,134
Add: Net liabilities of the Disposal Group as at 30 June 2016 attributable to equity shareholders of the Company	5,444,035
Less: Release of exchange reserve of the Disposal Group as at 30 June 2016 upon the Disposal	(30,066)
Estimated gain on the Disposal	5,586,103

The actual amount of gain or loss on the Disposal may be different from the above pro forma gain as the carrying amounts of net liabilities of the Disposed Group as of the actual completion date will be different from the carrying amounts as of 30 June 2016.

5. The balance due to the Disposal Group is unsecured, interest-free and repayable on demand.

C. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF THE REMAINING GROUP

	Consolidated statement of comprehensive income of the Group for the year ended 31 December 2015 *RMB'000* *Note 6*	*RMB'000* *Note 7*	*RMB'000* *Note 8*	*RMB'000* *Note 9*	Unaudited pro forma consolidated statement of comprehensive income of the Remaining Group for the year ended 31 December 2015 *RMB'000*
Revenue	1,377,207	(1,295,015)	44,777	–	126,969
Cost of sales	(2,053,885)	2,003,782	(44,777)	–	(94,880)
Gross (loss)/profit	(676,678)	708,767	–	–	32,089
Other income, gains and losses	17,381	(35,046)	2,392	(833,865)	(849,138)
Distribution expenses	(30,831)	29,714	–	–	(1,117)
Administrative expenses	(208,260)	178,574	–	–	(29,686)
Other expenses	(6,760,418)	6,731,620	(8,227)	–	(37,025)
Results from operating activities	(7,658,806)	7,613,629	(5,835)	(833,865)	(884,877)
Finance income	2,826	(2,822)	–	–	4
Finance costs	(370,803)	370,803	–	–	–
Net finance (costs)/income	(367,977)	367,981	–	–	4
Share of loss of associates	(6,522)	6,522	–	–	–
Loss before taxation	(8,033,305)	7,988,132	(5,835)	(833,865)	(884,873)
Income tax credit	1,105,525	(1,105,525)	–	–	–
Loss for the year from continuing operations	(6,927,780)	6,882,607	(5,835)	(833,865)	(884,873)
Discontinued operation					
Loss for the year from discontinued operation	(4,397)	–	–	–	(4,397)
Loss for the year	(6,932,177)	6,882,607	(5,835)	(833,865)	(889,270)
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss:					
Foreign currency translation differences for foreign operations	30,799	(11,728)	–	–	19,071
Foreign currency translation differences reclassified to profit or loss upon disposal of subsidiaries	(4,438)	–	–	45,625	41,187
Other comprehensive income for the year, net of tax	26,361	(11,728)	–	45,625	60,258
Total comprehensive loss for the year	(6,905,816)	6,870,879	(5,835)	(788,240)	(829,012)

Notes:

6. The consolidated statement of comprehensive income of the Group for the year ended 31 December 2015 is extracted from the audited financial statements of the Group for the year ended 31 December 2015 as set out in the Annual Report 2015.

7. The adjustment represents the exclusion of results of the Disposal Group for the year ended 31 December 2015 as if the Group Restructuring and the Disposal had taken place on 1 January 2015. The unaudited financial statements of the Disposal Group for the year ended 31 December 2015 is set out in Appendix II to this Circular.

8. The adjustment represents the exclusion of intra-group transaction elimination adjustments made by the Group as if the Group Restructuring and the Disposal had taken place on 1 January 2015. The adjustment is not expected to have a continuing effect on the Group.

9. The adjustment represents (i) the consideration receivable of RMB176,740,000 from the Disposal, out of which RMB154,700,000 will directly set off against amount due to the Disposal Group; and (ii) the resulting estimated loss arising from the Disposal as if the Group Restructuring and the Disposal had taken place on 1 January 2015. The calculation of the estimated loss on the Disposal is as follows:

	RMB'000
Consideration for the Disposal	176,740
Less: Estimated professional costs directly attributable to the Disposal	(4,606)
Estimated net proceeds from the Disposal	172,134
Less: Net assets of the Disposal Group as at 1 January 2015 attributable to equity shareholders of the Company	(960,374)
Less: Release of exchange reserve of the Disposal Group as at 1 January 2015 upon the Disposal	(45,625)
Estimated loss on the Disposal	(833,865)

The actual amount of gain or loss on the Disposal Group may be different from the above pro forma loss as the carrying amounts of net assets of the Disposed Group as of the actual completion date will be different from the carrying amounts as of 1 January 2015.

D. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE REMAINING GROUP

	Consolidated statement of cash flows of the Group for the year ended 31 December 2015				Unaudited pro forma consolidated statement of cash flows of the Remaining Group for the year ended 31 December 2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 10	*Note 11*	*Note 12*	*Note 9*	
Cash flows from operating activities					
Loss before taxation					
– from continuing operations	(8,033,305)	7,988,132	(5,835)	(833,865)	(884,873)
– from discontinued operation	(4,397)	–	–	–	(4,397)
	(8,037,702)	7,988,132	(5,835)	(833,865)	(889,270)
Adjustments for:					
Depreciation for property, plant and equipment	261,940	(197,771)	–	–	64,169
Amortisation of coal mining rights	12,480	(12,480)	–	–	–
Amortisation of lease prepayments	1,586	(140)	–	–	1,446
Property, plant and equipment written-off	204	(204)	–	–	–
Provision for inventories	35,542	(35,542)	–	–	–
Finance income	(2,844)	2,822	–	–	(22)
Finance costs	415,506	(370,803)	–	–	44,703
Gain on disposal of subsidiaries	(68,083)	–	–	833,865	765,782
(Gain)/loss on disposal of property, plant and equipment	(3,174)	(17)	5,835	–	2,644
Impairment losses on property, plant and equipment	3,067,505	(3,067,505)	–	–	–
Impairment losses on coal mining rights	2,678,444	(2,678,444)	–	–	–
Impairment losses on trade receivables	502,479	(502,479)	–	–	–
Impairment losses on prepayments and other receivables	398,316	(394,855)	–	–	3,461
Impairment loss on interest in an associate	70,705	(46,567)	–	–	24,138
Equity-settled share-based payment expenses	14,789	–	–	–	14,789
Share of loss of associates	6,522	(6,522)	–	–	–
Waiver of amount due to a fellow subsidiary	–	8,227	(8,227)	–	–
Impairment losses on amount due from the Disposal Group	–	–	8,227	–	8,227
Fair value gain on capitalisation of other payables	(3,051)	–	–	–	(3,051)
Operating (loss)/profit before working capital changes	(648,836)	685,852	–	–	37,016
Decrease in inventories	202,629	(202,384)	–	–	245
Decrease in trade and bill receivables	177,634	(163,679)	–	–	13,955
Decrease/(increase) in prepayment and other receivables	193,813	(201,580)	–	–	(7,767)
Increase in trade and bill payables	43,073	(37,910)	–	–	5,163
Increase/(decrease) in other payables	405,428	(388,501)	(22,342)	–	(5,415)
Cash generated from operation	373,741	(308,202)	(22,342)	–	43,197
Interest paid	(283,064)	238,361	–	–	(44,703)
PRC Enterprise Income Tax refund	(1,280)	1,280	–	–	–
Net cash generated from/(used in) operating activities	89,397	(68,561)	(22,342)	–	(1,506)

	Consolidated statement of cash flows of the Group for the year ended 31 December 2015 *RMB'000 Note 10*	*RMB'000 Note 11*	*RMB'000 Note 12*	*RMB'000 Note 9*	Unaudited pro forma consolidated statement of cash flows of the Remaining Group for the year ended 31 December 2015 *RMB'000*
Cash flows from investing activities					
Interest received	2,844	(2,822)	–	–	22
Proceed from disposal of property, plant and equipment	18,537	(18,537)	28,573	–	28,573
Acquisition of property, plant and equipment	(312,948)	309,945	(28,573)	–	(31,576)
Net proceeds from disposal of subsidiaries	346,712	–	–	17,434	364,146
Decrease in amount due from immediate holding company	–	(173,706)	173,706	–	–
Increase in amount due from fellow subsidiaries	–	17,285	(17,285)	–	–
Increase in amount due from the Disposal Group	–	–	(385,022)	–	(385,022)
Net cash generated from/(used in) investing activities	55,145	132,165	(228,601)	17,434	(23,857)
Cash flows from financing activities					
Distribution relating to perpetual subordinated convertible securities	(4,728)	–	–	–	(4,728)
Proceeds from borrowings	3,605,561	(3,605,561)	–	–	–
Repayment of borrowings	(4,269,964)	4,269,664	–	–	(300)
Change in pledged and restricted deposits	451,218	(451,218)	–	–	–
Increase in amounts due to fellow subsidiaries	–	(228,601)	228,601	–	–
Increase in amounts due to directors	–	(3,373)	3,373	–	–
Increase in amounts due to related parties	–	(18,969)	18,969	–	–
Proceeds from issue of shares in respect of placing	40,116	–	–	–	40,116
Net cash (used in)/generated from financing activities	(177,797)	(38,058)	250,943	–	35,088
Net (decrease)/increase in cash and cash equivalents	(33,255)	25,546	–	17,434	9,725
Cash and cash equivalents at the beginning of the year	53,864	(37,436)	–	–	16,428
Effect of foreign exchange rate changes	60	(146)	–	–	(86)
Cash and cash equivalents at the end of the year	20,669	(12,036)	–	17,434	26,067

Notes:

10. The consolidated statement of cash flows of the Group for the year ended 31 December 2015 is extracted from the audited financial statements of the Group for the year ended 31 December 2015 as set out in the Annual Report 2015.

11. The adjustment represents the exclusion of cash flows of the Disposal Group for the year ended 31 December 2015 as if the Group Restructuring and the Disposal had taken place on 1 January 2015. The unaudited financial information of the Disposal Group for the year ended 31 December 2015 is set out in Appendix II to this Circular.

12. The adjustment represents the exclusion of intra-group transaction elimination adjustments made by the Group as if the Group Restructuring and the Disposal had taken place on 1 January 2015. The adjustment is not expected to have a continuing effect on the Group.

E. INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report from the reporting accountant, Moore Stephens CPA Limited, on the unaudited pro forma financial information of the Remaining Group, for inclusion in this circular.

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INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF CHINA QINFA GROUP LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China Qinfa Group Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 30 June 2016, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2015, and related notes as set out in section headed "Unaudited Pro Forma Financial Information of the Remaining Group" in Appendix III of the circular dated 26 October 2016 (the "Circular") issued by the Company (the "Unaudited Pro Forma Financial Information"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information is also described in section headed "Unaudited Pro Forma Financial Information of the Remaining Group" in Appendix III of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Disposal (as defined in the Circular) on the Group's financial position as at 30 June 2016 as if the Disposal was completed on 30 June 2016, and the Group's financial performance and cash flows for the year ended 31 December 2015 as if the Group Restructuring (as defined in the Circular) and the Disposal had taken place at 1 January 2015.

As part of this process, information about the Group's condensed consolidated statement of financial position as at 30 June 2016 has been extracted by the Directors from the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2016, and consolidated statement of comprehensive income and consolidated statement of cash flows for the year ended 31 December 2015 has been extracted by the Directors from the Group's consolidated financial statements for the year ended 31 December 2015, on which an audit report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

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

The purpose of the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the Group Restructuring and the Disposal on unadjusted financial information of the Group as if the Group Restructuring and the Disposal had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Group Restructuring and the Disposal at 30 June 2016 or 1 January 2015 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the Group Restructuring and the Disposal, and to obtain sufficient appropriate evidence about whether:

– The related pro forma adjustments give appropriate effect to those criteria; and

– The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the Group Restructuring and the Disposal in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

a. the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;

b. such basis is consistent with the accounting policies of the Group; and

c. the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Moore Stephens CPA Limited
Certified Public Accountants

Chan King Keung
Practising Certificate Number: P06057

Hong Kong, 26 October 2016

COMPETENT PERSON'S REPORT ON THE Shanxi Huameiao Energy Group Co., Ltd. Coal Mines And Shenchi Shenda Energy Investment Co. Ltd Coal Mines

Shanxi, China

PREPARED FOR

China Qinfa Group Limited

25 July 2016

PREPARED BY

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ECSI LLC

CIVIL • ENVIRONMENTAL • MINING

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1. INTRODUCTION

ECSI, LLC ("ECSI") was commissioned by China Qinfa Group Limited ("China Qinfa") to prepare a Competent Person's Report dated 25 July 2016 on five coal mines controlled by China Qinfa, located in Shanxi Province, People's Republic of China ("China").

ECSI worked as independent experts for China Qinfa to develop the necessary documentation.

1.1 Scope of Work

The following assignments were included within the Scope of Work under this study for ECSI:

- Complete a site visit with the appropriate personnel.
- Visit all of the five mine sites.
- Collect data and relevant information from the mines and the offices of the owner, related to production, quality, sales contracts, revenues and expenses.
- Translate the documents on the five mines.
- Review and analyze all of the data provided.
- Independently update of the Resource and Reserve base, taking into account the depletion associated with the production which reported by the active operations.
- Write and present an updated Competent Person's draft report to China Qinfa for review and comment.
- Finalize the Competent Person's Report.

1.2 Relevant Assets

The assets are the interest of coal concessions of the five companies held by China Qinfa. Three companies are wholly owned by Shanxi Huameiao Energy Group Company Limited ("Huameiao") and two companies are wholly owned by Shenchi Shenda Energy Investment Co., Ltd. ("Shenda"):

1. Shanxi Shuozhou Pinglu Huameiao Xingtao Coal Industry Co., Ltd.
2. Shanxi Shuozhou Pinglu Huameiao Fengxi Coal Industry Co., Ltd.
3. Shanxi Shuozhou Pinglu Huameiao Chongsheng Coal Industry Co., Ltd.

4. Shanxi Xinzhou Shenchi Xinglong Coal Mining Co., Ltd.

5. Shanxi Xinzhou Shenchi Hongyuan Coal Mining Co., Ltd.

China Qinfa reportedly controls 80% of interest in Huameiao mines and 100% of interest in the Shenda mines.

1.3 Review of Methodology

ECSI's methodology for this study included the following:

- Conducting initial meetings with the senior management of China Qinfa, Huameiao and Shenda.
- Performing site visit to all five mines.
- Obtaining production and quality figures, sales contracts and operational and capital expenditures, as well as other relevant reports and documents from the owner.
- Providing translation of the documents into English and the reviewing of the material for use in this report.
- Independently update of the Resource and Reserve base, taking into account the depletion associated with the production which reported by the active operations.
- Preparing a draft of this report and submitting it to China Qinfa for review and comments.

1.4 Site Visits and Inspections

On 3 January 2016, Mr. Edmundo J. Laporte, P.E. ("Mr. Laporte"), the Competent Person of record for the original acquisitions' Technical Reports, traveled to Hong Kong to meet with the coordinator Mr. Marco Sze, the director of BMI Appraisals Limited ("BMIA"). Mr. Sze coordinated with China Qinfa and organized the visit agenda.

On 8 January 2016, Mr. Laporte of ECSI and Mr. Sze of BMIA (collectively referred to as the "Representatives") traveled to the city of Taiyuan, the capital of Shanxi Province, as the first step for their site visits. They were met by the representatives of China Qinfa.

On 9 January 2016, the Representatives departed from Taiyuan along which the China Qinfa representatives in a 3-hour road trip to Shuozhou, Shanxi Province. In Shuozhou, the Representatives had lunch at a local hotel in town and discussed the proposed schedule for the site visits. That same afternoon, the group traveled by car to the Xingtao, Fengxi and Chongsheng Mines. The afternoon and evening were spent with the management and technical staff of the three Huameiao mines for collecting data and answering questions about the operations.

On 10 January 2016 the team visited the field offices of the Xinglong project and met with representatives of both Xinglong and Hongyuan. The development plans and construction progress status for both mines were discussed in detail with the technical representatives of Shenda.

During the visits, the Representatives interviewed mine staff and collected data on the operations. The Fengxi mine is operational and producing raw coal but its preparation plant is still under construction. The Chongsheng complex surface facilities are still under construction while the underground mine works have been completed.

No underground visits were made at the active mines.

In the evening of 10 January the Representatives left the Province.

Subsequent to the site visits there have been several requests for additional data and translation of significant documents and maps. These activities continued during the week of 11 January 2016.

Mr. Laporte had previously visited the Huameiao mines in 2011 and the Shenda mines in 2013.

1.5 Key Sources of Information

The following reports were the prime sources of data for the compilation of the original technical review. Within the main reports listed here there are numerous references to other reports and standards that these reports used as their sources and design criteria. The lists of documentation in each of the Chinese reports are extensive and demonstrate that the reports utilized by ECSI are based on the format that is set forth by the governing rules and regulations within China.

1. Approval Document for Resource Integration in Shanxi Shuozhou Pinglu Huameiao Xingtao Coal Co., Ltd and Coal Preparation Plant, Name of Mine Participating Merge, Acquisition and Integration and Their affiliated Relation. (Feasibility and property merger document).

2. Geological Report of Merge & Acquisition and Integration Mine in Shanxi Shuozhou Pinglu Huameiao Coal Co., Ltd compiled by Shanxi Geophysical and Geochemical Prospecting Institute in March 2010.

3. The mining license granted by Ministry of Land and Resources of Shanxi Province on 20 December 2015 to Shanxi Shuozhou Pinglu Huameiao Xingtao Coal Co., Ltd, No. C140000200910122003868O.

4. Preliminary Design for Mine Mechanization Upgrading and Renovation of Shanxi Shuozhou Fengxi Coal Industry Co., Ltd (feasibility study for Fengxi).

5. Mining license (Fengxi) (with the number of C1400002009101220038812.) issued by the Department of Land and Resources of Shanxi Province on 24 January 2014.

6. Shanxi Shuozhou Fengxi Coal Company Limited Mine Geological Report of Upgrading Mechanized Coal Mining (Geologic Report).

7. Approval document on acquisition, reorganization and consolidation project of Shanxi Shuozhou Pinglu Huameiao Chongsheng Coal Industry Co., Ltd. (feasibility study).

8. Mining license (Chongsheng) (with the number of C1400002009101220038704) issued by the Department of Land and Resources of Shanxi Province on 20 December 2015.

9. Geological Report for Acquisition, Reorganization and Consolidation of Shanxi Shuozhou Pinglu Huameiao Chongsheng Coal Industry Co., Ltd's mine.

10. Mine plans and Mine Maps for the current plans at Xingtao, Fengxi and Chongsheng.

11. Chapter 18 of the Rules and Regulations for the Hong Kong Stock Exchange.

12. Chapter Twenty, Evaluation Conclusions, Summary of Construction Project, Shanxi Coal Administrative College, Document GHPZYZ No. 1309 Document (Chongsheng).

13. Reply for Geological Report of Merger, Restructuring and Integration of Huameiao Chongsheng Coal Industry Co., Ltd, Pinglu District, Shuozhou City, Shanxi Province, Document of Coal Industry Bureau, Shanxi Provincial, No. 764 JMG (2010).

14. Reply for Geological Report of Merger, Restructuring and Integration of Huameiao Xingtao Coal Industry Co., Ltd, Pinglu District, Shuozhou City, Shanxi Province Document of Coal Industry Bureau, Shanxi Provincial, No. 720 JMG (2010).

15. Reply for Program (Partial) of Merger, Restructuring and Integration of Coal Industry Enterprises, Pinglu District, Shuozhou City, JMCZB (2009) No. 36.

16. Geological Report, Reorganization and Integration of the Mine by Shanxi Xinzhou Shenchi Xinglong Coal Mining Co., Ltd. (Property merger document) compiled by Shanxi Keruitong Industrial Co., Ltd.

17. Geological Report, Reorganization and Integration of the Mine by Shanxi Xinzhou Shenchi Hongyuan Coal Mining Co., Ltd. (Property merger document) compiled by Shanxi Keruitong Industrial Co., Ltd.

18. Preliminary Design of the Merger, Reorganization and Integration Project of Shanxi Xinzhou Shenchi Xinglong Coal Mining Co., Ltd.

19. Preliminary Design of the Merger, Reorganization and Integration Project of Shanxi Xinzhou Shenchi Hongyuan Coal Mining Co., Ltd.

20. Mining License (Xinglong) (with the number of C1400002009111220045955) issued by the Department of Land and Resources of Shanxi Province.

21. Mining License (Hongyuan) (with the number of C1400002013031220129035) issued by the Department of Land and Resources of Shanxi on 4 November 2014 with an expiration date of 12 October 2016.

All of the references above required translation from Chinese to English to allow ECSI team to review the documentation. There is the possibility of some misunderstanding in translated documents, but the documents were translated in total, which helps to improve the overall comprehension of the reports and data. Unfortunately due to the translation workload, the appendices and some of the figures were not included within the translated reports.

1.6 Competent Person and Responsibility

This report has been prepared in accordance with JORC Standards and in compliance with HKSE's Chapter 18 that governs this type of listing and is the rules for both the listing and acceptance of mineral type projects.

Edmundo J. Laporte P.E., ECSI, LLC

Mr. Edmundo J. Laporte, P.E. is the Competent Person of record for this report for both Resources and Reserves, and the head of ECSI's team of professionals that have contributed to this effort. Mr. Laporte is an employee of ECSI in Lexington, Kentucky, USA. Mr. Laporte meets all the requirements of a Competent Person.

Mr. Laporte meets the requirements of a Competent Person, as defined by Chapter 18 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited These qualifications include:

- Has more than five years of experience relevant to this type of deposit and project
- Holds a Bachelor Degree in Engineering
- Is a Professional Engineer in 13 States in the United States
- Is a Professional Engineer in the Province of Alberta, Canada
- Is a Member of the Association of Professional Engineers, Geologists, and Geophysicists of Alberta (APEGGA)

- Is a Member of Engineers Nova Scotia
- Is a Registered Member of the Society for Mining, Metallurgy & Exploration Inc. (SME)
- Does not have any economic or beneficial interest, present or contingent, in any of the report assets
- Has not received a fee dependent on the findings outlined in the Competent Person's Report
- Is not an officer, employee or proposed officer for China Qinfa or any group, holding or associate company of China Qinfa assumes overall responsibility for this Competent Person's Report

1.7 Limitations and Exclusions

1.7.1 Forward-Looking Statements

Estimates of coal resources and reserve, as well as projections of coal mine output, are inherently forward-looking statements. Actual performance may differ from projections of future performance due to various reasons beyond the control of ECSI, including, but not limited to, inherent uncertainties in geologic data interpretation; occurrence of unforeseen geological conditions; change or lack of development in key domestic and international markets; material changes in market prices; variances in the execution of construction and mine plans; and significant changes in projected materials, supplies, parts and equipment, operating costs, and expenditures. Imposition of different central, regional, and/or local government policies could affect future coal production. For example, increased environmental compliance and changes in regulatory oversight for health and safety could result in reduced output and increased costs. Possible variations of future performance from projections presented in this report are addressed in more detail in specific sections of this report. Comments on the risks inherent in the various operations are discussed in the appropriate sections.

1.7.2 Limitations and Limited Liability

This report is mainly based on information provided by the project owners, either directly from the mine sites and other offices, or from reports by other organizations whose work is the property of the Company. As much as possible, ECSI has verified the reasonableness and accuracy of the data provided. The Company has not advised ECSI of any material change, or event likely to cause material change, to the designs or forecasts since the date of asset inspections.

The work undertaken by ECSI for this report is the requirement for a Competent Person's Report, coupled with such inspections as the Competent Person ("CP") considered appropriate to prepare the report. It specifically excludes all aspects of legal issues, commercial and financing matters, land titles and agreements.

ECSI accepts no liability for the accuracy or completeness of data and information provided to it by, or obtained by it from, the Company or any third parties, even if that data and information has been incorporated into or relied upon in creating this report.

This report has been produced by the CP using information that is available to ECSI as at the date stated on the cover page. This report cannot be relied upon in any way if the information provided to ECSI changes. ECSI are under no obligation to update the information contained in the report at any time.

1.8 Capability and Independence

1.8.1 ECSI, LLC

ECSI has more than 30 years of experience in the mining business, specializing in minerals exploration, production, and evaluation. In the minerals sector, ECSI's experience and capabilities focus on evaluation of exploration opportunities, computerized mineral resources and reserves estimation, project financing, due diligence, feasibility studies, appraisals and valuations, and Qualified/Competent Person Reports.

ECSI's headquarters are located in Lexington, Kentucky, USA; as such ECSI has ready access to research facilities at the University of Kentucky and the Kentucky Geological Survey in Lexington.

Combining ECSI's track record with that of its affiliated and parent companies yields a firm capable of handling projects of diverse size and scope, anywhere in the world. The combined offices are located globally, extending ECSI's local knowledge and resources. ECSI's professional staff of degreed geologists and engineers, economists, and appraisers has worked on hundreds of mining projects in commodities ranging from coal, coalbed methane, industrial minerals, uranium, base and precious metals, to specialty metals and rare earths.

With specific skills in: Geologic modelling, Resource/reserve estimation, Mine design, Mine planning/scheduling/costing, Process design, Infrastructure studies, Capital & operating cost estimation, Environmental investigation/permitting and Economic/financial analysis. ECSI's investment services include: Valuation and Investment analysis, Contract drafting & negotiations and Project cash flow analysis.

ECSI's experience extends globally. ECSI has conducted projects with numerous private and public companies, national governments, and other international agencies and has authored Competent Person's Reports filed with stock exchanges, including the Hong Kong Stock Exchange.

2. PROJECT OVERVIEW

The local and national governmental agencies in China has an overall objective to consolidate small, unsafe coal mines into larger properties that can utilize modern mining method and employ them in a safe manner. This approach was specifically applied in the Pinglu Coal Field where numerous small mines and companies were consolidated into 10 much larger units that are Logical Mining Units (LMU). Three of the consolidated mines, Xingtao, Fengxi and Chongsheng were originally controlled and owned by the Shanxi Huameiao Energy Group Co, Ltd. (Huameiao) until two consecutive partial acquisitions by China Qinfa in 2010-2011 gave it 80% of the shares of those three mines. This approach was also adopted for the Xinglong Mine by Shanxi Xinzhou Shenchi Xinglong Coal Company Co., Ltd and for the Hongyuan Mine by Shanxi Xinzhou Shenchi Hongyuan Coal Mining Co., Ltd. Those two mines were acquired by China Qinfa in 2013.

China Qinfa has moved aggressively to develop large mines that can employ the most productive and modern mining methods available in China today. The plan for all five mines is to continue mining the various coal seams and extract as high of an overall recovery as possible.

2.1 Huameiao Mines

2.1.1 Project Location

Xingtao Coal Industry Co., Ltd. is located in the eastern part of Pinglu District, 18km northeast of Shuozhou City, 95km southwest of Datong City and 425km via the Xuanda Expressway west of Beijing. Inside the Pinglu District, there is a 1km soil and stone road connected to the county public cement road, 8km away from Lujiayao Coal Collection Station, 20km away from Shentou No. 1 and 2 Power Plants. The connection to this area has good access to China through the existing public roads and railway system.

Fengxi is about 2km from Xingtao and the Fengxi Mine is approximately 5km from Chongsheng.

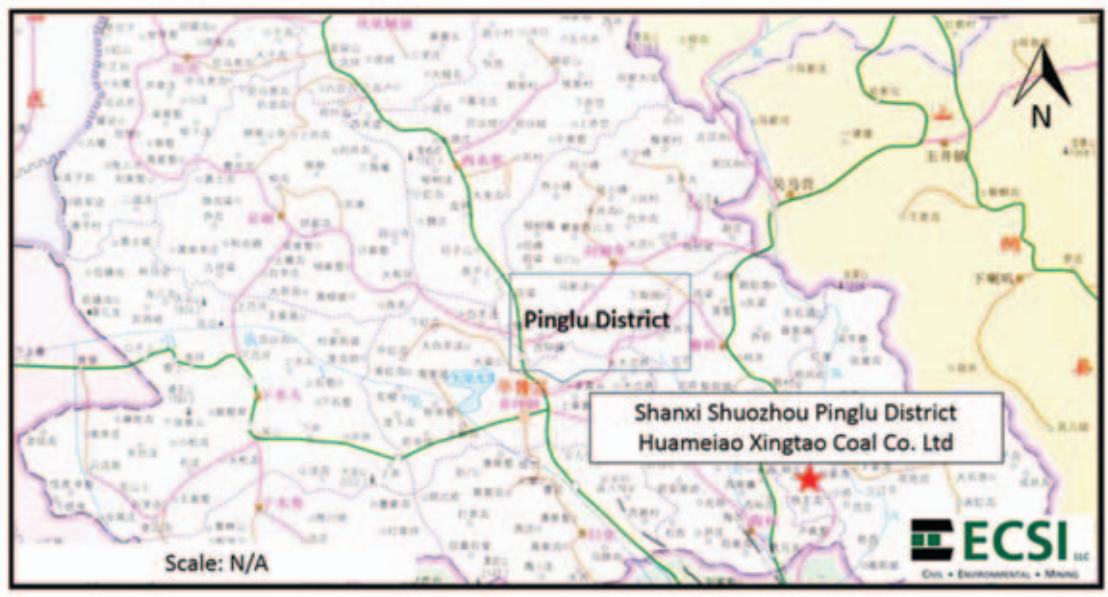


Figure 2-1 Location Map of Huameiao Xingtao Coal Industry Co., Ltd., Pinglu District, Shuozhou, Shanxi

2.1.2 Regional Environment of the Huameiao Mines

The coal field is situated at the eastern foot of Guancen Mountain. The earth surface is covered with loess, which has been cut and scoured by erosion and over the many years the landscape is now hills with steep gullies. The general area of the coal field terrain is higher in northwest and lower in southeast. The highest peak is situated on a ridge in the northwest of the coal field with an elevation of 1,395.4m. The lowest point in the coal field is situated near a southeast trench with an elevation of 1,210.0m giving an overall relative relief of 185.4m. The zone is covered with loess material, gullies filled with loess material and ridge type landforms. Intense erosion has caused the formation of many gullies where the upstream areas are "V" shape and the downstream areas are "U" shape.

There is no large river that crosses the coal field, but the big and small gullies in the field are basically dry and only collect water in a rainy season. The discharge is along the main gullies into Making River to the east. The Maying River discharges into Sanggan River in the east of Xiaopingyi Town. The Sanggan River is a tributary of Yongding River system within the Haihe River basin.

Maying River originates from Madaotou of Zuoyun County, flowing through the eastern part of this area near Yujing Village of Sanyin County with an overall length of over 100km, the river is generally in a dry state for most of the year, but carries a large quantity of water in the flood season.

This Pinglu Coal District is located in an arctic-alpine belt in the north of Shanxi, it is cold and dry in the winter, cool in the summer, windy and sandy in the spring and belongs to a typical continental climate. Annual mean temperature throughout the year is 4.5°C degrees, it is the coldest in January, where the temperature is within minus 11°C to minus 15°C degrees, the extreme minimum temperature has been minus 30°C degrees; it is hottest in July with a temperature of 19°C-20°C degrees and the extreme maximum temperature of 35°C degrees. The precipitation period is mostly concentrated in June, July and August, which accounts for 67-75% of the annual precipitation. The mean annual precipitation is 462mm and the maximum daily precipitation of 72mm. The annual evaporation capacity ranged from 2,080mm to 2,516mm with the average around 2,351mm and occurs mostly from May to July. The monthly evaporation capacity can reach 470mm and the maximum daily evaporation capacity can reach to more than 30mm. The frost period is from the last tenday of October to April of the next year with the thickness of the frozen soil being around 1.23m to a maximum depth of 1.5m. Maximum thickness of snow accumulation is 26cm and an above grade 8 gale wind storm will occur on average of every 8 years (wind speed more than 17.2m/s) that usually lasts about 25 days. There are 290 sandy and windy days per year, mostly concentrated in winter and spring. Wind direction is mainly from the northwest where the maximum wind speed can reach 21m/s.

According to the standard of the People's Republic of China GB50011-2001 Code for Seismic Design of Buildings, earthquake intensity of the region where the coal field belongs is degree 7. There have been many periods of earthquake activity recorded in the history of the area. Shoo County Annals and Shanxi General Annals recorded 14 earthquakes in succession from 144 A.D. to around 1688A.D. with three times when the earthquakes were very intense in 512 A.D., 849 A.D. and 1291A.D.. Records show that in the intense earthquakes that houses collapsed and several thousand people and some livestock died. On 9 June 1407 and 5 September 1958, grade 5.5 earthquakes occurred in Pinglu District. Guo County earthquake in 1952, Tangshan earthquake in 1978 and Yanggao Datong earthquake in 1989 all affected this area, but they did not cause damages or loss of life.

The Pinglu District has abundant underground resources, including coal, limestone, kaolin, iron, manganese, mica and etc. The area industry is mainly based on coal mining with other parts including machinery, electric power, chemical fertilizer, printing, ceramics, building materials, agricultural and sideline product manufacturing and, etc. Main crops include millet, corn, oat, sorghum, potato, oil crops and etc. The economy of the region is well developed.

2.1.3 Licenses and Approvals

The following licenses and approvals were provided by Huameiao in Chinese and the translations were done by BMIA. All of the copies of the licenses appear to be valid and properly approved.

- Coal Production Permit, Xingtao Coal Company Ltd., No. 201406030108, Valid from 25 January 2008 to 31 January 2018.

- Mining License, Xingtao Coal Company Ltd., No. C140000200910122003868O, Valid from 14 October 2015 to 14 October 2018.

- Coal Production Permit, Fengxi Coal Company Ltd., No. 201406032125, Valid from 22 January 2014 to 31 March 2051.

- Mining License, Fengxi Coal Company Ltd., No. C140000200910122003881 2, Valid from 24 January 2014 to 24 January 2034.

- Coal Production Permit, Chongsheng Coal Company Ltd., No. 201406032152, Valid from 25 April 2014 to 17 April 2044.

- Mining License, Chongsheng Coal Company Ltd., No. C140000200910122003870 4, Valid from 14 October 2015 to 14 October 2018.

The mining licenses specify which coal seams can be mined, what production capacity the mine is allowed, the area of the mine, the boundaries and the elevation horizon is allowed for the operations. Copies of the translated licenses and permits are provided in Appendix A.

ECSI believes that the term on the safety and mining licenses is a renewable term that is set as a specific time limit. The mining company is required to resubmit for new or renewed licenses as is the regulation and practices in China. ECSI also believe the licenses will be renewed throughout the mine's life if the companies follow the procedures as set forth by the licensing agencies.

2.1.4 Property Description of Xingtao Project

The documents approving Shanxi Shuozhou Huameiao Xingtao Coal Co. Ltd to explore No. 4^{-1}, 4^{-2}, 9 and 11 coal seams was issued by Shanxi Land and Resource Ministry on 20 December 2015, the company is granted to mine 1.5M tpy by mining license No. C140000200910122003868O. The term of this license is from 14 October 2015 to 14 October 2018.

The boundaries of the Mining Concession are delineated by 13 survey inflexion or turn points as shown in Table 2-1.

Table 2-1 Inflexion Point Coordinate List of Coal Property Boundary (6° Zone in Xi'An Coordinate System in 1980)

Inflexion Point No.	Latitude (X)	Longitude (Y)
1	4372752.97	19626729.26
2	4372752.95	19629479.29
3	4373652.96	19629479.30
4	4343552.96	19629964.30
5	4372977.95	19629964.30
6	4372652.95	19630654.31
7	4372337.94	19630469.30
8	4371852.94	19630479.30
9	4371852.94	19629479.29
10	4371752.94	19629479.29
11	4371752.95	19627429.27
12	4371452.95	19627054.26
13	4371752.95	19626729.26

The Xingtao property is 3.93km long from east to west, 1.90km wide from north to south and has a total area of 4.25km^2.

As of the date of ECSI's visit to the site in January 2016, no new areas have been added to this mining concession.

The combined coal properties in Shanxi Shuozhou Pinglu District Huameiao Xingtao Coal Co., Ltd have no operating small mines within the boundaries. Operating mines surrounding Xingtao are Shanxi Pinglu Sheng Houyuan Coal Co., Ltd in the north; the Former Daxing Mine of Shanxi Jinneng Bailu Coal Co., Ltd (Former Bailu Mine) in the northwest; the Former Bailu Mine of Shanxi Shuozhou Lu Jiayao Coal Co., Ltd (Former State-Owned Lu Jiayao Mine) in the southwest; the Shanxi Shuozhou Daheng Coal Co. Ltd (Former Xie Maguan Mine) in the south; and to the east, is open land with no mines.

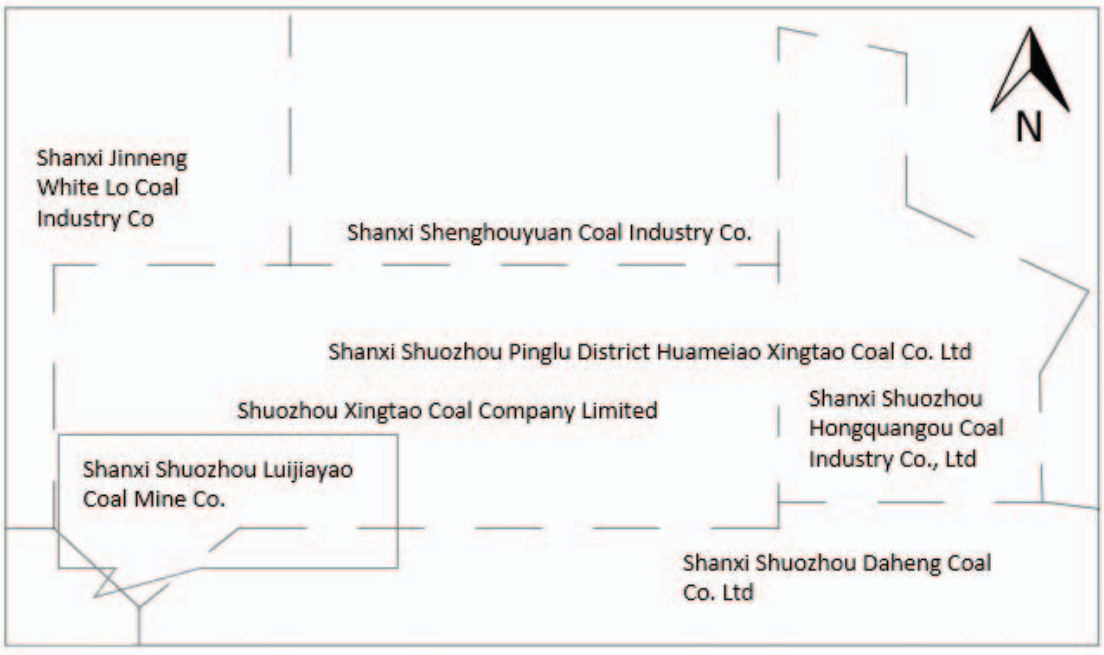


Figure 2-2 Xingtao Property and Neighborhood Properties Map

2.1.5 Property Description of Fengxi Project

The Mine is located 2.6km west of Xiamiangao village. Its geographical coordinates are: longitude 112° 27' 58" – 112° 29' 05", North latitude 39° 29' 23" – 39° 30' 28".The documents approving Shanxi Shuozhou Huameiao Fengxi Coal Co., Ltd to explore No. 4, No. 9 and No. 11 coal seams was issued by Shanxi Land and Resource Ministry on 14 October 2009, the company is granted to mine 0.9 Mtpy by mining license No. C1400002009101220038812. The term of this license is from 24 January 2014 to 24 January 2034. The mining concession is defined by the following survey coordinate points (8):

Table 2-2 Inflexion Point Coordinate List of the Boundary of Fengxi (In 6 Zone Beijing Coordinate System in 1954)

Inflection Point No.	Latitude = X	Longitude = Y
1	4376000.00	19626100.00
2	4376000.00	19627720.00
3	4375100.00	19627720.00
4	4375100.00	19627550.00
5	4374000.00	19627550.00
6	4374000.00	19626600.00
7	4375000.00	19626600.00
8	4375000.00	19626350.00

The area of the Fengxi Mine is about 2.43km^2 and coal seams No. 4, No. 9 and No. 11 are approved for mining at a production capacity of 0.90 Mt/a.

As of the date of ECSI's visit to the site in January 2016, no new areas have been added to this mining concession.

2.1.6 Property Description of Chongsheng Project

The documents approving Shanxi Shuozhou Huameiao Chongsheng Coal Co., Ltd to explore No. 4, No. 9 and No. 11 coal seams was issued by Shanxi Land and Resource Ministry on 14 October 2009, the company is granted to mine 0.9Mtpa by mining license No. C1400002009101220038704. The term of this license is from 14 October 2015 to 14 October 2018. The coordinates of surveyed inflection or turn points for the mine concession are shown in Table 2-3.

Table 2-3 Inflection or Turn Points for Chongsheng Property

	Xi'an 80 Coordinate System (6°)		Beijing 54 Coordinate System (6°)	
No. of Point	**X**	**Y**	**X**	**Y**
1	4375953.00	19627649.29	4376000	19627720
2	4375952.99	19627929.29	4376000	19628000
3	4376453.00	19627929.29	4376500	19628000
4	4376453.00	19628585.30	4376500	19628656
5	4376379.00	19628585.30	4376426	19628656
6	4376379.00	19628709.30	4376426	19628780
7	4376453.00	19628709.30	4376500	19628780
8	4376452.99	19629729.31	4376500	19629800
9	4375352.98	19629929.31	4374000	19630000
10	4375252.98	19629729.31	4375300	19629800
11	4375052.98	19629429.30	4375100	19639500
12	4375052.98	19628809.30	4375100	19628880
13	4374952.98	19628809.30	4375000	19628880
14	4374952.98	19628529.29	4375000	19628600
15	4375052.98	19628529.29	4375100	19628600
16	4375052.99	19627649.28	4375100	19627720

The mine concession is an irregular polygon, the length west to east is about 2.30km, and the width north to south is about 1.50km with the total area of 2.88km^2. The shape of the Chongsheng property and neighboring properties is shown below in Figure 2-3. As of the date of ECSI's visit to the site in January 2016, no new areas have been added to this mining concession.

Figure 2-3 also illustrates the two properties that were combined to form the current Chongsheng concession.

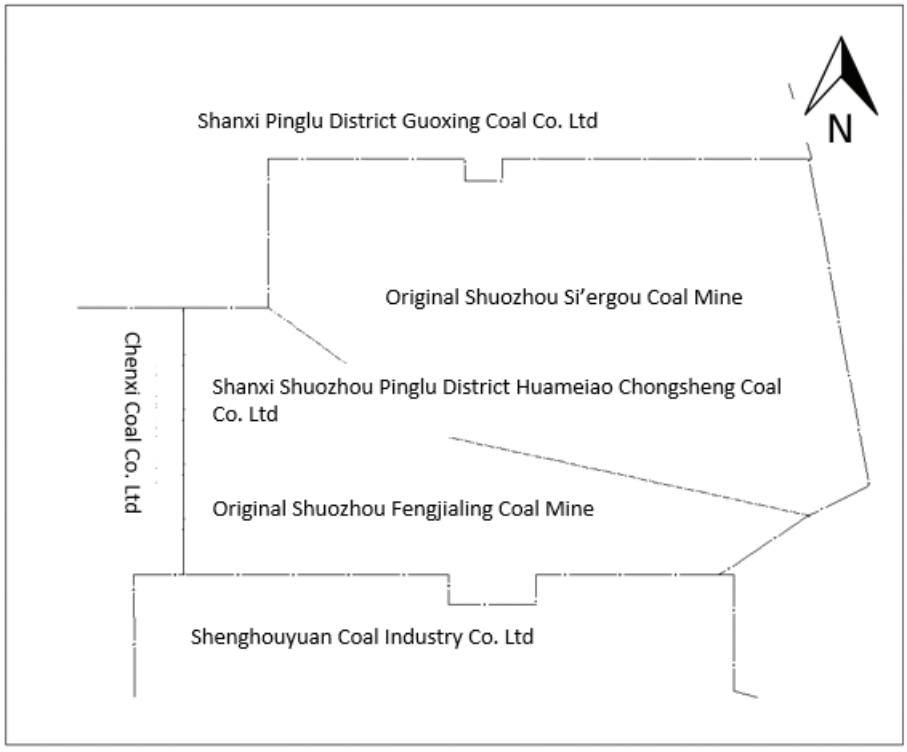


Figure 2-3 Chongsheng Property and Neighboring Properties

2.2 Shenda Mines

2.2.1 Project Location

The Mineral Assets are located in the north sector of Shanxi province, which is the second coal producing geographic unit in China in terms of annual tonnage after the autonomous region of Inner Mongolia. The coal yearly output of Shanxi is comparable to the entire national coal production of the USA. Presently, the vast majority of the coal mines in Shanxi employ underground mining methods, although only a small portion of the mines can be classified as utilizing modern and safety-oriented techniques.

The coal mining concession for Xinglong Mine secured by Shanxi Xinzhou Shenchi Xinglong Coal Company Co, Ltd is referenced by the following geographical coordinates:

- 39° 02' 47"~ 39° 04' 09" North latitude
- 112° 14' 29"~ 112° 15' 54" East longitude

The coal mining concession for the Hongyuan Mine secured by Shanxi Xinzhou Shenchi Hongyuan Coal Company Co, Ltd is referenced by the following geographical coordinates:

- 39° 04' 00"~ 39° 05' 07" North latitude
- 112° 15' 11"~ 112° 16' 38" East longitude

Figure 2-4 below shows a location map of the Xinglong and Hongyuan Coal Mines, along with the location of Beijing.

The area of the Mineral Assets is served by two rail branches, namely the Yellowstone and Ningke Railways, which are both situated east of the concession block. These rail lines connect to the Tongfu trunk further north. There are two nearby coal loading stations: Yangfangkou at 8 kilometers ("km") to the northeast and Ningwu at 11 km to the southeast. The concessions are also served by an unpaved county road.

Figure 2-4 Location Map of the Shenda Mineral Assets in Shanxi Province

The next figure shows the location of the property boundary of the mines and others in the neighbourhood.

山西忻州神池宏遠煤業有限公司四鄰位置圖

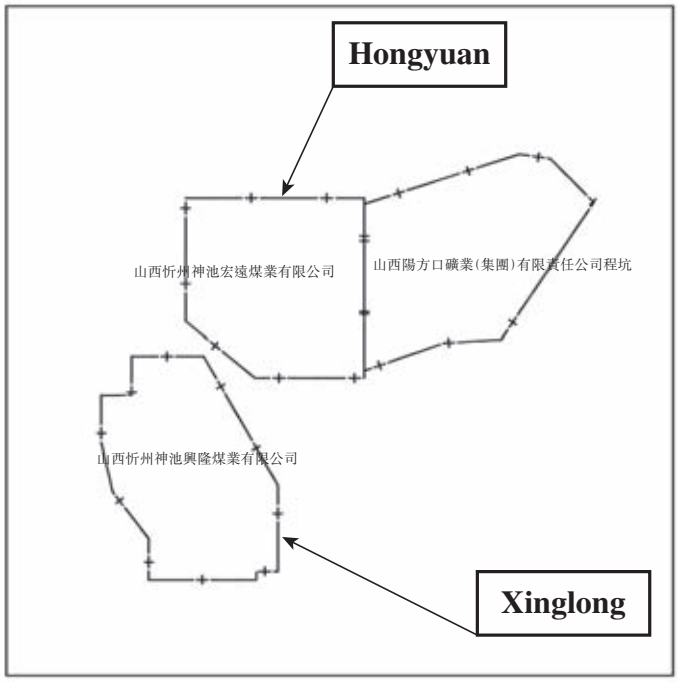


Figure 2-5 Location Map of Xinglong and Hongyuan Coal Mines

Chinese Label	English Label
山西忻州神池宏遠煤業有限公司四鄰位置圖	Neighbourhood position diagram of Shanxi Xinzhou Shenchi Hongyuan Coal Company Co., Ltd.
山西忻州神池宏遠煤業有限公司	Shanxi Xinzhou Shenchi Hongyuan Coal Company Co., Ltd.
山西陽方口礦業(集團) 有限責任公司程坑	Chengkeng (程坑) Mine of Shanxi Yangfangkou Mine Industry (Group) Co., Ltd.
山西忻州神池興隆煤業有限公司	Shanxi Xinzhou Shenchi Xinglong Coal Company Co., Ltd.

2.2.2 Regional Environment of the Shenda Mines

The area of the Xinglong and Hongyuan Coal Mines is situated in the Guancen Mountain area, which is a branch of the Luliang Mountains. The earth surface is covered predominantly with loess, which has been cut and scoured by erosion and over the many years the landscape is now hills with steep gullies. The highest peak is in the southwest at an elevation of 1,780 meters ASL and the lowest point is in the southeast at 1,475 meters ASL.

No large river crosses the concession at the Xinglong Mine or the Hongyuan Mine. The Hui River is to the southeast, along which there are sporadic floods of short duration. Intermittent streams and creeks often dry depending on the season. The gullies in the field are also basically dry, collecting water in a rainy season only.

The Mineral Assets area is characterized by a dry continental climate. The only rainy season is in the summer. According to measurements made over the recent years, the average temperature ranges from -20º C to +21º C, with an average of 7.1º C. January is typically the coldest month with an average of -9.7º C; the record low is -27.2º C. Freezing normally takes place from the months of November through March; snow depth and frost penetration can reach 130 and 90 centimetres ("cm"), respectively.

Annual precipitation is in the range of 280 to 750 mm and is concentrated during the months of July through September. Evaporation is in the order of 1700 mm per year. Wind directions are predominantly west and northwest, with wind velocities as high as 25 meters per second, with an average of 3.4 m/s.

Earthquake standards set by the Chinese government (Code for Seismic Design of Buildings, reference GB5001-2001) suggest that Xinglong Mine is situated in a region of earthquake intensity in the VII degree. Historical records indicate that there have been several periods of earthquake activity in that region. Shoo County Annals and Shanxi General Annals recorded 14 earthquakes from the year 144 A.D. to around 1688 A.D. The last major event was a grade 5.5 (Richter scale) earthquake that hit Guo County in 1952.

Agriculture is the main economic activity in and around the Xinglong Mine and Hongyuan Mine concessions. The preferred crops are corn, oat, potato, rice and bean. Relatively speaking, the project area is ranked as underdeveloped. The area also has mineral resources in the form of coal, iron ore, bauxite and limestone deposits.

2.2.3 Licenses and Approvals

The following licenses were provided by China Qinfa in Chinese and the translations were done by GCME. The copies of the licenses appear to be valid and properly approved.

- Mining license for the Xinglong Mine (with the number of C1400020091112200459 55) issued by the Department of Land and Resources of Shanxi Province on 29 November 2012 with an expiration date of 29 November 2014; and

- Mining License for the Hongyuan Mine (with the number of C1400020130312201290 35) issued by the Department of Land and Resources of Shanxi Province on 12 January 2015 with an expiration date of 12 October 2016.

The mining license specifies which coal seams can be mined, what production capacity the mine is allowed, the area of the mine, the boundaries and the elevation horizon allowed for the operations. Copies of the translated licenses and permits are provided in Appendix A.

As noted, the mining license for the Hongyuan mine is still valid and Shenda is in the process of obtaining a new extension (currently, it is being renewed in 9-month extensions as evidenced by the renewal official seals in the corresponding license in Appendix A.)

ECSI is informed that Shenda will be able to obtain the necessary mining license for the Xinglong Mine but are aware that Xinglong Mine does not have a mining license at the Reference Date of this Competent Person's Report. Shenda has stated that the application of the mining license has already been made and is pending for final approval by the appropriate regulatory entities.

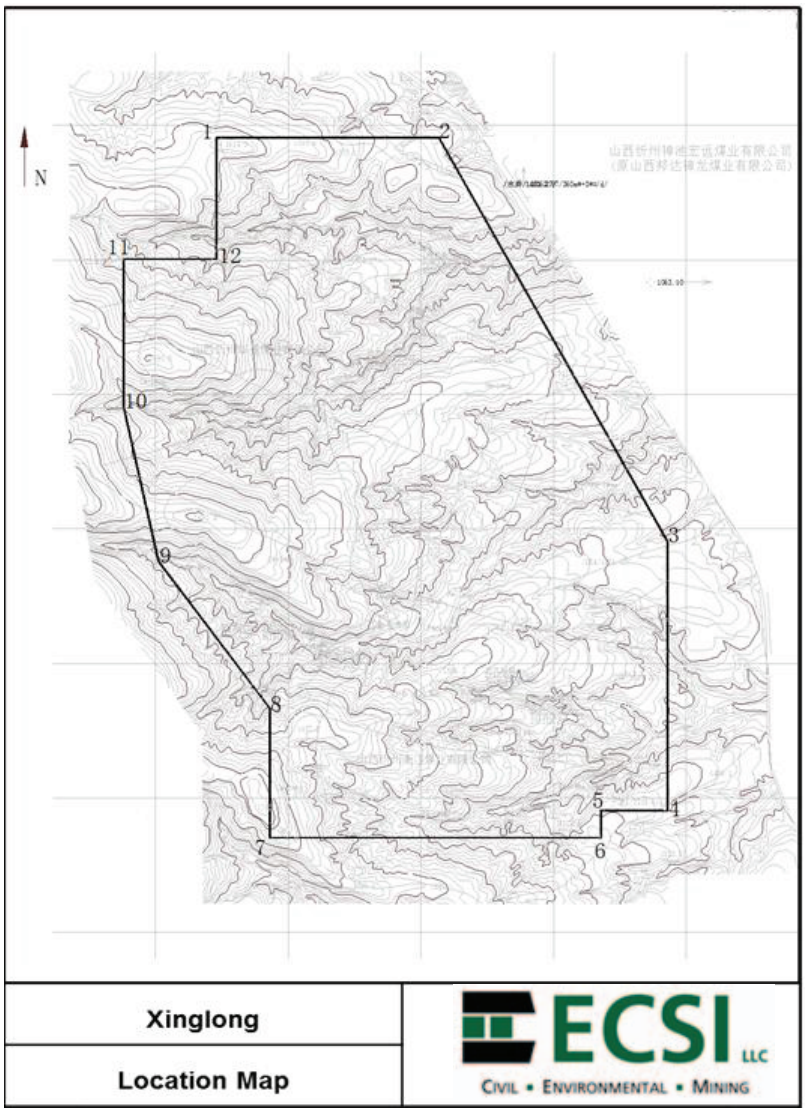
2.2.4 Property Description of Xinglong Project

The mining concession block of the Xinglong Mine is delineated by twelve UTM coordinate points according to both the Beijing 1954 and Xi'an 1980 coordinate systems, as reproduced below. Processing the specified surveying information results in a concession block with overall NS and EW dimensions of approximately 2.60 and 1.93 km, respectively. This geometry corresponds to an area of around 4.01 km^2 within an irregular polygon. The surface of the undisturbed terrain is at an elevation between 1200 ~ 1680 meters ASL (above sea level). According to the license documents, the mining concession applies to coal seams No. 2 through No. 5 at Xinglong Mine.

Table 2-4 Coordination of Turning Points of Xinglong Mine

Beijing 54 System coordinates			Xi'an 80 System coordinates		
Point Number	Latitude (X)	Longitude (Y)	Point Number	Latitude (X)	Longitude (Y)
1	4327000.00	19607800.00	1	4326952.53	19607729.22
2	4327000.00	19608637.00	2	4326952.53	19608566.23
3	4325500.00	19609500.00	3	4325452.53	19609429.23
4	4324500.00	19609500.00	4	4324452.52	19609429.23
5	4324500.00	19609250.00	5	4324452.52	19609179.23
6	4324400.00	19609250.00	6	4324352.52	19609179.22
7	4324400.00	19608000.00	7	4324352.52	19607929.22
8	4324880.00	19608000.00	8	4324832.53	19607929.22
9	4325426.00	19607581.00	9	4325378.53	19607510.22
10	4326000.00	19607450.00	10	4325952.53	19607379.22
11	4326550.00	19607450.00	11	4326502.53	19607379.22
12	4326550.00	19607800.00	12	4326502.53	19607729.22

Figure 2-6 Location Map of Xinglong Mine



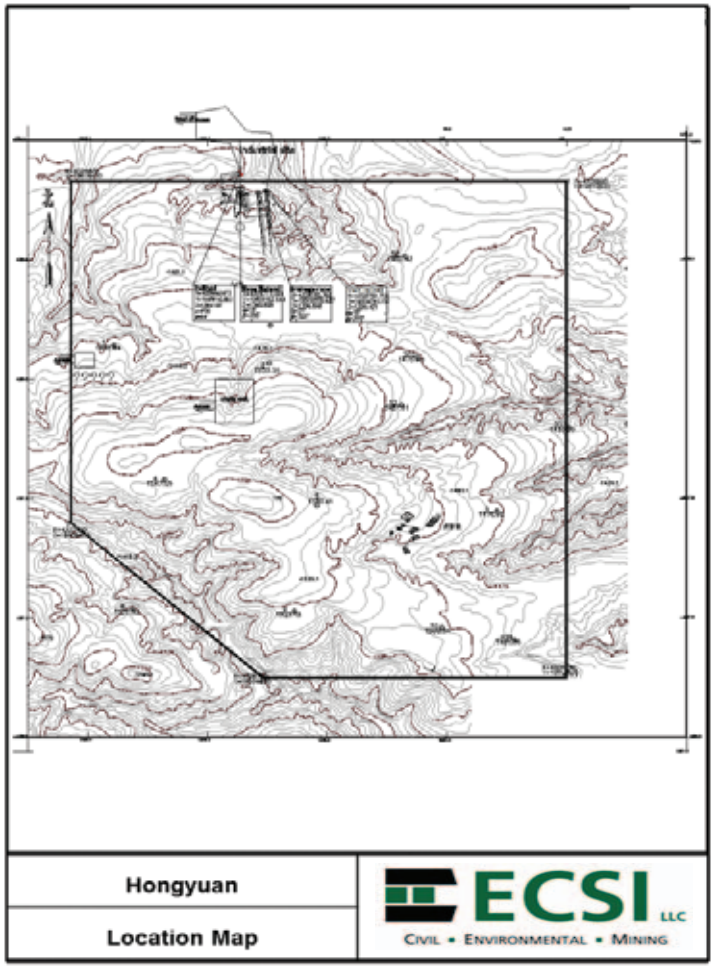
2.2.5 Property Description of Hongyuan Project

The mining concession block of the Hongyuan Mine is delineated by five UTM coordinate points according to both the Beijing 1954 and Xi'an 1980 coordinate systems, as reproduced below. Processing the specified surveying information results in a concession block with overall NS and EW dimensions of approximately 2.08 and 2.07 km, respectively. This geometry corresponds to an area of around 4.05 km^2 within an irregular polygon. The surface of the undisturbed terrain is at an elevation between 1,384.30 ~ 1,558.10 meters ASL. According to the reference documents reviewed for the preparation of this Competent Person's Report, the mining concession applies to coal seams No. 2 through No. 5 at the Hongyuan Mine.

Table 2-5 Coordination of Turning Points of Hongyuan Mine

Beijing 54 System coordinates			Xi'an 80 System coordinates		
Point Number	Latitude (X)	Longitude (Y)	Point Number	Latitude (X)	Longitude (Y)
1	4328830.00	19610500.00	1	4328782.458	19610429.191
2	4328830.00	19608430.00	2	4328782.457	19608359.194
3	4327400.00	19608430.00	3	4327352.459	19608359.195
4	4326750.00	19609230.00	4	4326702.460	19609159.194
5	4326750.00	19610500.00	5	4326702.461	19610429.192

Figure 2-7 Location Map of Hongyuan Mine



2.3 History of Area Exploration

2.3.1 History of Area Exploration of the Huameiao Projects

Phase I – From 1965 to 1966, Team 115 of Shanxi Bureau of Coal Field Geology conducted geological prospecting in this coal field and submitted the "Geological Report of East Maguan River General Survey Exploration Area, PingluShuo County Mine Zone, and Daning Coal Field" (accepted in August 1969). The area of general exploration area is 136km^2, totaling 29 drill holes with drilling length around 6,868 meters. The team also submitted a terrain and geological map at 1:25,000 scale. Line spacing of drill holes is around 1,000-1,500m. The No. 31 and 34 Drill Holes are at north edge of the Chongsheng property and No. 51, 52 and 53 Drill Holes are in the south of Chongsheng with a total core length of 843.9lm. This drilling was done at very early stage and the columnar and coal quality data of No. 31, 52 and 53 Drill Holes could not be collected. The coal seam data collected is reliable and all the drill holes were determined to be qualified and were used for the Chongsheng geologic reports.

Phase II – From October 1980 to November 1981, No. 115 Coal Field Geology Exploration Team of Shanxi Province carried out detailed exploration in the west of Maguan River, Pingshuo mine zone. This field is located about 5km north of the Chongsheng area, and the team submitted the "Geological Report of West Maguan River Open Air Detailed Survey Exploration of Pinglu Mine Zone", and part of hydrological data and other data were used for the Chongsheng geologic report.

Phase III – Team 185 of Shanxi Bureau of Coal Field Geology was entrusted by then Beijing Luneng Coal Industry Co., Ltd. to implement exploration from May 2009 to 25 August 2009 for previously mined areas of Shiergou Coal Mine. The main purpose was to understand coal seams within the old mining area. A total of 4 drill holes were completed this time within the Chongsheng area i.e., K1, K2, K3 and K4.

In these 4 drill holes they drilled 418.93m, logged 203.00m and collect 9 coal core samples. According to Standard for Coal Geological Exploration Drill Hole Quality (MT/T1042-2007), implement quality rating for the 4 drill holes and their comprehensive quality reached Grade B standard (Chinese Standard Scale).

A total of 9 drill holes were completed in the past in and near Chongsheng, including 7 holes in the field and 2 near the field. All the data was used for Chongsheng geologic reports.

Similar geologic exploration work was completed in the Xingtao and Fengxi coal properties, generally by the same geologic teams.

As of the date of ECSI's visit to the site in January 2016, no new exploration holes have been drilled in the subject mining concession.

2.3.2 History of Area Exploration of the Shenchi Shenda Energy Projects

In August 1956, the general team of Industrial Mine Research Institute of Shanxi Provincial Department of Coal Company made a geological survey in this area and submitted a Preliminary General Survey Report on Yangfangkou (陽方口) Coal Mine in Ningwu (寧武) County, Shanxi (山西) Province.

In 1958 to 1959, a general geological survey was made by the Shanxi Coal Field No. 143 Team on Ningwu (寧武) – Yangfangkou (陽方口) coal mine.

In 1962, general survey on coal reserves was suspended after review. The general survey was hence only limited to coal exploitation. In this campaign a total of 7 boreholes were made. Boreholes No. 302 and No. 404 were drilled in this mine field. Detailed information regarding coal quality gathered in this campaign was used in the current report.

From 1969 to 1970, a geological campaign was made by the local coal mine geological exploration team (current No. 115 team) of Shanxi Province. The exploration was made in the Dougou (斗溝) exploration area. In this campaign a total of 15 boreholes were made, the total footage was 3429.63m. The data from the drill holes is reliable and can be used in this report.

In March 1996, the Geological Technology Research Institute of Shanxi Coal Field Geology No. 115 Team prepared a Geological Report on jointly-operated Coal Mine in Dougou (斗溝), Shenchi (神池) County, Shanxi (山西) Province, which adopted the exploration data about the Dougou (斗溝) mine field, and it was approved by original Administrative Office Coal Company Bureau of Xinzhou, Shanxi Province in April 1996. The approval document was numbered X. H. M. Z. (1996) No. 74.

In October 2005, Shanxi Coal Geology Co., Ltd. prepared a Shaft Geology Report on Expansion of Production Capacity of Local State-owned Dougou (斗溝) Coal in Shenchi (神池) County. This report was not approved.

In February 2007, Xinzhou (忻州) Coal Field Geological Exploration Team prepared a Geological Report on Resource Integrated Shaft of Shanxi Bangda Shenlong Coal Company Co., Ltd.

2.4 History of Mining

2.4.1 History of Mining Huameiao Properties

In 2007/2008 the authorities initiated a program to consolidate and merge the mining areas into larger blocks and to allow the owners of the larger properties to expand the mining production. This approach was initiated to bring in mining groups that could employ state-of-the-art mining methods and machinery and increase the productivity and Resource recovery for the coal field.

The three mines addressed within this report, Xingtao, Fengxi and Chongsheng were all part of the mine consolidations and expansion approval.

2.4.1.1 Xingtao Mine History

In 1973 the No. 1 Mine was established in the former Hong Quangou Mine Group that had an area of 0.261km^2 and an approved production permit of 0.09Mtpa. The No. 9 coal seam was explored and developed under an approval from the proper authorities. A new mine was established in 1980 in the former Hong Quangou Mine Group and had an area of 1.135km^2 and an approved production permit of 0.21Mtpa. The No. 4 and 9 coal seams were explored and developed under approval from the proper authorities. In 2007, the No. 1 Mine and the new mine were integrated together to form a single resources block.

The Xingtao Mine was established on 31 December 2004 by the documentation that was approved upon receipt of "No. 741 *Reply on Acceptance of Xingtao Mine with Production Capacity of 600,000 tonnes/a in Pinglu District, Shuozhou City*" issued by Shanxi Coal Infrastructure Office in Shanxi Coal Industry Ministry to be accepted and transferred on 25 May 2007. Its concession has an area of 2.855km^2, production permit of 0.60Mtpa and the No. 4, 9 and 11 coal seams are explored all under this approval. The industrial site of this mine is located to the west of the lower Han Zuogou village.

According to reply of the "Proposal (Partial) on Merge, Reorganization and Integration of Coal Enterprises in Pinglu District, Shuozhou City", No. 36 official document issued by Coal Enterprise Merge, Reorganization and Integration Leading Team Office in Shanxi Province, Shanxi Province Coal Reorganization Office (2009) and upholding the guidelines of "Resources integration, Close Small Mines, Joint transformation, Eliminate outmoded products and optimize structure", Shanxi Shuozhou Pinglu District Huameiao Xingtao Coal Co., Ltd was established by integrating the former Xingtao Mine in Shanxi Shuozhou Pinglu District Huameiao Co., Ltd and the former Hong Quangou Mine in Pinglu District, Shuozhou City, Shanxi Province as a principal role. After integration, the mine is renamed Shanxi Shuozhou Pinglu District Huameiao Xingtao Coal Co., Ltd, affiliated to Shanxi Huameiao Energy Group and administratively governed by Taocun Village, Pinglu district, Shuozhou city, Shanxi province.

This concession expands from 2.885km^2 to 4.252km^2, when the 1.396 km^2 of the Hong Quangou is added. Shanxi Shuozhou Pinglu District Huameiao Xingtao Coal Co., Ltd was granted with mining license by Ministry of Land and Resources of Shanxi Province on 20 December 2015, license No. C1400002009101220038680, approved to explore and develop No. 4^{-1}, 4^{-2}, 9 and 11 coal seams and are approved for mining depth of between 1,250m and 1,030m.

As of the date of the end of June 2016, Xingtao had produced approximately 11.83 million tonnes of raw coal, which after processing yielded approximately 7.69 million tonnes of clean coal.

2.4.1.2 *Fengxi Mine History*

Shanxi Shuozhou Fengxi Coal Industry Limited Corporation is located 2.6km from the west of Gaoxiang at Pinglu District, Shuozhou City, of which, the administrative division is subordinated to Gaoxiang at Pinglu District.

Shanxi Shuozhou Fengxi Coal Industry Limited Corporation (originally Shuozhou Pinglu District Fengxi Coal Mine) is the mine reserved separated during the resource integration in 2006. The mine was initially established in 1986, and formally put into production in 1987. No. 4, 9 and 11 coal seams were approved for mining on 20 November 2006 by Department of Land and Resources of Shanxi Province with the mining license number of 1400000622894. The mine concession area is 2.428km^2; it then obtained the safety production permit (with the number of (J) MK AXZZ (2007) 1501B1) on 15 January 2007 which issued by Shanxi Bureau of Coal Mine Work Safety; obtained the coal production permit (with the number of X040602036Y3G1) which issued by Bureau of Coal Industry of Shanxi Province on 27 December 2004, with an approved production capacity of 0.21Mtpa.

Shanxi Shuozhou Fengxi Coal Industry Limited Corporation was granted for mine mechanization upgrades in accordance with the "Notice on Mechanization Upgrades of Shanxi Zhongqiang Weiye Co., Ltd. and other 10 mines" issued in JMGF (2008) No. 56 by Bureau of Coal Industry of Shanxi Province, and the approved mine capacity after upgrades is 0.9Mtpa. Shanxi Coal Geological Co., Ltd. prepared the "Geological Memoir of Mechanization Upgrades of Shanxi Shuozhou Fengxi Coal Industry Limited Corporation" in March 2008, and which was approved in JMGF (2008) No. 802 by Bureau of Coal Industry of Shanxi Province; in September 2008, the "Feasibility Study Report of Mechanization Upgrades of Shanxi Shuozhou Fengxi Coal Industry Limited Corporation", which was approved in JMGF (2009) No. 70 by Bureau of Coal Industry of Shanxi Province on 23 January 2009, and we were now entrusted to prepare the "Preliminary Design of Mechanization Upgrades of Shanxi Shuozhou Fengxi Coal Industry Limited Corporation".

As of the end of June 2016, Fengxi has reportedly produced 9.50 million tonnes of raw coal and approximately 6.18 million tonnes of clean coal.

2.4.1.3 Chongsheng Mine History

The following is taken directly from the Chongsheng Geologic Report and describes the past consolidation and mining activities at Chongsheng.

"Huameiao Chongsheng Coal Industry Co., Ltd., Pinglu District, Shuozhou, Shanxi was established through resource integration of Chongsheng Coal Industry Co., Ltd., Shuozhou, Shanxi (original Shiergou Coal Mine, Pinglu District, Shuozhou City) and Fengjialing Yilong Coal Industry Co., Ltd., Pinglu District, Shuozhou City, Shanxi (closed). Chongsheng Coal Industry Co., Ltd., Shuozhou, Shanxi is approved integration main shaft, shaft production capacity after resource integration is still 900,000tpa. Production status of Coal Mine of Chongsheng Coal Industry Co., Ltd., Shuozhou, Shanxi (original Shiergou Coal Mine, Pinglu District, Shuozhou City) and Fengjialing Yilong Coal Industry Co., Ltd., Pinglu District, Shuozhou City, Shanxi (closed) is described as below:

Chongsheng Coal Industry Co., Ltd., Shuozhou, Shanxi (original Shiergou Coal Mine, Pinglu District, Shuozhou City) was originally established in 1980, put into operation in 1984, approved to mine Taiyuan Formation No. 4, 9 and 11 Coal Beds, now mining No. 4 Coal Bed, production capacity 150,000tpa. According to JMX [2008] No. 56 Document of Coal Industrial Bureau of Shanxi Province in January 2008, this mine was approved to implement mechanized upgrading and reformation, this mine was approved to reach construction scale 900,000tpa after mechanized upgrading and reformation.

Chongsheng Coal Industry Co., Ltd., Shuozhou, Shanxi (original Shiergou Coal Mine, Pinglu District, Shuozhou City) established shafts in 1980, jointly operated by county and village, until 1985 jointly operated by Beijing Military Region Logistics Department and Headquarters, until October 1993, belonged to government of Pinglu District, becoming local state-operated coal mine, approved to mine No. 4, 9 and 11 Coal Beds.

Shiergou Coal Mine, Pinglu District, Shuozhou City was comprehensively taken over and operated by Shanxi Huameiao Energy Group in 2008, the name was changed as Chongsheng Coal Industry Co., Ltd., Shuozhou, Shanxi. According to JMX [2008] No. 56 Document Notice issued by Coal Industrial Bureau of Shanxi Province in January 2008, this mine was agreed to carry out mechanized upgrading and reformation and have construction scale 900,000tpa after mechanized upgrading and reformation."

As of the end of June 2016, Chongsheng has reportedly produced 5.95 million tonnes of raw coal and approximately 3.87 million tonnes of clean coal.

2.4.2 History of Mining Shenchi Shenda Energy Projects

Coal mining has been one of the major supporting industries to the local economy for many decades. The main coal operation located in between the boundary of Xinglong and Hongyuan was a medium size-mine run by Dougou, a state-owned enterprise established in 1975.

Mineral exploitation began in operation in 1980. Mine was accessed through inclined shafts (slopes). Coal excavation started primarily through blasting, i.e. "shoot from the solid". Roof support was built with timber, with the mains lined with masonry. In 2006, in order to increase the annual production to 300 thousand metric tonnes, improvement has been made to the Dougou mine by implementing longwall method coupled with underground belt haulage system. The main target of the mine was the No. 5 coal seam. The Dougou mine is currently active.

However, there are no small coal mining operations within or adjacent to the Xinglong and Hongyuan Coal Mines concession blocks. Official reports obtained by Shanxi Xinzhou Shenchi Xinglong Coal Mining Co. and Shanxi Xinzhou Shenchi Hongyuan Coal Mining Co., Ltd. indicate that there is no evidence of encroachment into the neighbouring blocks either, including the Xinglong and Hongyuan Coal Mines concessions.

The Chongsheng, Fengxi and Xingtao mines are located in the Shanxi Province, near the villages of Xiamiango, Beiyandun and Fengjialing. The mines are roughly 32km north of Shuozhou City. The area is semi-arid, which is typical of the continental climate. The average yearly temperature is 4.5ºC, with cold winters and hot summers. Precipitation is concentrated in June, July and August with an average annual rainfall of 462mm. The prevailing wind direction is from the northwest and may reach 21m/s.

The topography is shaped by low mountains and hills belonging to the Shuoping terrace in the Shanxi Loess Plateau. The area has been heavily eroded and forms a topographical landscape called the Liangyuan loess hills. There is little vegetation. River valleys are "V" shaped and cut to a depth of 40-70m.

Regarding the Shenda projects, Shanxi Xinzhou Shenchi Xinglong Coal Company Co. is authorized to design and build the Xinglong Mine to exploit specifically the No. 2 and No. 5 coal seams. These two coal horizons occur within the C3t coal bearing strata which are parts of the Taiyuan formation. In terms of mining, No. 5 coal seam is deemed to have the most attractive geologic settings, given its thickness with an average of approximately 10.5 meters and a range of 4.42 to 15.61 meters. An exploration program was performed in the concessions with 7 core boreholes with geophysical logging (e-logging); previously, 8 holes had been drilled in the area.

The reviewed documentation of the Hongyuan Mine also indicates that, just like in the case of Xinglong Mine, the owner is authorized to exploit the No. 2 and No. 5 coal seams. Again, in terms of mining, No. 5 coal seam is deemed to have the most attractive geologic settings, given its thickness with an average of approximately 9.83 meters and a range of 4.42 to 14.04 meters.

3. GEOLOGY

3.1 REGIONAL GEOLOGY

The mine area is located in the northern part of the Ningwu coalfield of the Shanxi Province. The five coal-forming periods are Late Carboniferous (Taiyuan Formation), Early Permian (Shanxi Formation), Middle Jurassic (Datong Formation), Tertiary (Taxigou Formation) and Quaternary (peat). The general structure of the area is based on broad folding with some faulting.

3.1.1 Geology of Xingtao

3.1.1.1 ***Stratigraphy (Table 3-1)***

Located in the northeast of Ningwu coalfield, from this coal field bears stratums in Ordovician system, Carboniferous Benxi formation and Taiyuan formation, Permian Shanxi formation, lower Shihezi formation, upper Shihezi formation, Jingle formation in tertiary of Jurassic system, middle and upper Pleistocene in quaternary of Jurassic system as well as Holocene series, described separately as below:

- *Upper Ma Jiagou Formation in Ordovician System (O_2s)*

It is a fundamental rock system in the coal-bearing stratum. No. XI hole in this area reveals a thickness of 265.56m. Outside this area, a small amount of coal is exposed in the east of Maying River, with stratum thickness between 210 and 400m and average thickness 250m. It is mainly composed of grey-dark grey limestone, dolomite,dolomitic limestone mixed with low-coal yellow-green peat. Limestone contains mud and presents earthy yellow clots after ablation, thus nicknamed as leopard limestone. It is often mixed with autobreccia in stratums. Fossils produced include: Actinoceras, Armenoceras and Callograptus.

- *Carboniferous System (C)*

(1) Benxi Formation (C_2b)

Its rocks are composed of grey, dark grey, grey black sandstone, sandy mudstone and mudstone, including 1 to 3 layers of dark grey limestone, only one stable layer of limestone in middle lower part (Symbolic layer K_1) and 1 to 2 unstable layers of low-coal mixed on the top, thickness below 0.5m. On the bottom, Shanxi type iron ore is not nurtured, sometimes only mixed with variegated allophone mudstone. Stratum thickness is between 20.58 and 49.55m and average thickness is 35.71m. It contacts non-conformingly in parallel with underlying Ordovician system. Fossils produced include:

- Sphenophyllum oblongifolium
- Pecopteris arborescens
- Calamites cisti
- Limestone produces Idiongnathodus and delicates

(2) Taiyuan Formation (C_3t)

It is mainly composed of grey white sandstone, grey, grey black sandy mudstone, mudstone and coal seams, mixed with thin muddy sandstone, thus is a major coal-bearing stratum. This formation is divided into three coal seams: Upper coal seams are No. 4 and 5 coal seams and grey white fine sandstone, siltstone, siltstone as well as grey black mudstone located between such coal seams. Middle coal seam is composed of grey, grey white mudstone, grey black sandy mudstone, mudstone and No. 6 and 7 unstable coal seams. T4 ore mass generally nurtured on No. 6 coal seam distinguishes it from upper coal formation. Lower coal seam is composed of grey white mudstone, grey black sandy mudstone, mudstone and No. 8, 9, 10, 11 and 12 coal seams. Middle lower coal seam is divided by T_3 ore mass. A layer of stable muddy limestone being not very thick exists between No. 9 and no. 11 coal seam.

Stratums in this formation are thick between 79.11 to 112.32m, and average thickness is 91.90m. Average thickness in coal seams is 37.90m. On the bottom, it nurtures grey white medium and fine-particle quartzy sandstone (K_2, contacts with declined stratums conformingly with thickness between 0.40 to 8.40m and average thickness is 3.22m.

- Fossils in the top floor of No. 11 coal seam include:
  - Aviculopecten alternatoplicatus
  - Dictyoclosdus taiyanfuensis
  - Lingulella sp, crinoid stem, gasteropod and bryozoan fossils
- Fossils in the bottom floor of No. 4 coal seam and between No. 4 and No. 6 coal seams include:
  - Sphenophyllum Spciosun
  - S.oblongifolium
  - S.verticillatum
  - Calamites sp
  - Peeopteris arborescens
  - Lepidodendron Posthumii
  - Neuropteris ovata
  - Stigmaria ficoides

- *Permian System (P)*

(1) Lower Shanxi Formation(P_1s)

It is mainly composed of grey, grey white sandstone, grey black and grey sandy mudstone. Sandy mudstone contains spathic iron ore nodule and 2 to 3 unstable layers of low-coal seams. K_3 sandstone on the bottom presents light grey and grey white medium and coarse particle sandstones, which constitutes direct top floor of declined No. 4 coal seam, thick between 0.40 to 9.95m and average thickness is 4.00m.

Stratums in this formation are thick between 9.55 to 77.48m, average thickness 55.20m. It contacts declined stratums conformingly. Fossils produced include:

- Lepidodendron incertum
- Pecopteris wongii
- Taeniopteris multinervis
- Cordaites sp
- Alethopteris huiana

(2) Lower Shihezi Formation (P_1x)

It is mainly composed of yellow green, grey yellow, pink siltstone, fine sandstone and middle-particle sandstone, grey, yellow green mudstone and mudstone. On the bottom, sandy mudstone sometimes contains 1 to 2 layers of coal streaks. A layer of red-grey purple oolitic alum clay mudstone (Taohua mudstone) is often seen on the top of this formation and acts as subordinate symbolic layer for K_6 sandstone. The bottom K_4 is pebbled coarse particle sandstone, thickest 11.63m and averaged thickness is 3.63m, in stable level. Stratum in this formation is thick between 0 to 115.15m and average thickness is 46.66m. It contacts declined stratum conformingly. Plant fossils include:

- Sphenophyllum dhoni Pecopteris sp

(3) Upper Shihezi Formation (P_2s)

A majority of stratums in this formation are denudated. It contacts declined stratums conformingly.

- *Tertiary (R)*

(1) Pliocen Jingle formation (N_2j)

Rocks are brown red clay and loam, containing iron and manganese spots. On the middle and lower part, it often contains 3 to 5 layers of calcic concretion. It is nurtured widely. The formation is thick between 0 to 77.02m, averaged thickness is 15.36m. It contacts declined stratums in non-conforming angle.

- *Quaternary (Q)*

(1) Middle and Upper Pleistocene Series (Q_{2+3})

Upper Pleistocene series is composed of earth yellow silt and sub-silt clay, loam Malan yellow soil. Middle Pleistocene series is composed of red yellow loam and ancient soil, containing calcic concretion and pebbles on the bottom. Stratum is thick between 3.10 to 47.40m and average thickness is 24.28m. It is one of major components in loess landform. It contacts declined stratums in non-conforming way.

(2) Holocene series (Q_4)

It is mainly distributed in river valleys and terrace on sides, composed of limestone pebble, cobble, silt soil, sandstone, medium and coarse sandstone debris and sediments. It is thick between 0 to 40m and average thickness is 10.00m.

Table 3-1 Mine Site Stratigraphy – Xingtao

Group	Unit System		Characteristics	Thickness
Cenozoic Group	Quaternary		Stratums develop completely. Rocks are composed of pebble, clay and sand.	0-50m
	Permian system	Lower Shihezi formation	It is composed of grey and purple spot-like mudstone, siltstone mixed with sandstone and sandy mudstone.	60-120m
		Lower Shanxi formation	It is composed of grey sandstone, sandy mudstone and clay mudstone. It has 1 to 3 layers of coal on the bottom.	40-86m

Group	Unit System		Characteristics	Thickness
	Carboniferous system	Taiyuan formation	Develop middle and upper series. Lower series are lacked. Rocks are composed of sandstone, sandy mudstone, mudstone, and coal and alum clay mudstone. Minable coal seams are stored in Taiyuan formation.	88-164m
		Benxi formation		
	Ordovician system		Develop middle and lower series. Upper series are lacked. Rocks are composed of limestone, dolomite mixed with low-coal mudstone.	

3.1.1.1.1 *Coal-bearing Strata*

Taiyuan Formation (C_3t)

It is a major coal-bearing stratum. Except for the total exposure in No. X_1 hole (thick 74.95m), no exposure exists in other holes. A maximal thickness is exposed to be 107m. Rocks are composed of grey white sandstone, grey and grey black sandy mudstone, mudstone and coal seams. Muddy limestone is developed on top of south No. 11 coal seam. Stratums tend to be thinner from the east to the west.

According to regional exploration data, the thickness in this formation is between 74.95 and 112.32m, generally thick 90m. The development sequence in the other stratums is seen below:

On the bottom, it has grey white medium and coarse particle sandstone with thickness between 1.00 and 5.42m, general thickness is 3.00m. Siltstone and sandy mudstone are deposited between No. K_2 and 11 coal seams, mixed with unstable No. 12 coal seam.

No. 11 coal seam has thicknesses between 0.00 and 2.10m, mean thickness of 0.78m. Muddy limestone is deposited on top of it in the south. Siltstone exists between No. 11 and 9^{-2} coal seam, with the interburden between 5.43 and 36.34m, mean 17.33m. The mining area has a larger gap in the west and more coarse rocks (medium sandstone).

No. 9^{-2} coal seam has a thickness between 4.10 and 6.20m and averaged thickness of 4.92m, becoming No. 9^{-1}+ 9^{-2} coal seam by combining with No. 9^{-1} coal seam in west of the property. No. 9^{-1} coal seam has a thickness between 6.90 and 13.50m and averaged thickness of 8.51m. It is thicker in the northwest and thinner in the southeast. Siltstone and sandy mudstone exist between No. 9^{-1} and No. 8 coal seam, with an interburden of 1.10m and a mean of 2.39m.

No. 8 coal seam has a thickness between 1.10 and 1.30m and averaged thickness of 1.23m; Medium and fine particle sandstone exist between No. 4^{-2} and No. 8 coal seam, mixed with sandy mudstone, with the interburden between 8.4 and 14.72m, and mean thickness of 10.61m. The coal seam becomes thinner in the middle.

No. 4^{-2} coal seam has a thickness between 4.67 and 5.90m and mean thickness of 5.34m. Grey siltstone exists between No. 4^{-1} and 4^{-2} coal seam, mixed with charcoal mudstone, with an interburden of between 2.90 and 5.95m and a mean thickness of 4.47m. There are small changes in the interburden. The north rock seam in No. 4^{-1} coal seam becomes thicker, allowing stratums to be thinner. Stratum thickness is between 8.30 and 10.87m and averaged thickness of 9.42m. On top of No. 4^{-1} coal seam, it is composed of dark grey siltstone, grey black sandy mudstone, mixed with Charcoal mudstone and fine and medium sandstones.

- Permian System

  Shanxi Formation (P_1s)

  It is mainly composed of grey, grey white sandstone, grey black and grey sandy mudstone and mudstone. Sandy mudstone contains spathic iron ore nodule and 1 to 2 unstable layers of low-coal seams. On the bottom, light grey and grey white coarse particle sandstones containing pebbles (K_3) are presented. Thickness is between 3.00 and 9.41m. The formation is thickness is between 40.63 and 66.50m, the general thickness is 50.00m.

3.1.1.2 ***Structure***

The well field is located in east edge of the North Ningwu syncline, in the east edge of Ma Guanhe syncline and east of Pingshuo mining area. In holistic, the coal field presents a monoclinal structure with high to the east and low to the west. The topography is flat in the southeast with inclination between 1° and 2°, steep in the northwest with inclination between 3° and 5°, the maximum is 7°. In the west of this coal field, it nurtures a wide flat syncline in a north-east direction. Seven faults are developed in this coal field (F_1-F_7) with throws of between 0.3 and 20m (Details are seen Fault List inside coal field Table 3-2). No magmatite intrudes into this coal field. From what has been discussed above, this coal field has a simple structure.

Table 3-2 Faults at Xingtao

Fault No.	Location	Tendency (°)	Direction	Inclination (°)	Drop Difference (m)	Extending Length within Property (m)
F_1 Normal fault	West	NE15	NW	70-80	1.5-7.5	1220
F_2 Normal fault	East Middle	NE28	NW	75	15	750
F_3 Normal fault	East	NW62	NE	75	17	668
F_4 Normal fault	West	NE43	SE	75	20	725
F_5 Normal fault	North	NE88	SE	40-88	8-10	2450
F_6 Normal fault	Middle	NE60	NW	60-66	5-11	940
F_7 Normal fault	Middle	NW9	SW	40-60	0.3-8.0	630

3.1.1.3 *Coal Characteristics*

3.1.1.3.1 *Physical Properties*

Each coal seam mainly presents weak vitreous luster, followed by pitchy luster, with strip and block structure, in hard quality; It has splintery or angular fracture, with endogenic crack developing in medium degree, exogene cracks are well developed in the No. 4 coal seeing lime carbonate. Sulphide concretion or membrane is seen in No. 8, 9 and 11 coal seams with density mostly beyond 1.70t/m^3.

In the mine area the No. 4^{-1} Seam has an approximate thickness of 8.8m and an apparent density of 1.46t/m^3; the 4^{-1} Seam is approximately 5.1m thick with an apparent density of 1.43 t/m^3; the No. 8 Seam is approximately 1.2m thick with an apparent density of 1.43t/m^3; the No. 9^{-1} Seam is approximately 1.46m thick with an apparent density of 1.46t/m^3; the 9^{-2} Seam is approximately 4.7m with an apparent density of 1.46t/m^3; and the No. 11 Seam is about 1.4m thick with an apparent density of 1.5t/m^3.

3.1.1.3.2 *Chemical Characteristics*

Table 3-3 Raw Coal

Seam No.	Recovery (%)	Yield (%)	Moist (%)	Ash (%)	Raw Vol (%)	Sul (%)	Energy Content (MJ/kg)
4^{-1}	28.47	22.33	3.58	27.52	41.11	0.66	19.60
4^{-2}	43.81	36.96	3.54	20.78	40.83	0.96	22.81
8	38.32	30.99	3.36	25.17	42.18	2.42	22.28
9^{-1}	33.31	26.33	3.07	26.95	42.07	1.96	20.74
9^{-2}	44.30	37.30	2.65	22.10	42.24	1.82	23.31
11	32.66	24.37	2.73	30.99	40.92	1.90	19.61

Table 3-4 Washed Coal

Seam No.	Washed Moist (%)	Ash (%)	Vol (%)	Sul (%)
4^{-1}	3.18	7.58	40.69	0.78
4^{-2}	3.54	6.10	40.24	0.81
8	2.78	7.46	41.86	1.25
9^{-1}	2.82	7.58	41.48	1.39
9^{-2}	3.01	7.47	42.32	0.94
11	3.31	7.51	40.31	1.14

3.1.2 Geology of Fengxi

3.1.2.1 *Stratigraphy (Table 3-5)*

Coal Seam Nos. 4, 9^{-1}, 9^{-2} and 11 are approved for mining. The mine area is covered by loess. Based on the actual mining production, exploration drilling and visual observations in the active mine, the strata in this mine are listed in ascending order as follows:

- *Ordovician – Middle Series of the Majiagou Formation*

The Majiagou does not outcrop in this coal field. The thickness of this formation is around 180m. It is composed mainly of limestones, dolomite and dolomitic limestones.

- *Carboniferous – Middle Series of the Benxi Formation*

The thickness of the Benxi Formation is 28.95 to 42.77m. It is mainly composed of sandstone, sandy mudstone and mudstone. There are always two layers of limestone in the center, of which the lower layer is more stable, and is marked as the K_1 seam. There are always Shanxi-style iron ores in a chicken-coop shape at the bottom of K_1. A high grade of bauxite is developed on top of this layer.

- *Carboniferous – Upper Series of the Taiyuan Formation*

The thickness of the formation is 87.23 to 109.44m. It is generally composed of sandstone, siltstone, mudstone and coal. There are one to two layers of marlstone and calcareous mudstone folded in between the middle and the bottom. The thickest seams are located in the top and bottom of the formation. The lower portion is mainly composed of coal, sandstone, siltstone with marlstone. The three main recoverable seams are the Nos. 8, 9 (9^{-1} and 9^{-2}) and 11 Seams. The middle part of the formation is a thick layer of sandstone. The upper part contains seam Nos. 4 and 5 Seams. The No. 4 Seam is a wholly recoverable, stable seam. The No. 5 is non-recoverable. The bottom of the formation is used as a marker bed.

- *Permian – Lower Series of the Shanxi Formation*

The thickness of the formation is 48.64 to 78.79m. It is primarily composed of sandstone and sandy mudstone. There is one or two layers of limestone in the middle-lower part of the formation, both are non-recoverable. The lower sandstone (K_3) is coarse-grained and grades into a pebbly sandstone.

- *Permian – Lower Series of the Shihezi Formation*

The exposed thickness is 58.22 to 103.42m. It is largely composed of coarse sandstone, siltstone and sandy mudstone. Some of the mudstones contain plant fossils. The base of the formation is a marker bed of coarse sandstone.

- *Quaternary – Upper-Middle Series of the Pleistocene*

This formation is composed mainly of clay and loess. The clay is primarily exposed in the valley. The loess is the Malan Loess, which covers the whole region. It formed as part of the Loess Plateau landscape. The thickness of the formation is 3.88 to 43.70m.

Table 3-5 Mine Site Stratigraphy – Fengxi

Group	Unit System		Characteristics	Thickness
Cenozoic	Quaternary		Loess, pebbles, clay and sand.	0-50m
Paleozoic	Permian system	Lower Shihezi Formation	Grey and purple speckled mudstone, siltstone mixed with sandstone and sandy mudstone.	60-120m
		Lower Shanxi Formation	Grey sandstone, sandy mudstone and clay mudstone. It has 1 to 3 layers of coal on the bottom.	40-86m
	Carboniferous system	Taiyuan formation	Developed middle and upper series. (The lower series is missing.)	88-164m
		Benxi Formation	Sandstone, sandy mudstone, mudstone, coal and alum clay mudstone. Minable coal seams are within the Taiyuan formation.	
	Ordovician system		Developed middle and lower series. (The upper series are missing.) Limestone, dolomite mixed with low-coal mudstone.	

3.1.2.1.1 *Coal-bearing Strata*

The coal-bearing units in the coal field are the Taiyuan and Shanxi Formations. The main coal-bearing formation is the Taiyuan. The Taiyuan contains the Nos. 4, 8, 9^{-1}, 9^{-2} and 11 coal seams.

The lowest seams are the Nos. 9 and 11. There are marlstones and/or mudstones at the top of No. 11 Seam. The position of the coal seam is stable. The Seam 11 coal developed in peat swamps associated with tidal flats and sand bars. The No. 11 is mostly semi-dark and has a high sulfur content.

The No. 9 Seam is the product of brackish water in delta front and delta coal-forming environments. There are lenticular pyrite and siderite nodules. The No. 9 is divided into the 9^{-1} and 9^{-2} Seams.

The middle portion of the formation contains the Nos. 5 and 8 Seams. The sediments were deposited in delta distributary channels. The No. 8 is very stable and the No. 5 is very unstable.

The top portion of the formation includes the No. 4 Seam. The No. 4 has kaolinite partings and is a high-ash, low sulfur coal. It developed in freshwater peat swamps on a delta plain.

The Shanxi formation contains two coal seams. Both seams are thin, unstable and non-recoverable.

3.1.2.2 ***Structure***

The structure of the coal field is defined by an anticline. Its axis is in the center of the coal field. The axis faces in a nearly north-south direction and plunges to the south, the flanks dip at a similar angle to each other. The slope of the strata in the coal field is steeper in the southern part and gentler in the north. The dip is between 2° and 5°. There are two faults and two collapse columns present. These features are described as:

- *F_1 – Normal Fault*

F_1 is located on the western boundary of the coal field, trending in a north-south direction. No water has been found. F_1 is exposed in the underground mine; there is no outcrop at the surface.

- *F_2 – Normal Fault*

F_2 is located in the northern part of the coal field. It is east of F_1 and runs in a north north-west direction. The fault is exposed in the underground mine; there is no outcrop at the surface.

- *Collapse Columns*

There are two collapse columns (X_1, X_2) found underground in the coal field. They are located at the boundaries of the central and eastern portions of the field. The columns are oval in shape, but small in size. X_1 is approximately 115x400m in diameter (bottom of No. 4 Seam). X_2 is about 170x220m in diameter (bottom of No. 4 Seam).

3.1.2.3 ***Coal Characteristics***

3.1.2.3.1 *Physical Properties*

According to visual identification, the physical properties of the coal seams – No. 4, No. 9^{-1}, No. 9^{-2} and No.11 are very similar. According to the survey report, the structural characteristics of the coals are listed in Table 3-6.

Table 3-6 Coal Structure

Seam No.	Organic content %					Minerals (Inorganic content) %
	Vitrinite	Semi-vitrinite	Fusinite	Exinite	Total	
4	46.60	5.50	40.60	7.30	100.00	18.70
9^{-1}	53.30	4.40	35.40	6.90	100.00	14.20
9^{-2}	80.30	2.60	13.60	3.50	100.00	9.80
11	26.80	12.9	22.30	7.00	100.00	27.70

From the elementary analysis, the coal is composed of 80.68% carbon (Cdaf), 5.77% hydrogen (Hdaf), 1.33% nitrogen (Ndaf) and 10.75% oxygen + sulfur (Odaf + Sdaf).

According to the "Quality Classification of Coal" GB/T15224-2004: Standard Steam Coal Grading, these coals are extra medium to high ash, middle to high sulfur, extra low to low calorific value bituminous coal.

In the mine area the No. 4 Seam has an approximate thickness of 12.3m and an apparent density of 1.42t/m^3; the No. 9^{-1} Seam is approximately 6m thick with an apparent density of 1.35t/m^3; the 9^{-2} Seam is approximately 5.1m with an apparent density of 1.4t/m^3 and the No. 11 Seam is about 2.7m thick with an apparent density of 1.45t/m^3.

3.1.2.3.2 Chemical Characteristics

Table 3-7 Raw Coal

	Raw						
Seam No.	**Recovery** *(%)*	**Yield** *(%)*	**Moist** *(%)*	**Ash** *(%)*	**Vol** *(%)*	**Sul** *(%)*	**Energy Content** *(MJ/kg)*
4	29.4	23.69	3.42	25.38	40.79	0.54	30.83
9^{-1}	27.89	22.16	3.46	27.73	38.34	0.86	31.52
9^{-2}	31.39	25.79	2.66	25.65	42.22	1.89	32.21
11	12.88	9.11	2.18	37.12	39.84	1.85	30.14

Table 3-8 Washed Coal

	Washed			
Seam No.	**Moist** *(%)*	**Ash** *(%)*	**Vol** *(%)*	**Sul** *(%)*
4	3.3	7.41	40.29	0.63
9^{-1}	3.15	9.03	39	0.56
9^{-2}	2.63	9.49	42.96	1.33
11	2.63	11.11	44.12	1.52

Table 3-9 Industrial Usage

Seam	Ash Component Analysis (%)											Fusibility of Coal Ash	Slagging	Pollution
No.	**S_iO_2**	**Al_2O_3**	**FeO_3**	**CaO**	**MgO**	**K_2O**	**Na_2O**	**SO_2**	**TiO_2**	**P_2O_5**	**Total**	*(°C)*	**Index**	**Index**
4	40.08	45.32	2.05	4.36	0.78	0.24	0.14	2.55	2.08	0.34	97.94	1450	0.17	0.51
9^{-1}	28.72	25.48	15.4	15.48	0.32	0.09	0.05	13.06	1.4	0.04	99.79	1315	0.21	1.68
9^{-2}	40.75	34.5	10.32	5.1	0.73	0.29	0.08	5.37	1.32	0.04	99.5	1450	0.49	1.16

3.1.3 Geology of Chongsheng

3.1.3.1 ***Stratigraphy***

Coal seam Nos. 4, 9^{-1}, 9^{-2} and 11 are approved for mining. The mine area is covered by loess. Based on the actual mining production, exploration drilling and visual observations in the active mine, the strata in this mine are listed in ascending order as follows:

- *Ordovician – Middle Series of the Majiagou Formation*

This formation is not completely exposed in the mine field. According to data from a neighboring zone, the thickness of this formation is about 180m. It mainly consists of limestone, dolomite, dolomitic limestone and laminated mudstone. Limestones contain mud and appear khaki colored after weathering, so they are commonly referred to as leopard skin limestone.

- *Carboniferous – Middle Series of the Benxi Formation*

The thickness of this formation is 45.0-50.0m. It mainly consists of sandstone, sandy mudstone, mudstone and bauxite mudstone. It contains 1-3 layers of laminated limestone; the bottom layer is very stable. The maximum thickness is 3m, and often contains brachiopods. The bottom is often seen in Shanxi iron mines, appearing in chicken-coop shape deposit. A layer of high grade bauxite is above iron strata. Thin (0.2-0.5m) coal beds can be seen in middle and upper parts of the formation.

- *Carboniferous – Upper Series of the Taiyuan Formation*

Thickness of this formation is 68.57-94.17m, average 73.62m, consisting of sandstone, siltstone, mudstone and coal beds. The middle and lower parts contain 1-2 layers of muddy limestone and calcareous mudstone. The bottom is often a layer of muddy limestone. The main coal seams in the zone are the No. 4, 9 and 11 coal seams.

- *Permian – Lower Series of the Shanxi Formation*

The thickness of this formation is 53.96-77.82m, mainly consisting of sandstone, mudstone and sandy mudstone. The middle and lower parts or the formation contain 1-3 layers of thin coal beds those are not minable. Sandstone (K_3) at the bottom is coarse grained sandstone that locally grades into a pebbly sandstone.

- *Permian – Lower Series of the Shihezi Formation*

This formation appears variegated and is 85.0-97.77m thick. It is composed mainly of sandstone, siltstone and mudstone.

- *Quaternary – Upper-Middle Series of the Pleistocene*

This series is mainly red soil and loess. The loess is Malan Loess that covers the area and formed as part of the Loess Plateau landscape. It is 1.84-48.54m thick.

3.1.3.1.1 *Coal-bearing Strata*

The coal-bearing units in the coal field are the Taiyuan and Shanxi Formations. The main coal-bearing formation is the Taiyuan. The Taiyuan contains the Nos. 4, 6, 8, 9^{-1}, 9^{-2} and 11 coal seams. During the Taiyuan period the widely distributed peat marsh environment was suitable for prolonged periods of plant growth, thus providing thick, stable accumulations of coal.

The lowest seams are the Nos. 9 and 11. A muddy limestone lies above the No. 11 Seam. The position of the coal seam is stable. The Seam No. 11 coal developed in peat swamps associated with tidal flats and sand bars. The No. 11 is mostly semi-dark and has a high sulfur content.

The No. 9 Seam is very thick and formed in delta front and delta coal-forming environments. It contains lenticular pyrite and siderite nodules. The No. 9 Seam is divided into the 9^{-1} and 9^{-2} seams. It is semi-bright and has a very high sulfur content.

The middle portion of the formation is a thick layer of sandstone formed by a delta distributary channel that contains the Nos. 6 and 8 Seams.

The top portion of the formation includes the No. 4 Seam. The No. 4 is very thick and contains multiple partings of kaolinite and rock. It is a high-ash, low sulfur coal. It developed in freshwater peat swamps on a delta plain. Repeated flooding of the swamps caused the development of the partings and high ash content.

The Shanxi formation contains three coal seams. These seams are thin, unstable and non-recoverable.

3.1.3.2 ***Structure***

The mine area is situated on the east flank of the Maguan River syncline. The flank trends in an east-west direction and dips to the south.The dip angle for much of the area is less than 3°. The dip increases in the west to about 3°-8°. It increases to 14° within very small area west of fault F_2.

There are 5 normal faults in the mine area. Two of the faults located at the edge of the mine have large displacements, thus have little impact on the mining. The faults are described in Table 3-10.

Table 3-10 Faults at Chongsheng

Fault No.	Location	Trend	Inclination	Dip Angle (°)	Displacement (m)	Length in Mine Field (m)	Control
F_1 normal fault (Xiamiangao fault)	South	NWW	NNE	75	10-15	1270	Underground Excavation
F_2 normal fault (Fengjialing fault)	West	NNE	NWW	75	30-40	520	Regional Fault
F_3 normal fault	Middle	NE	NW	75	1-2	150	Underground Excavation
F_4 normal fault	West	NNW	NEE	75	5-7	125	Underground Excavation
F_5 normal fault	East of F_4	NNW	SWW	75	5-7	130	Underground Excavation

During underground excavation of the No. 4 coal, one oval collapse column was found in the west. The long axis measures about 50m and the short axis measures about 22m.

3.1.3.3 *Coal Characteristics*

3.1.3.3.1 *Physical Properties*

In the mine area the No. 4 Seam has an approximate thickness of 14.4m and an apparent density of 1.42t/m^3; the No. 9^{-1} Seam is approximately 7.66m thick with an apparent density of 1.35t/m^3; the 9^{-2} Seam is approximately 4.3m with an apparent density of 1.4t/m^3 and the No. 11 Seam is about 1.9m thick with an apparent density of 1.45t/m^3.

3.1.3.3.2 *Chemical Characteristics*

Table 3-11 Raw Coal

			Raw				
Seam No.	**Recovery** *(%)*	**Yield** *(%)*	**Moist** *(%)*	**Ash** *(%)*	**Vol** *(%)*	**Sul** *(%)*	**Energy Content** *(MJ/kg)*
4	67.46	58.15	2.95	21.33	40.65	0.45	24.86
9^{-1}	47.14	39.86	2.2	21.38	39.65	1.86	25.07
9^{-2}	46.20	39.01	1.9	23.58	42.89	2.29	23.83
11	46.05	35.78	2.38	29.15	37.97	2.58	23.37

Table 3-12 Washed Coal

	Washed			
Seam No.	**Moist** *(%)*	**Ash** *(%)*	**Vol** *(%)*	**Sul** *(%)*
4	1.85	8.73	41.09	0.470
9^{-1}	1.80	7.02	40.26	0.912
9^{-2}	1.60	9.50	43.68	1.590
11	2.56	8.81	39.51	1.910

3.1.4 Geology of the Xinglong and Hongyuan Coal Mines Areas

Most parts of the minefield is covered with loess scattered with outcrops of bedrocks in ravines. Formations in the minefield are described as follows from old to new according to borehole information combined with regional formation:

- ***Upper Majiagou Formation of Middle series of Ordovician (O_2s)***

The lithology is gray thick-layered dolomite. Its upper part is interbedded with thinly laminated limestone and marlstone rocks are compact and hard containing calcite veinlet. The formation has thickness of about 200m.

- ***Benxi Formation of middle series of Carboniferous system (C_2b)***

It is a set of marine-terrigenous facies sedimentary association, mainly composed of fine sandstone, mudstone, carbonaceous mudstone and bioclastic limestone etc. The bottom is Shanxi type iron ore. The thickness of the Formation is 7.30-35.00m with an average thickness is 21.50m. It has a parallel unconformity with the underlying strata of Majiagou Formation.

- ***Taiyuan Formation of upper series of Carboniferous system (C_3t)***

It is a set of marine-terrigenous facies sediments forming the main coal-bearing strata of this area. The lower part is mainly ash gray conglomeratic quartz gritstone (k1), gray-black mudstone and carbonaceous mudstone. No. 5 and No. 6 coalbeds are located in the lower part of Taiyuan Formation; the middle and upper parts are mainly conglomeratic quartz gritstone, gray mudstone, sandy mudstone, carbonaceous mudstone, gray middle and fine sandstone as well as siltstone. No. 2 coalbed is located in the top. The thickness of the formation is 86.85-107.30m with an average thickness is 96.70m. No. 2 and No. 5 coalbed stable workable coalbeds occurring in the minefield. The western part of the minefield is eroded; No. 6 coalbed is an instable unworkable coalbed. The formation has an integrated contact with the underlying formation.

- ***Shanxi Formation of lower series of Permian system (P_1s)***

It is a set of continental sedimentary rocks, mainly composed of gray and gray-black sandy mudstone, fine sandstone and silty mudstone. Its bottom is composed of ash gray pebbly gritstone (K_2). The thickness of the Formation is 9.90-48.65m and the average thickness is 36.32m. It has a conformable contact with the underlying formation.

- ***Lower Shihezi Formation of lower series of Permian system (P_1x)***

The bottom is composed of grayish-green and gray middle and coarse-grained sandstone, middle and fine-grained quartz sandstone (K_3). The lower part is composed of yellow-green, grayish-green medium grained sandstone interbedded with a small amount of siltstone; the upper part is composed of pebbly gritstone, middle and fine sandstone, thin-bedded grayish-green and gray-black mudstone. The top is composed of variegated and purple mudstone. The formation has thickness of 28.58-106.60m. The average thickness of the formation is 68.04m. It has a conformable contact with the underlying formation.

- ***Upper Shihezi Formation of upper series of Permian system (P_2s)***

The formation is distributed in the east. The maximum residual thickness in the area is 74.24m. It has a conformable contact with Lower Shihezi Formation. The lithology is composed of green-yellow or purple sandstone and mudstone. The bottom is a thick layer of green-yellow siltstone and fine-grained sandstone.

- ***Upper Pleistocene series of Quaternary (Q_3)***

The formation is distributed in the whole mine field. It is composed of pale yellow sandy loam and sand clay containing calcareous nodules and gravel locally. It has an angular unconformity contact with the underlying formation. The thickness of the formation is 0~22.00m and the average thickness is 8.29m.

- ***Holocene of Quaternary (Q_4)***

It is composed of gompholite, gravel formed from recent alluvial and proluvial as well as residual and slope deposits at both sides of the valley. The maximum thickness is 5.32m.

3.1.4.1 ***Structure***

3.1.4.1.1 *Xinglong Mine*

Xinglong Mine is in a monoclinal overall structure with a number of faults. Of these faults ten have been labelled as F_1 through F_{10}, as shown in Table 3-13 below. Nevertheless, the area of Xinglong Mine is ranked as only moderately complex from the structural point of view. The prevailing geostructural attitude is:

- NS ~ N30°W/7° ~ 23° NE

Table 3-13 Geologic Faults at Xinglong Coal Mine

Fault No.	Location	Strike	Dip	Dip Angle (°)	Fault Throw (m)	Extension Length in Mine Field (m)	Control
F_1	North	NE	SE	75	5	280	Collect Reports
F_2	North	NW	SW	65	10	600	Ground and Underground
F_3	West Central	E-NE	S-SE	75	20	550	Ground and Underground
F_4	West Central	NE	NE	75	20	500	Ground and Underground
F_5	Central-East Central	NE Section: Nearly EW SW Section: Nearly SN	NE Section: SSW Section: E Section	72	40-100	1300	Ground and Data Collection
F_6	Central Eastward	NE	NW	75	15-50	600	Ground
F_7	Central South-eastward	NE	SE	75	10-20	1100	Underground
F_8	South	Nearly EW	S	70	15-25	1500	Underground
F_9	Southwest	SW	SE	50	40	335	Data Collection
F_{10}	South	NWW	NNE	85	5	1250	Ground and Underground

3.1.4.1.2 *Hongyuan Mine*

The overall geological structure of the Hongyuan Mine field is a monocline structure which is tilted towards the east, with wide and gentle secondary folds and faults. The direction of the strata is northeast to northwest and the strata tilt southeast to northeast. The dip angle is 3°-10°, which is slightly gentle in the west while steep in the east. Of these faults ten have been labelled as F_1 through F_{15}, as shown in Table 3-14 below. Nevertheless, the area of Hongyuan Mine is ranked as only moderately complex from the structural point of view.

Table 3-14 Geologic Folds (S) and Faults (F) at the Hongyuan Coal Mine

Fold/ Fault No.	Location	Strike	Axial/Dip	Dip Angle (°)	Fault Throw (m)	Extension Length in Mine Field (m)	Control
S_1	Northeast of middle	NE	SE	5-10	N/A	930	Ground
S_2	Mid-South	EW	SW	8	N/A	1230	Ground
S_3	South	EW	S-SE	8	N/A	1200	Ground
F_1	North	EW	S	65	40-60	2080	Underground
F_2	West	EW	S	55	20	1200	Underground/ Borehole 2
F_3	West	NEE	NNW	70	10	800	Underground
F_4	West	NEE	NNW	70	10	530	Underground
F_5	East	NW	SE	56	15	75250	Surface mapping
F_6	Mid-South	NEE	SSE	60	18	550	Surface mapping and underground
F_7	Middle	NW	SE	70	15	190	Surface mapping and underground
F_8	Middle	NNE	NWW	70	6	160	Underground
F_9	Mid-South	SE	SW	81	10	750	Underground
F_{10}	South	EW	N	60	7	130	Surface mapping
F_{11}	Southwest	EW	S	60	10	200	Underground
F_{12}	Mid-North	NE	NW	65	4	200	Underground
F_{13}	Mid-North	NE	NW	65	5	225	Underground
F_{14}	Mid-North	NE	SE	65	4	230	Underground
F_{15}	Middle	NEE	SE	65	5	130	Underground

3.1.4.2 *Coal Characteristics*

3.1.4.2.1 *Xinglong Mine*

Only two coal seams of the Taiyuan formation, namely No. 2 and No. 5 seams, appear to exhibit the proper characteristics for economic mining at Xinglong. The No. 2 seam occurs at the upper portion of the formation, with an average thickness of 3.06 meters, ranging from 0.80 to 4.83 meters; the No. 5 seam is in the middle to the lower portions of the formation, with a an average thickness of 10.53 meters, ranging from 4.42 to 15.61 meters (note that the Chinese nomenclature utilized in this project does not conform to the customary method of labelling the coal seams according to order of deposition). Table 3-15 contains the overall characteristics of coal seam No. 2 and No. 5:

Table 3-15 Xinglong Mine Seams No. 2 and No. 5

Stratum	Coal Seam No.	Coal Seam Thickness (m) Minimum-Maximum Average	Space between Coal Seams Minimum-Maximum Average	Coal Seam Structure (Numbers of Dirt Band)	Lithological Character of Roof and Floor Roof	Floor	Stability and Minable State	Apparent Density
Taiyuan Formation	2	0.80-4.83 3.06	32.97-73.49 57.23	Simple 0-3	Mudstone Sandy Mudstone	Mudstone Sandy Mudstone	Reserve Area Stable and Minable	1.40
	5	4.42-15.61 10.53		Moderately Simple 0-4	Mudstone Fine Sandstone Siltstone		Reserve Area Stable and Minable	1.34

The general mining characteristics of these two target seams with regard to coal quality, washability and market use are discussed in the next chapter. An exploration program conducted within the Xinglong Mine concession has generated the necessary information towards the determination of mineral resources and mineable reserves.

3.1.4.2.2 Hongyuan Mine

Two coal seams of the Taiyuan formation exhibit the proper characteristics for economic mining of the Hongyuan Mine: No. 2 and No. 5 seams. The No. 2 seam occurs at the upper portion of the formation, with an average thickness of 3.55 meters, ranging from 0.54 to 6.70 meters; the No. 5 seam is in the middle to the lower portions of the formation, with a an average thickness of 9.22 meters, ranging from 4.42 to 14.04 meters (as noted for Xinglong Mine, the Chinese nomenclature utilized in this project does not conform to the customary method of labelling the coal seams according to order of deposition). Table 3-16 contains the overall characteristics of coal seam No. 2 and No. 5:

Table 3-16 Hongyuan Mine Seams No. 2 and No. 5

Stratum	Coal Seam No.	Coal Seam Thickness (m) Minimum-Maximum Average	Space between Coal Seams Minimum-Maximum Average	Coal Seam Structure (Numbers of Dirt Band)	Lithological Character of Roof and Floor Roof	Floor	Stability and Minable State	Apparent Density
Taiyuan Formation	2	0.54-6.70 3.55	49.61-82.06 64.51	Simple 0-1	Fine sandstone Mudstone carbonaceous Mudstone	Mudstone Sandstone	Reserve Area Stable and Minable	1.48
	5	4.42-14.04 9.22		Moderately Simple 0-1	Sandstone Mudstone	Sandstone Mudstone	Reserve Area Stable and Minable	1.40

The general mining characteristics of these two target seams with regard to coal quality, washability and market use are discussed in the next chapter. An exploration program conducted within the Hongyuan Mine concession has generated the necessary information towards the determination of mineral resources and mineable reserves.

3.1.4.2.3 *Chemical Characteristics*

The quality of the two target coal seams at both Xinglong and Hongyuan Coal Mines, i.e. No. 2 and No. 5, is comparable to the usual one achieved by other mines in that region. One notable in situ property is that both coal brands are quite dry, i.e. very low moisture in nature. Coal petrographic analyses conducted on samples recovered of the Xinglong and Hongyuan Coal Mines indicate that the main components for both coal brands are primarily fusinite and vitrinite and, secondarily, liptinite. The mineral composition of the ash is mainly clay, calcite, quartz and pyrite. Table 3-17 lists the key quality parameters for the Xinglong Mine concession and Table 3-18 lists those for the Hongyuan Mine:

Table 3-17 Xinglong Mine Coal Quality Parameters

Seam No.	Density *(t/m³)*	Caking Index	Raw Moisture *(%)*	Ash *(%)*	Volatile matter *(%)*	Sulfur *(%)*	Gross Calorific Value (Dry Basis) *(MJ/kg)*
2	1.40	15	0.54	30.61	40.46	1.42	21.59
5	1.34	7	1.23	13.31	34.15	1.83	27.26

Table 3-18 Hongyuan Mine Coal Quality Parameters Raw

Seam No.	Density *(t/m³)*	Caking Index	Moisture *(%)*	Ash *(%)*	Volatile matter *(%)*	Sulfur *(%)*	Gross Calorific Value (Dry Basis) *(MJ/kg)*
2	1.48	45	3.62	21.61	38.92	0.53	29.20
5	1.40	46	3.38	15.34	39.20	2.48	28.91

Another important characteristic for coal classification in China relates to the length of the coal flame during combustion at standard normalized conditions; according to the Chinese standards (GB/T 15224-2010) both No. 2 and No. 5 seams are ranked as "long flame, weak caking coal".

From the environmental standpoint, the run-of-mine production from both coal seams targeted for exploitation at Xinglong and Hongyuan Coal Mines, i.e. No. 2 and No. 5, would be classified as non-compliance by some key international legislations, e.g. the US threshold for sulphur dioxide emissions. The environmental footprint for either coal brand exceeds the mark of 3 pounds per million BTU of generated energy.

4. RESOURCES

Coal Resources are to be estimated and classified as measured, indicated and inferred following guidelines accepted by JORC. Following the Australian Guidelines for Estimating and Reporting of Inventory Coal, Coal Resources and Coal Reserves: measured resources are considered to be those lying within 500m of a valid point of measurement, indicated resources are those lying between 500 and 1,000m from such an observation point, and inferred coal resources are situated greater than 1,000m from a valid observation point. These classifications connote the degree of resource estimation reliability based on distance from known points of measurements.

4.1 Data Verification

After processing the maps and information supplied by the Chinese operators and reconciled with mine site records, ECSI prepared an independent estimate of the subject measured, indicated and inferred resources using methodology outlined in the JORC Code. The resource estimates have been prepared using industry-standard methodology to provide reasonable assurance that the resources can be extracted based upon core hole data, and actual mining in the concession areas. The resource assessment provided herein addresses geologic parameters related to coal thickness, faults, collapsed zones, recoverability, product yield, and other practical mining limitations. The mineral concession areas were reviewed, and a mining area defined after deducting areas where only inferred mineral exists, where significant geologic factors impact the reasonable classification of the coal resource, or where a multitude of geologic factors would prevent application of reasonable coal extraction methods. For the identified mining areas, total seam thickness grid were created using Carlson Mining (formerly SurvCADD®) software® for all the analyzed seams based on the available core hole and other data from existing observation points. An estimate of the resources was calculated based on the property boundary and mine plans of the Xingtao, Fengxi, Chongsheng, Xinglong and Hongyuan Mines. Inferred coal resource and resources deemed inaccessible due to faulting are excluded from the resource estimate.

4.2 Resource Calculation of Methodology by Chinese

The resources presented by the Chinese operators were reported using the new Chinese Resource/Reserve Classification System, which was established by the Ministry of Land and Resources ("MLR") in 1999.

This system attempts to recognize economic parameters as well as parameters related to geological levels of confidence, and is based on the complex three-dimensional United Nations Framework Classification System. It is based on a three-dimensional matrix or three-number code in the form of "123":

- The first digit represents economics:

  1 – Economic;

  2M – Marginal Economic;

2S – Sub-Marginal Economic;

3 – Intrinsic Economic.

- The second digit represents the level of technical study:

  1 – Feasibility Study;

  2 – Pre-Feasibility Study;

  3 – Scoping Study or no Study.

- The third digit represents level of geological confidence:

  1 – Measured;

  2 – Indicated;

  3 – Inferred;

  4 – Reconnaissance.

The United Nations Framework Classification (UNFC) for Energy and Mineral Resources is a universally applicable scheme for classifying/evaluating energy and mineral reserves/resources. Most importantly, it allows a common and necessary international understanding of these classifications/evaluations. The Classification is designed to allow the incorporation of currently existing terms and definitions into this framework and thus to make them comparable and compatible. This approach has been simplified through the use of a three-digit code clearly indicating the essential characteristics of extractable energy and mineral commodities in market economies, notably (i) degree of economic/commercial viability; (ii) field project status and feasibility; and (iii) level of geological knowledge.

The UNFC is a flexible system that is capable of meeting the requirements for application at national, industrial and institutional level, as well as to be successfully used for international communication and global assessments. It meets the basic needs for an international standard required to support rational use of resources, improve efficiency in management, and enhance the security of both energy supplies and of the associated financial resources. Furthermore, the new classification will assist countries with transition economies in reassessing their energy and mineral resources according to the criteria used in market economies.

The following classes of recoverable coal quantities are defined:

- Mineral Reserves including:

  – Proved Mineral Reserves: code 111

  – Probable Mineral Reserves: codes 121 + 122

- Mineral Resources (Additional or Remaining Resources) including:

  – Feasibility Mineral Resources: code 211

  – Pre-Feasibility Mineral Resources: codes 221 + 222

  – Measured Mineral Resources: code 331

  – Indicated Mineral Resources: code 332

  – Inferred Mineral Resources: code 333

  – Reconnaissance Mineral Resources: code 334

Class 111 is of prime interest to an investor since it refers to quantities that are: economically and commercially recoverable (number 1 as the first digit); have been justified by means of a feasibility study or actual production to be technically recoverable (number 1 as the second digit); and are based on reasonably assured geology (detailed exploration for solids) (number 1 as the third digit).

Table 4-1 summarizes the Chinese Resource/Reserve Classification System:

Table 4-1 Chinese Resource/Reserve Classification System

Economic Status	**Identified Mineral Resource**			**Undiscovered Mineral Resource**
	Measured	**Indicated**	**Inferred**	**Reconnaissance**
Economic	Proven Reserve (111) Reserve Base (111b)			
	Probable Reserve (121) Reserve Base (121b)	Probable Reserve (122) Reserve Base (122b)		
Marginal Economic	Reserve Base (2M11)			
	Reserve Base (2M21)	Reserve Base (2M22)		
Sub-Marginal Economic	Resource (2S11) Resource (2S21)	Resource (2S22)		
Intrinsic Economic	Resource (331)	Resource (332)	Resource (333)	Resource (334)

4.3 Comparison of Resource Standards to JORC

The current system has been shown to have created some operational difficulties for both local companies and foreign companies operating in China.

Even though the current Chinese Resource/Reserve Classification System is not readily comparable with the JORC Code, a rule of thumb comparison can be used to establish a reasonable comparison of the resource estimate. Table 4-2 summarizes the rule of thumb, which requires detailed analysis by the CP to verify its applicability.

Table 4-2 Comparison of Chinese Resource/Reserve Classification System to JORC Concession Coal Resource Estimate

Category	1999 Chinese Resource/Reserve Classification System	2004 JORC
Reserve	111, 121	Proved Reserve
	122	Probable Reserve
Resource	111b, 121b, 2M11, 2M21, 2S11, 2S21, 331	Measured Resource
	122b, 2M22, 2S22, 332	Indicated Resource
	333	Inferred Resource
	334	N/A

4.4 General Description of the Methodology Employed to Calculate Resources

- The CP collected a significant amount of geological and technical information on the subject properties. This information was provided by China Qinfa in the form of Geology/Exploration Reports, Mine Maps, Feasibility Studies, Environmental Impact Studies and other miscellaneous information.

- The CP and his team familiarized themselves with the information, especially with the geologic and geographic characteristics of the deposits. All the subject properties were explored at both regional and local level by specialized exploration crews, as indicated in the geology reports.

- Various aspects of the deposits such as coal seam dips and structure (folding, faulting, etc.) were analysed.

- The CP and its team carefully considered the regional geologic setting of the subject deposits, as well as fundamental aspects such as coal type, seam thicknesses and continuity, geotechnical aspects (rock mechanics), coal composition, etc.

- The team identified critical data which define its economic viability such as calorific power and Sulphur and ash contents, among others.

- A detailed process of data analysis was carried out in order to verify that the database was reliable. Since geophysical logs and drillhole correlation sections were also provided by China Qinfa, the CP and his team used those documents to further verify that the data provided by China Qinfa was reliable and detect any anomalous or unreliable values.

- The CP also verified that the reported core recovery was satisfactory and that the samples had been properly selected and handled (including the chain of custody) until they were submitted to the analytical labs. In all the five mines, the samples were tested at laboratories that were certified by Chinese authorities.

- Statistical analyses of the quality results were performed.

- The CP reviewed the geomechanical test results in order to better understand the roof and floor conditions of each seam.

- The CP and his team reviewed the core logs supplied by China Qinfa and compared the descriptions of the strata with information obtained from down-hole, geophysical measurement techniques, such as gamma, gamma-gamma (density), and resistivity.

- The high-resolution geophysical density log can provide data that aided the CP and his team to identify coal facies and to obtain measurements of coal thickness.

- Density logs were compared with the core logs in order to confirm the presence of high-ash coal or mineral-rich partings and to differentiate impure coal from carbonaceous shale (>50% of ash).

- Drillhole columns were plotted and the coal seams were correlated.

- A geologic model of each deposit was created using Carlson software. The model incorporated the site topography (obtained from Digital Terrain Models created from the topography files provided by China Qinfa).

- The drillhole and data point information obtained at observation points located underground were used to define areas of influence and degree of geologic knowledge confidence on the data for the thickness, continuity, quality and extent of the coal seams. Based on the confidence of the data, the resources were estimated and classified into the Measured, Indicated and Inferred categories, per the JORC Code.

- The resources under the Chinese classification system were compared with the values obtained from the independent verification carried out by the CP and his team.

- The Resources were reported in the Competent Person's Report.

- Examples of the drillhole tabulations, location maps, drillhole correlations and search radii are included in the Competent Person's Report.

Tables 4-3 through 4-5 summarize the location of drillholes and coal data points (when available) from where coal samples were obtained for each of the 5 subject mines.

Table 4-3 Xingtao Mine-Drillhole and Coal Observation Points Summary

Drillhole/ Data point	**X** *(m)*	**Y** *(m)*	**H** *(m)*	**Remarks**
X1	4,371,991.43	19,627,719.92	1,218.61	Drillhole (all seams)
X2	4,371,899.86	19,628,556.47	1,344.49	Drillhole (all seams)
X3	4,372,022.42	19,629,293.02	1,362.94	Drillhole (all seams)
X4	4,372,506.58	19,628,913.14	1,358.63	Drillhole (all seams)
93	4,372,913.52	19,629,479.45	1,319.79	Drillhole (all seams)
95	4,372,896.74	19,628,299.87	1,322.50	Drillhole (all seams)
S11	4,372,256.00	19,629,882.00	1,095.60	Coal Seam No. 4^{-1} Coal Data Point
S12	4,372,146.00	19,627,025.00	1,064.50	Coal Seam No. 4^{-1} Coal Data Point
S13	4,272,404.00	19,672,700.00	1,071.70	Coal Seam No. 4^{-2} Coal Data Point
J1	4,372,301.00	19,629,778.00	1,202.60	Coal Seam No. 4^{-2} Coal Data Point
J2	4,371,902.00	19,629,676.00	1,196.10	Coal Seam No. 4^{-2} Coal Data Point
J3	4,372,700.00	19,627,400.00	1,010.10	Coal Seam No. 4^{-2} Coal Data Point
B1	4,372,702.00	19,629,924.00	1,205.10	Coal Seam No. 8 Coal Data Point
M1	4,372,552.00	19,629,543.00	1,162.80	Coal Seam No. 9^{-1} Coal Data Point
M2	4,372,131.00	19,629,671.00	1,172.00	Coal Seam No. 9^{-1} Coal Data Point
M3	4,372,177.00	19,629,612.00	1,219.00	Coal Seam No. 9^{-1} Coal Data Point
G1	4,372,256.00	19,629,783.00	1,163.50	Coal Seam No. 9^{-2} Coal Data Point

Table 4-4 Fengxi Mine-Drillhole and Coal Observation Points Summary

Drillhole/ Data point	X (m)	Y (m)	H (m)	Remarks
54	4,375,271.63	19,626,665.52	1,347.48	Drillhole (all seams)
57	4,375,285.37	19,627,455.09	1,394.88	Drillhole (all seams)
74	4,374,092.04	19,628,201.70	1,320.45	Drillhole (all seams)
X4	4,372,506.58	19,628,913.14	1,358.63	Drillhole (all seams)
93	4,372,913.52	19,629,479.45	1,319.79	Drillhole (all seams)
95	4,372,896.74	19,628,299.87	1,322.50	Drillhole (all seams)
J_1	4,375,975.30	19,626,432.50	1,270.30	Coal Seam No. 4 Coal Data Point
J_2	4,375,831.10	19,627,348.60	1,228.10	Coal Seam No. 4 Coal Data Point
J_3	4,375,834.30	19,627,688.70	1,212.30	Coal Seam No. 4 Coal Data Point
J_4	4,375,030.80	19,626,940.10	1,210.90	Coal Seam No. 4 Coal Data Point
J_5	4,374,920.10	19,627,376.20	1,188.30	Coal Seam No. 4 Coal Data Point
J_6	4,374,211.30	19,627,373.60	1,138.60	Coal Seam No. 4 Coal Data Point
J_7	4,374,195.20	19,627,016.80	1,153.80	Coal Seam No. 4 Coal Data Point

Table 4-5 Chongsheng Mine-Drillhole and Coal Observation Points Summary

Drillhole/ Data point	X (m)	Y (m)	H (m)	Remarks
51	4,375,321.98	19,629,657.81	1,289.49	Drillhole (all seams)
52	4,375,312.97	19,629,222.23	1,224.25	Drillhole (all seams)
53	4,375,307.07	19,628,824.52	1,317.14	Drillhole (all seams)
31	4,376,501.60	19,629,444.69	1,331.29	Drillhole (all seams)
34	4,376,500.22	19,628,246.03	1,363.62	Drillhole (all seams)
M1	4,376,373.00	19,628,770.00	1,217.40	Coal Seam No. 4^{-1} Coal Data Point
M2	4,376,033.00	19,628,359.00	1,197.30	Coal Seam No. 4^{-1} Coal Data Point
M3	4,375,813.00	19,628,775.00	1,192.03	Coal Seam No. 4^{-1} Coal Data Point
M4	4,376,109.00	19,629,150.00	1,206.40	Coal Seam No. 4^{-1} Coal Data Point
M5	4,376,000.00	19,629,606.00	1,202.80	Coal Seam No. 4^{-1} Coal Data Point
J1	4,375,523.50	19,628,615.00	1,182.50	Coal Seam No. 4^{-1} Coal Data Point
J2	4,375,352.48	19,627,800.00	1,174.00	Coal Seam No. 4^{-1} Coal Data Point
J1	4,376,004.00	19,629,011.00	1,175.00	Coal Seam No. 9^{-1} Coal Data Point
J2	4,376,130.00	19,629,698.00	1,178.40	Coal Seam No. 9^{-1} Coal Data Point
J3	4,375,900.00	19,629,280.00	1,175.20	Coal Seam No. 9^{-1} Coal Data Point
J4	4,376,275.00	19,629,214.00	1,183.52	Coal Seam No. 9^{-1} Coal Data Point

Table 4-6 Xinglong Mine-Drillhole Summary

Drillhole/ Data point	X (m)	Y (m)	H (m)	Remarks
7	4,327,059.13	19,608,185.65	1,360.61	Drillhole (all seams)
8	4,327,031.64	19,608,682.29	1,296.20	Drillhole (all seams)
11	4,326,165.00	19,608,750.00	1,340.18	Drillhole (all seams)
602	4,325,753.21	19,609,180.00	1,236.33	Drillhole (all seams)
702	4,325,167.32	19,608,831.00	1,326.44	Drillhole (all seams)
ZK1	4,324,493.11	19,609,284.69	1,204.46	Drillhole (all seams)
ZK2	4,324,989.75	19,609,274.48	1,216.84	Drillhole (all seams)
ZK4	4,325,415.36	19,609,159.95	1,233.10	Drillhole (all seams)

Table 4-7 Hongyuan Mine-Drillhole Summary

Drillhole/ Data point	X (m)	Y (m)	H (m)	Remarks
Structure 1	4,328,225.14	19,609,257.96	1,289.26	Drillhole (all seams)
Structure 2	4,328,512.30	19,609,821.02	1,240.10	Drillhole (all seams)
1	4,328,139.08	19,608,609.22	1,316.89	Drillhole (all seams)
2	4,328,062.36	19,609,255.59	1,303.55	Drillhole (all seams)
4	4,327,579.42	19,608,819.59	1,295.65	Drillhole (all seams)
5	4,327,472.16	19,609,451.29	1,295.70	Drillhole (all seams)
6	4,327,444.97	19,600,203.06	1,241.41	Drillhole (all seams)
8	4,327,031.64	19,608,682.29	1,296.20	Drillhole (all seams)
9	4,327,027.70	19,609,360.00	1,269.33	Drillhole (all seams)
10	4,326,958.84	19,609,980.00	1,221.04	Drillhole (all seams)
13	4,327,889.43	19,609,809.08	1,233.54	Drillhole (all seams)
302	4,328,090.00	19,609,875.00	1,201.89	Drillhole (all seams)
404	4,326,910.21	19,610,278.10	1,188.65	Drillhole (all seams)

Figure 4-1, below, shows an example of coal seam correlations for the Xingtao mine. Figures 4-2 through 4-5 are examples of the contour maps used during the estimation of resources in seams 2 and 5 of the Xinglong and Hongyuan mines.

Figures 4-6 and 4-7 illustrate the circles of influence drawn around each drillhole as part of the criteria used for the classification of coal Resources into Measured, Indicated and Inferred categories.

Figure 4-1 Xingtao Mine – Drillhole Correlation

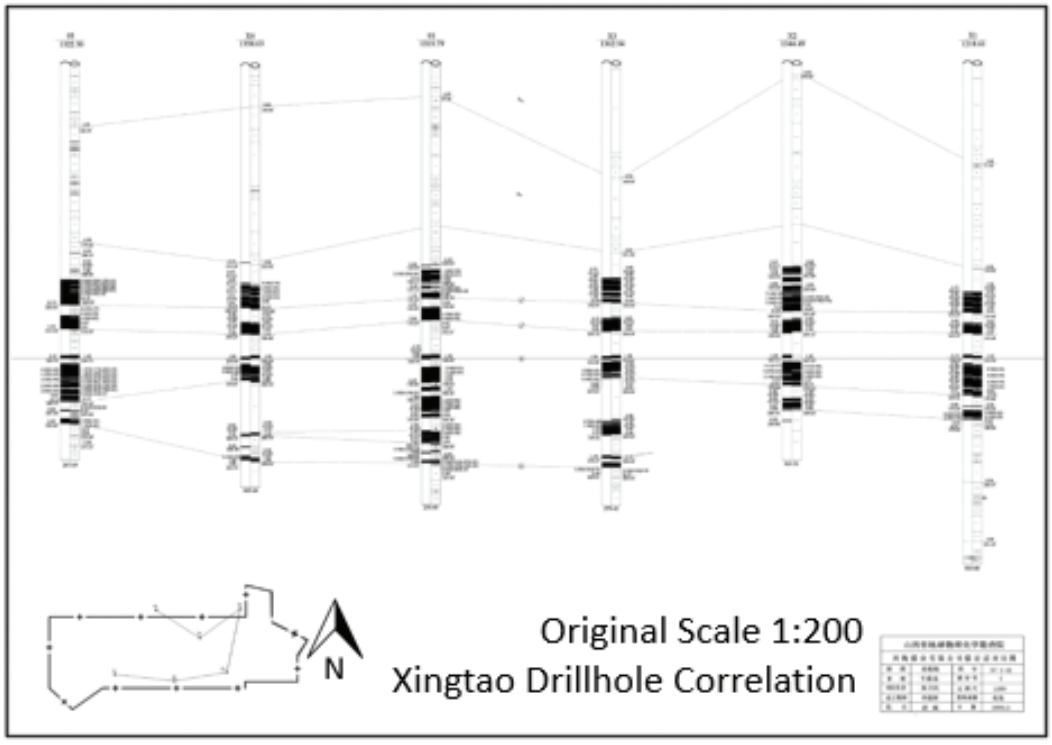


Figure 4-2 Xinglong Mine – Estimation of Resource Amount & Contour Lines of floor of the No. 2 Coal Seam

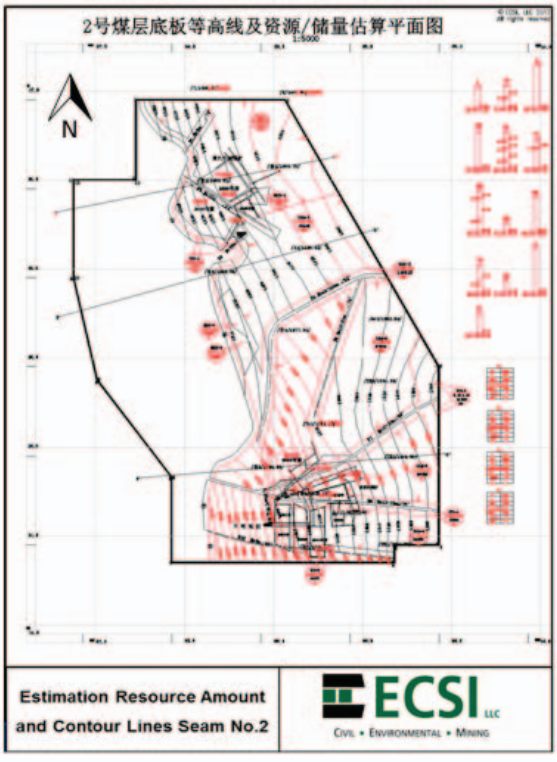


Figure 4-3 Xinglong Mine – Estimation of Resource Amount & Contour Lines of floor of the No. 5 Coal Seam

Figure 4-4 Hongyuan Mine – Estimation of Resource Amount & Contour Lines of floor of the No. 2 Coal Seam

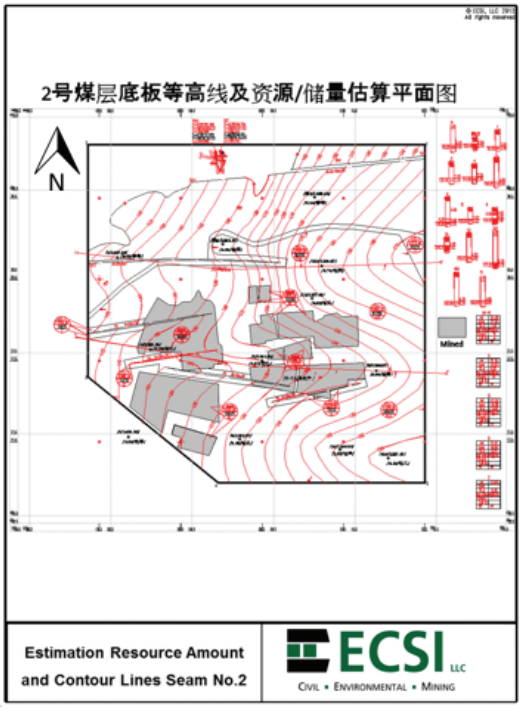
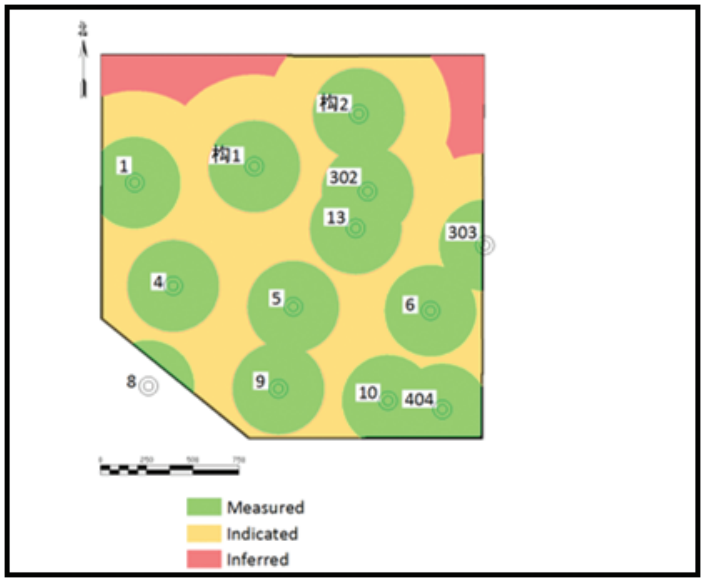


Figure 4-5 Hongyuan Mine – Estimation of Resource Amount & Contour Lines of floor of the No. 5 Coal Seam

Figure 4-6 Xinglong Mine – Circles with a radius of 250m and centered at each one of the exploration drillholes for seam No. 5

Figure 4-7 Hongyuan Mine – Circles with a radius of 250m and centered at each one of the exploration drillholes for seam No. 5



4.5 Resource Calculations for Xingtao

In total, the Xingtao concession contains 111.66 million tonnes of coal resources, out of which 79.04 million tonnes represent Measured Resources, 15.40 million tonnes are Indicated Resources and 17.22 million tonnes are Inferred Resources. Table 4-8 summarizes the calculated resource at the various mineable seams within this concession. The figures in this table represent the updated resources, taken into consideration the depletion of resources due to reported production between October 2011 and 30 June 2016, and the reclassification of certain tonnes from measured to indicated, because of the additional measurement points obtained from the advance of the mining activities during that period.

Table 4-8 Xingtao Concession Coal Resource Estimate (As of 30 June 2016)

Category	Seam No. 4^{-1} *(tonnes)*	Seam No. 4^{-2} *(tonnes)*	Seam No. 9^{-1} *(tonnes)*	Seam No. 9^{-2} *(tonnes)*	Seam No. 11 *(tonnes)*	Total In Situ Coal *(tonnes)*	% of Total Resource
J.O.R.C.							
Measured	24,485,000	9,841,000	29,800,000	14,910,000	0	79,036,000	71%
Indicated	0	0	11,800,000	3,600,000	0	15,400,000	14%
Inferred	0	0	7,960,000	4,660,000	4,600,000	17,220,000	15%
Total	24,485,000	9,841,000	49,560,000	23,170,000	4,600,000	111,656,000	100%

^ The Coal Resource statement was compiled by Mr. Laporte and is accurate as of 30 June 2016. Mr. Laporte is a registered member of the Society for Mining, Metallurgy & Exploration Inc. (SME) of the USA and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration to qualify as a CP as defined in the 2012 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr. Laporte has consented to the inclusion in this report of the matters based on his information in the form and context in which it appears.

4.6 Resource Calculations for Fengxi

The Fengxi concession contains 68.65 million tonnes of coal resources, out of which 22.47 million tonnes represent Measured Resources, 36.57 million tonnes are Indicated Resources and 9.61 million tonnes are Inferred Resources. Table 4-9 summarizes the calculated resource at the various mineable seams within this concession.

Table 4-9 Fengxi Concession Coal Resource Estimate

Category	Seam No. 4 *(tonnes)*	Seam No. 9^{-1} *(tonnes)*	Seam No. 9^{-2} *(tonnes)*	Seam No. 11 *(tonnes)*	Total In Situ Coal *(tonnes)*	% of Total Resource
J.O.R.C.						
Measured	22,468,000	0	0	0	22,468,000	33%
Indicated	680,000	14,950,000	13,230,000	7,710,000	36,570,000	53%
Inferred	0	3,780,000	3,570,000	2,260,000	9,610,000	14%
Total	23,148,000	18,730,000	16,800,000	9,970,000	68,648,000	100%

^ The Coal Resource statement was compiled by Mr. Laporte and is accurate as of 30 June 2016. Mr. Laporte is a registered member of the Society for Mining, Metallurgy & Exploration Inc. (SME) of the USA and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration to qualify as a CP as defined in the 2012 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr. Laporte has consented to the inclusion in this report of the matters based on his information in the form and context in which it appears.

4.7 Resource Calculations for Chongsheng

The Chongsheng concession contains 73.34 million tonnes of coal resources, out of which 39.76 million tonnes represent Measured Resources, 25.87 million tonnes are Indicated Resources and 7.70 million tonnes are Inferred resources. Table 4-10 summarizes the calculated resource at the various mineable seams within this concession.

Table 4-10 Chongsheng Coal Resource Estimate

Category	Seam No. 4 *(tonnes)*	Seam No. 9^{-1} *(tonnes)*	Seam No. 9^{-2} *(tonnes)*	Seam No. 11 *(tonnes)*	Total In Situ Coal *(tonnes)*	% of Total Resource
J.O.R.C.						
Measured	19,808,333	12,160,000	7,796,000	0	39,764,333	54%
Indicated	1,726,000	13,541,000	8,416,000	2,190,000	25,873,000	35%
Inferred	0	2,771,000	1,788,000	3,143,000	7,702,000	10%
Total	21,534,333	28,472,000	18,000,000	5,333,000	73,339,333	100%

^ The Coal Resource statement was compiled by Mr. Laporte and is accurate as of 30 June 2016. Mr. Laporte is a registered member of the Society for Mining, Metallurgy & Exploration Inc. (SME) of the USA and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration to qualify as a CP as defined in the 2012 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr. Laporte has consented to the inclusion in this report of the matters based on his information in the form and context in which it appears.

4.8 Resource Calculations for Xinglong

The Xinglong concession contains 45.96 million tonnes of coal resources, out of which 29.98 million tonnes represent Measured Resources, 12.71 million tonnes are Indicated Resources and 3.27 million tonnes are Inferred resources. Table 4-11 summarizes the calculated resource at the various mineable seams within this concession.

Table 4-11 Xinglong Coal Resource Estimate

Category	Seam No. 2 *(tonnes)*	Seam No. 5 *(tonnes)*	Total In Situ Coal *(tonnes)*	% of Total Resource
JORC^				
Measured	5,401,872	24,582,432	29,984,304	65%
Indicated	2,289,420	10,418,520	12,707,940	28%
Inferred	588,708	2,679,048	3,267,756	7%
Total	8,280,000	37,680,000	45,960,000	100%

^ The Coal Resource statement was compiled by Mr. Laporte and is accurate as of 30 June 2016. Mr. Laporte is a registered member of the Society for Mining, Metallurgy & Exploration Inc. (SME) of the USA and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration to qualify as a CP as defined in the 2012 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr. Laporte has consented to the inclusion in this report of the matters based on his information in the form and context in which it appears.

4.9 Resource Calculations for Hongyuan

The Hongyuan concession contains 41.78 million tonnes of coal resources, out of which 40.22 million tonnes represent Measured Resources and 1.56 million tonnes are Indicated Resources and 0 tonnes are Inferred resources. Table 4-12 summarizes the calculated resource at the various mineable seams within this concession.

Table 4-12 Hongyuan Coal Resource Estimate

Category	Seam No. 2 *(tonnes)*	Seam No. 5 *(tonnes)*	Total In Situ Coal *(tonnes)*	% of Total Resource
JORC^				
Measured	23,275,000	16,944,000	40,219,000	96%
Indicated	0	1,560,000	1,560,000	4%
Inferred	0	0	0	0%
Total	23,275,000	18,504,000	41,779,000	100%

^ The Coal Resource statement was compiled by Mr. Laporte and is accurate as of 30 June 2016. Mr. Laporte is a registered member of the Society for Mining, Metallurgy & Exploration Inc. (SME) of the USA and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration to qualify as a CP as defined in the 2012 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr. Laporte has consented to the inclusion in this report of the matters based on his information in the form and context in which it appears.

4.10 Mineral Resource Statement

The total Resources contained in the three studied concessions amount to 341.38 million tonnes. 211.47 million tonnes represent Measured Resources, 92.11 million tonnes are Indicated Resources and 37.80 million tonnes are Inferred Resources. Table 4-13 summarizes the calculated resource at the studied concessions.

Table 4-13 Total Coal Resource Estimate

Category	Xingtao *(tonnes)*	Fengxi *(tonnes)*	Chongsheng *(tonnes)*	Xinglong *(tonnes)*	Hongyuan *(tonnes)*	Total In Situ Coal *(tonnes)*
J.O.R.C.						
Measured	79,036,000	22,468,000	39,764,333	29,984,304	40,219,000	211,471,637
Indicated	15,400,000	36,570,000	25,873,000	12,707,940	1,560,000	92,110,940
Inferred	17,220,000	9,610,000	7,702,000	3,267,756	0	37,799,756
Total	111,656,000	68,648,000	73,339,333	45,960,000	41,779,000	341,382,333

^ The Coal Resource statement was compiled by Mr. Laporte and is accurate as of 30 June 2016. Mr. Laporte is a registered member of the Society for Mining, Metallurgy & Exploration Inc. (SME) of the USA and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration to qualify as a CP as defined in the 2012 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr. Laporte has consented to the inclusion in this report of the matters based on his information in the form and context in which it appears.

The Coal Resources reported in this Competent Person's Report are inclusive of the Coal Reserves.

All Resources shown in this report and specifically Section 4 are as of 30 June 2016.

5. ORE RESERVE ESTIMATION

This section of the report describes the process and steps used in defining the mineable coal reserves within the coal resources estimated in the previous section. The order is consistent with "Table 1 – Check List of Assessment and Reporting Criteria" in the JORC Code.

The JORC Code sets out the minimum standards, recommendations and guidelines for Public Reporting of exploration results, mineral resources and ore reserves. In the case of coal, it is permissible to substitute "coal" for "ore". The JORC Code main principles are competency, transparency and materiality.

Transparency requires that the reader of a Public Report is provided with sufficient information, the presentation of which is clear and unambiguous, to understand the report and is not mislead.

Materiality requires that a Public Report contains all the relevant information which investors and their professional advisers would reasonably require, and reasonably expect to find in the report, for the purpose of making a reasoned and balanced judgment regarding the Exploration Results, Mineral Resources or Ore Reserves being reported.

Competency requires that the Public Report be based on work that is the responsibility of suitably qualified and experienced persons who are subject to an enforceable professional code of ethics.

Coal Reserves are classified as proved or probable from the coal resources considering "modifying factors" including mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors.

"Proved Coal Reserves" are the economically mineable part of a measured coal resource, adjusted for diluting materials and allowances for losses when the material is mined. It is based on appropriate assessment and studies in consideration of and adjusted for reasonably assumed modifying factors. These assessments demonstrate that extraction could be reasonably justified at the time of reporting.

"Probable Coal Reserves" are the economically mineable part of an indicated coal resource, and in some circumstances a measured coal resource, adjusted for diluting materials and allowances for losses when the material is mined. It is based on appropriate assessment and studies in consideration of and adjusted for reasonably assumed modifying factors. These assessments demonstrate that extraction could be reasonably justified at the time of reporting.

5.1 Background

Consistent with the JORC Code, only "Indicated Resources" are classified as "Probable Reserves", and only "Measured Resources" are classified as "Proved Reserves." There are "Inferred Resources" that were identified and excluded from the Reserve estimate. The operators have completed detailed mine planning and procedures are in place for continued updating as conditions warrant.

Moreover, ECSI demonstrated the economic viability of the reserve by interrelating actual and current performance at the mines, when applicable, with coal thickness; coal quality; costs of mining, processing, and transportation; expected selling price and other modifying factors.

5.2 Description of Mining Method – Xingtao

The technical information reviewed by ECSI indicates that the preferred mining method to that was implemented at Xingtao is the Longwall Top Coal Caving (LTCC).

LTCC was introduced and has been improved over the last 20 years. More than 90 such longwalls currently operate in China.

Yanzhou Coal Mining operates six underground coal mines in the Shandong Province of China and each of these underground mines is operating LTCC longwalls. Combined, they produce approximately 40 million tonnes per year (mt/y). Yanzhou's Jining No. 3 mine, at an operating depth of more than 600m, produced more than 10 million mt in 2005, using solely LTCC production techniques.

Due to the inherent operational problems and high costs associated with the multi-slicing longwall method, and the legislative requirement from the Chinese central government of a 83% (minimum) recovery rate, LTCC was introduced to the Chinese coal industry in 1982 (based on the 'Soutirage' longwall caving method originally developed in the French coal mining industry). The soutirage methods allowed for extraction of up to approximately 9m thickness with only one set of panel development roadways and infrastructure. From these initial methods the Chinese industry has gone on to develop the LTCC into a distinctly different method with improved efficiency, safety and production rates.

LTCC is a conventional retreat longwall face with a second armored face conveyor (AFC) towed behind the shields to recover coal that would otherwise fall into the goaf gob and be lost. The roof supports are of a modified design incorporating a system of hydraulically operated tail-canopies at the rear of the support which can be moved up and down to allow the broken coal in the gob area to spill onto a second AFC. This process is allowed to continue until all of the coal is recovered and waste rock appears. At this time, the tail canopies can be lowered and "gates" shut, pulling the AFC forward to stop recovery of product from the gob. The rear AFC pan line is connected to the shields via a chain and hydraulic ram. The chain gives flexibility while the ram drags the pans in behind the shields.

The Chinese industry has reported averages of 15,000 to 20,000 tpd for an LTCC face.

5.3 Description of Mining Method – Fengxi

Given the relatively simple geological structure and hydrogeological conditions of this deposit, the operator has chosen the LTCC method as the preferred mining method for this property, especially for seam No. 4. This method was described in the section related to the Xingtao operation.

5.4 Description of Mining Method – Chongsheng

The Chongsheng feasibility study indicates that the LTCC method was selected as the most suitable for the prevailing geologic conditions and forecast production levels. This method was described in the section related to the Xingtao operation.

5.5 Description of Mining Method – Xinglong

Coal extraction will be through longwall mining for an extraction ratio of approximately 75% (nominally 75.64% per official mine plan documents). The longwall will have a 120-meter face aligned with the geostructural strike of the seam; the prescribed panel width is relatively short. The face direction chosen is retreat mining rather than the advance option that can be observed in many Chinese deep mining operations. The type of longwall method selected will employ fully mechanized coal cutting and face support systems, with 12 sectors to be developed underground. This is a multiple seam scenario and for technical reasons the initial excavations are to begin on the No. 2 seam level and subsequently progress to the underlying No. 5 seam.

Xinglong Mine is being scheduled to operate at 330 days per calendar year. The total manning table is designed to consist of 615 direct employees working on four shifts per day; our team has not yet understood the exact composition and hourly distribution of these four shifts, but the structure is similar to many other underground coal mines.

Mine access has been designed by three inclined shafts:

- main incline
- service incline
- return ventilation incline

5.6 Description of Mining Method – Hongyuan

Coal extraction will be through longwall mining for an extraction ratio of approximately 75%. The longwall will have a 150-meter face aligned with the geostructural strike of the seam; the prescribed panel width is also considered relatively short. The face direction chosen is retreat mining rather than the advance option that can be observed in many Chinese deep mining operations. The type of longwall method selected will employ fully mechanized coal cutting and face support systems. Just like for the Xinglong Mine operation, this is a multiple seam scenario and for technical reasons the initial excavations are to begin on the No. 2 seam level and subsequently progress to the No. 5 seam.

The Hongyuan Mine is scheduled to operate at 330 days per calendar year. The total manning table is designed to consist of 299 direct employees working on four shifts per day. Even though the structure is similar to many other underground coal mines, it is evident that this will be a less personnel-intense operation than Xinglong Mine.

Mine access has been designed by three inclined shafts:

- main incline
- service incline
- return ventilation incline

5.7 Reserve Estimation Parameters

The coal reserve estimate was prepared using the proposed mine development model where coal extraction would be conducted primarily by longwall mining methodologies (more specifically Longwall Top Coal Caving or LTCC). Entries facilitating the movement of coal, workers, materials and supplies, and ventilation air would be established by a combination of continuous mining and road header equipment. The mine plan was reviewed for the isolation and avoidance of significant geologic factors impacting the thickness and integrity of the coal seam, and the safety of the workers. Where necessary, extraction plans were changed to effect maximum extraction of the coal resources in consideration of the modifying factors. Adjustments to the mine plans were made for previous mining, mine encroachment areas, faults and other geologic factors, as well as areas not likely to be mined due to the overall geometry of the reserves and mineral boundary protection. Mining recovery for the coal reserve estimate follows the geometry of the mine plans projections, including entry widths, pillar sizes and proposed longwall panel dimensions. The coal reserve estimate includes a preparation plant yield adjustment for material not likely to be sold.

As defined by JORC, a Coal Reserve is the economically mineable part of a Measured or Indicated Coal Resource.

Coal Reserve estimates include diluting materials and are adjusted for losses that may occur when the coal is mined. Appropriate assessments, which may include feasibility studies, have been carried out. These assessments should include proper consideration of all relevant 'modifying factors' such as: mining methods, beneficiation and economic, marketing, legal, environmental, social and governmental factors. These assessments should demonstrate that at the time of reporting, economic extraction could reasonably be justified. Coal Reserves are subdivided in order of increasing confidence into Probable Coal Reserves and Proved Coal Reserves.

5.8 General Description of the Methodology Employed to Estimate Coal Reserves

- The Resources used for the calculation of the Reserves are those estimated in the preceding section of the Competent Person's Report. The Resources are inclusive of the Coal Reserves.

- The Competent Person's Report clearly states that the CP visited the Huameiao Mines in three separate occasions and the Shenda mines in two occasions. Details of the scope of those visits and the information obtained during them are also provided in this Competent Person's Report.

- The Modifying Factors applied in this Competent Person's Report. are based on a combination of mining considerations such as the foreseeable coal recovery (which depends on the extraction technique, the geologic and geomechanic characteristics of the deposit, among others), mining dilution, infrastructure, etc.

- Also, infrastructure availability and limitations, environmental considerations, cost and revenue factors, availability of a market for the produced coal and economic and social considerations.

- As initially mentioned in the Competent Person's Report., Feasibility Studies were prepared by reputable Regional Design Institutes and/or other recognized technical entities. The CP and his team reviewed those Feasibility studies and was satisfied that they presented technically achievable and economically viable mine plans for the subject mines.

- The mining method recommended for the development of the coal resources in all 5 mines is through longwall methods, more specifically the top-coal caving method, which was developed in Europe and implemented in multiple operations in China and Australia, and which takes advantage of the longwall mining technique and the significant thickness of the coal mines in the subject properties.

- It is the opinion of the CP that the most significant Modifying Factor for the estimation of Reserves is Mining Recovery, since it is inherent to the tonnage that can be successfully extracted.

- The feasibility studies indicated that the expected mining recovery factor is between 75% and 80%. Based on the CP experience and reported mine recovery factors in similar operations, that range is conservative. Experiences in Australia and China indicate that the recovery at mines operating under conditions similar to those found at the former Huameiao and Shenda operations, could reach 85%.

- The CP and his team do not consider that there will be any significant environmental impacts associated with the operations that could influence the recovery of coal at the subject properties.

- The infrastructure in place at the 5 mines is not only sufficient, but actually overdesigned for the target production capacity of the mines and, therefore, no foreseeable infrastructure or equipment issues will constitute a valid Modifying Factor for those operations.

- The high productivity of the adopted mining technique has proved key to allow the operations to produce at low costs, keeping them financially viable even in a constrained market as the current Chinese coal market. Since the totality of the coal production from the subject mines goes to the local market, it is not influenced by external factors such as foreign exchange rates. Therefore, costs (direct and indirect) do not constitute a valid Modifying Factor for those operations.

- Even though the current sales prices are low, coal is a commodity in high demand in China, and particularly in the Shanxi Province where the operations are located. In the foreseeable future, it is not likely that the appetite of the market for coal of the quality of the one produced at the China Qinfa mines would diminish; therefore, market conditions are not considered a valid Modifying Factor.

- The subject operations, even those that have not reached commercial production levels yet, have demonstrated that they can efficiently produce coal at low cost and that their financial model demonstrates that the operations are feasible, even in a low-price environment. As a consequence of this, the economic factors do not represent a significant Modifying Factor for the subject mines.

- During the site visits to the China Qinfa mines, it was observed that the company maintains a good relationship with the communities located in the vicinity of the operations. Moreover, China Qinfa field personnel indicated that many of their workers come from nearby communities and that the operations are considered very important for the economy of their surrounding areas; therefore, the social matters do not represent a significant Modifying Factor for the subject mines.

- The QP considers that no other external factors will have an impact on the quantity or quality of the coal produced at the China Qinfa mines and, therefore, does not deem any other factors as significant Modifying Factors.

- Since the Mine Recovery factors included in the feasibility studies could be considered conservative, based on both the industry statistics for the type of operations implemented by China Qinfa, and the professional experience of the CP in underground coal operations in general, and particularly on longwall operations, it is the CP's professional opinion that those Mine Recovery factors represent a conservative value to be used a Modifying factors for the estimation of coal reserves, as follows:

    - Xingtao: 79.6% for all seams

    - Fengxi: 75% for all seams

    - Chongsheng: 75% for all seams, except for seam 11 (80%)

    - Xinglong: 75% for seams 2 and 5

    - Hongyuan: 75% for seams 2 and 5

- There is enough conservatism built into those values as to safely represent adequate Modifying Factors for the subject operations.

- The Reserves are calculated by applying the Modifying Factor to the reported Resources. Depending on the confidence of the Resources, the estimated Reserves will be Proved or Probable.

- For the preparation of the Reserve Estimates, the depletion of the Reserves have been taken into account by deducting the reported raw coal production figures from the initial Reserves. Additionally, the advance of the underground operations has allowed, in certain cases, the reclassification of Indicated Resources into Measured Resources and Probable Reserves into Proved Reserves.

5.9 Reserve Statement – Xingtao

The technical documents provided by the operator indicate that an overall recovery rate of coal recovery, after applying all the relevant modifying factors, is 79.6%.

It has been determined that the Xingtao concession contains approximately 75.17 million tonnes of Total Reserves, out of which 12.26 million tonnes correspond to Probable Reserves and 62.91 million tonnes are Proved Reserves.

The results of the analysis of the identified resources contained in the various mineable seams, and the application of the corresponding losses, is summarized in Table 5-1 (Note: all resources in Seam 11 are inferred and are not convertible to Reserves):

Table 5-1 Xingtao Coal Reserve Estimate

	Resource (tonnes)			Mining	Probable	Proved	Total
Seam Name	**Indicated**	**Measured**	**Total**	**Recovery**	**Reserves**	**Reserves**	**Reserves**
				%	*(tonnes)*	*(tonnes)*	*(tonnes)*
4^{-1}	0	24,485,000	24,485,000	79.6	0	19,490,060	19,490,060
4^{-2}	0	9,841,000	9,841,000	79.6	0	7,833,436	7,833,436
9^{-1}	11,800,000	29,800,000	41,600,000	79.6	9,392,800	23,720,800	33,113,600
9^{-2}	3,600,000	14,910,000	18,510,000	79.6	2,865,600	11,868,360	14,733,960
Total	15,400,000	79,036,000	94,436,000		12,258,400	62,912,656	75,171,056

^ The Coal Reserve statement was compiled by Mr. Laporte and is accurate as of 30 June 2016. Mr. Laporte is a registered member of the Society for Mining, Metallurgy & Exploration Inc. (SME) of the USA and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration to qualify as a CP as defined in the 2004 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr. Laporte has consented to the inclusion in this report of the matters based on his information in the form and context in which it appears.

The quality values associated with the proximate analyses performed on coal from the Xingtao concession are summarized in Table 5-2:

Table 5-2 Xingtao ROM Coal Quality

Seam No.	Moisture (%)	Ash (%)	Volatile Matter (%)	Sulfur (%)	Energy Content (MJ/kg)
4^{-1}	3.58	27.52	41.11	0.66	19.60
4^{-2}	3.54	20.78	40.83	0.96	22.81
8	3.36	25.17	42.18	2.42	22.28
9^{-1}	3.07	26.95	42.07	1.96	20.74
9^{-2}	2.65	22.10	42.24	1.82	23.31
11	2.73	30.99	40.92	1.90	19.61

5.10 Reserve Statement – Fengxi

The feasibility study provided by the operator indicates that an overall recovery rate of coal, after applying all the relevant modifying factors, is 75.0%.

It has been determined that the Fengxi concession contains approximately 44.28 million tonnes of Total Reserves, out of which 27.43 million tonnes correspond to Probable Reserves and 16.85 million tonnes are Proved Reserves.

The results of the analysis of the identified resources contained in the various mineable seams, and the application of the corresponding losses, is summarized in Table 5-3:

Table 5-3 Fengxi Coal Reserve Estimate

	Resource (tonnes)			Mining	Probable	Proved	Total
Seam Name	Indicated	Measured	Total	Recovery %	Reserves (tonnes)	Reserves (tonnes)	Reserves (tonnes)
4	680,000	22,468,000	23,148,000	75	510,000	16,851,000	17,361,000
9^{-1}	14,950,000	0	14,950,000	75	11,212,500	0	11,212,500
9^{-2}	13,230,000	0	13,230,000	75	9,922,500	0	9,922,500
11	7,710,000	0	7,710,000	75	5,782,500	0	5,782,500
Total	36,570,000	22,468,000	59,038,000		27,427,500	16,851,000	44,278,500

^ The Coal Reserve statement was compiled by Mr. Laporte and is accurate as of 30 June 2016. Mr. Laporte is a registered member of the Society for Mining, Metallurgy & Exploration Inc. (SME) of the USA and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration to qualify as a CP as defined in the 2004 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr. Laporte has consented to the inclusion in this report of the matters based on his information in the form and context in which it appears.

The quality values associated with the proximate analyses performed on coal from the Fengxi concession are summarized in Table 5-4:

Table 5-4 Fengxi ROM Coal Quality

Seam No.	Moisture (%)	Ash (%)	Volatile Matter (%)	Sulfur (%)	Energy Content (MJ/kg)
4	3.42	25.38	40.79	0.54	30.83
9^{-1}	3.46	27.73	38.34	0.86	31.52
9^{-2}	2.66	25.65	42.22	1.89	32.21
11	2.18	37.12	39.84	1.85	30.14

5.11 Reserve Statement – Chongsheng

The feasibility study provided by the operator indicates that an overall recovery rate of coal recovery, after applying all the relevant modifying factors, is 75.0% for Seams 4, 9^{-1} and 9^{-2}, and 80% for Seam 11.

It has been determined that the Chongsheng concession contains approximately 49.33 million tonnes of Total Reserves, out of which 19.51 million tonnes correspond to Probable Reserves and 29.82 million tonnes are Proved Reserves.

The results of the analysis of the identified resources contained in the various mineable seams, and the application of the corresponding losses, is summarized in Table 5-5:

Table 5-5 Chongsheng Coal Reserve Estimate

	Resource (tonnes)			Mining	Probable	Proved	Total
Seam Name	Indicated	Measured	Total	Recovery %	Reserves (tonnes)	Reserves (tonnes)	Reserves (tonnes)
4	1,726,000	19,808,333	21,534,333	75	1,294,500	14,856,250	16,150,750
9^{-1}	13,541,000	12,160,000	25,701,000	75	10,155,750	9,120,000	19,275,750
9^{-2}	8,416,000	7,796,000	16,212,000	75	6,312,000	5,847,000	12,159,000
11	2,190,000	0	2,190,000	80	1,752,000	0	1,752,000
Total	25,873,000	39,764,333	65,637,333		19,514,250	29,823,250	49,337,500

^ The Coal Reserve statement was compiled by Mr. Laporte and is accurate as of 30 June 2016. Mr. Laporte is a registered member of the Society for Mining, Metallurgy & Exploration Inc. (SME) of the USA and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration to qualify as a CP as defined in the 2004 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr. Laporte has consented to the inclusion in this report of the matters based on his information in the form and context in which it appears.

The quality values associated with the proximate analyses performed on coal from the Chongsheng concession are summarized in Table 5-6:

Table 5-6 Chongsheng ROM Coal Quality

Seam No.	Moisture (%)	Ash (%)	Volatile Matter (%)	Sulfur (%)	Energy Content (MJ/kg)
4	2.95	21.33	40.65	0.45	24.86
9^{-1}	2.2	21.38	39.65	1.86	25.07
9^{-2}	1.9	23.58	42.89	2.29	23.83
11	2.38	29.15	37.97	2.58	23.37

5.12 Reserve Statement – Xinglong

The feasibility study provided by the operator indicates that an overall recovery rate of coal recovery, after applying all the relevant modifying factors, is 75.0%.

It has been determined that the Xinglong concession contains approximately 32.02 million tonnes of Total Reserves, out of which 22.49 million tonnes correspond to Proved Reserves and 9.53 million tonnes are Probable Reserves.

The results of the analysis of the identified resources contained in the various mineable seams, and the application of the corresponding losses, is summarized in Table 5-7:

Table 5-7 Xinglong Coal Reserve Estimate

	Resource (tonnes)			Mining	Probable	Proved	Total
Seam Name	Indicated	Measured	Total	Recovery %	Reserves (tonnes)	Reserves (tonnes)	Reserves (tonnes)
No. 2	2,289,420	5,401,872	7,691,292	75	1,717,065	4,051,404	5,768,469
No. 5	10,418,520	24,582,432	35,000,952	75	7,813,890	18,436,824	26,250,714
Total	12,707,940	29,984,304	42,692,244		9,530,955	22,488,228	32,019,183

^ The Coal Reserve statement was compiled by Mr. Laporte and is accurate as of 30 June 2016. Mr. Laporte is a registered member of the Society for Mining, Metallurgy & Exploration Inc. (SME) of the USA and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration to qualify as a CP as defined in the 2004 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr. Laporte has consented to the inclusion in this report of the matters based on his information in the form and context in which it appears.

The quality values associated with the proximate analyses performed on coal from the Xinglong concession are summarized in Table 5-8:

Table 5-8 Xinglong ROM Coal Quality

Seam No.	Moisture (%)	Ash (%)	Volatile Matter (%)	Sulfur (%)	Energy Content (MJ/kg)
No. 2	0.54	30.61	40.60	1.42	21.59
No. 5	1.23	13.31	34.15	1.83	27.26

5.13 Reserve Statement – Hongyuan

The feasibility study provided by the operator indicates that an overall recovery rate of coal recovery, after applying all the relevant modifying factors, is 75.0%.

It has been determined that the Hongyuan concession contains approximately 31.33 million tonnes of Total Reserves, out of which 30.16 million tonnes correspond to Proved Reserves and 1.17 million tonnes are Probable Reserves.

The results of the analysis of the identified resources contained in the various mineable seams, and the application of the corresponding losses, is summarized in Table 5-9:

Table 5-9 Hongyuan Coal Reserve Estimate

	Resource (tonnes)			Mining	Probable	Proved	Total
Seam Name	Indicated	Measured	Total	Recovery %	Reserves (tonnes)	Reserves (tonnes)	Reserves (tonnes)
No. 2	0	23,275,000	23,275,000	75	0	17,456,250	17,456,250
No. 5	1,560,000	16,944,000	18,504,000	75	1,170,000	12,708,000	13,878,000
Total	1,560,000	40,219,000	41,779,000		1,170,000	30,164,250	31,334,250

^ The Coal Reserve statement was compiled by Mr. Laporte and is accurate as of 30 June 2016. Mr. Laporte is a registered member of the Society for Mining, Metallurgy & Exploration Inc. (SME) of the USA and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration to qualify as a CP as defined in the 2004 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr. Laporte has consented to the inclusion in this report of the matters based on his information in the form and context in which it appears.

The quality values associated with the proximate analyses performed on coal from the Xinglong concession are summarized in Table 5-10:

Table 5-10 Hongyuan ROM Coal Quality

Seam No.	Moisture *(%)*	Ash *(%)*	Volatile Matter *(%)*	Sulfur *(%)*	Energy Content *(MJ/kg)*
No. 2	3.62	21.51	38.92	0.53	29.20
No. 5	2.01	15.34	39.20	2.48	28.91

5.14 Combined Reserve Statement

The Coal Resource estimates used as a basis for the Coal Reserve estimate were audited and updated by the CPs from prior estimates by the operators and as indicated in the supplied geologic and feasibility studies, as well as from previous Competent Person's Reports prepared for these properties. The results of all studies are fairly consistent in the quantity of resources available to support the mine plan production levels.

The Total Reserves of the subject concessions amounts to approximately 232.14 million tonnes, out of which 162.24 million tonnes correspond to Proved Reserves and 69.90 million tonnes are Probable Reserves and are shown in Table 5-11.

Table 5-11 Total Coal Reserves Estimate

Category	Xingtao *(tonnes)*	Fengxi *(tonnes)*	Chongsheng *(tonnes)*	Xinglong *(tonnes)*	Hongyuan *(tonnes)*	Total Reserves *(tonnes)*
J.O.R.C.						
Proved	62,912,656	16,851,000	29,823,250	22,488,228	30,164,250	162,239,384
Probable	12,258,400	27,427,500	19,514,250	9,530,955	1,170,000	69,901,105
Total	75,171,056	44,278,500	49,337,500	32,019,183	31,334,250	232,140,489

^ The Coal Reserve statement was compiled by Mr. Laporte and is accurate as of 30 June 2016. Mr. Laporte is a registered member of the Society for Mining, Metallurgy & Exploration Inc. (SME) of the USA and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration to qualify as a CP as defined in the 2004 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr. Laporte has consented to the inclusion in this report of the matters based on his information in the form and context in which it appears.

6. MINING

The actual mining at the three Huameiao mines will be similar in method and structure. All three mines have been or are being developed to utilize rubber tired access and transport and will employ the longwall mining method. In the thicker seams the longwall method will include either multiple slice or longwall caving methods to improve the overall recovery. Both of the proposed methods have been successfully used in China in other projects.

One area where the design appears to be inadequate at this point is in the rock mechanics and subsidence studies that are needed to fully understand the mechanics of mining so many seams in close proximity to each other.

The geological setting at Xinglong and Hongyuan Coal Mines calls for an underground mining method to exploit their coal resources in the No. 2 and No. 5 seams.

The concession area for Xinglong Mine is of 4.01 km^2 and the permit process pursued by Shanxi Xinzhou Shenchi Xinglong Coal Company Co. has secured government approval to produce up to 900 thousand metric tonnes per year after the merger with the neighbouring mining operations. Xinglong Mine is expected to employ 615 people.

The concession area for Hongyuan Mine is of 4.05 km^2. The permit process pursued by Shanxi Xinzhou Shenchi Hongyuan Coal Company Co. has secured approval to produce up to 900 thousand metric tonnes per year, and it is expected to employ 299 people.

Both Xinglong and Hongyuan Coal Mines are therefore integrated mining complexes and their business philosophy is to build the mines in one step to achieve their authorized annual coal productions. There are no plans for expansion in the near future and the reserve base is adequate for the specified mine output, meaning that the life-of-mine span is set for a few decades, in line with other similar endeavours.

6.1 Mining Licenses

The mining licenses are discussed and listed in Section 1 and Section 2 are valid until November 2014 (Xinglong) and October 2016 (Hongyuan), which are being renewed as of the date of this report. Copies of the actual mining licenses with English translations are included as Appendix A.

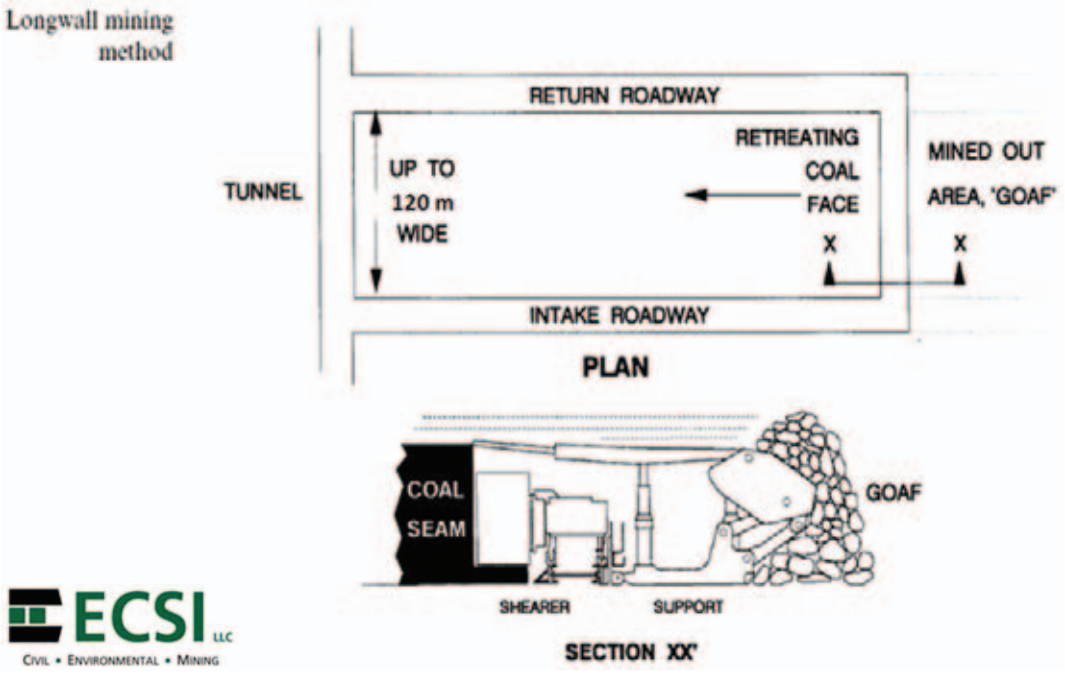
6.2 Mining Methods and Application

The mining method utilized is basically the same for all five mining projects. In general, the mines are accessed by three different slopes/shafts where one is a high angle slope that is for the conveyor system for the coal production, a transportation access that has a gradient to allow the use of rubber tired, mobile equipment and a ventilation shaft. In Fengxi the transportation access was originally planned to use a hoisting or winch system, but in the actual construction the access was lengthened and the gradient lowered to allow the use of the much more flexible rubber tired equipment.

The main entries for access to the production faces generally are three parallel entries driven by continuous mining equipment. The access for these three entries is usually in coal and provides access, coal transport and ventilation to the production face.

The production is done by the development of a single entry on each side of a longwall face and the longwall faces of different widths mined in a retreating type method. In several of the mineable seams it is planned to utilize longwall units that are adaptable to longwall caving type production where a normal longwall face cuts the bottom 2.5-3.0 meters and allows the remainder of the seam to break, cave and be delivered to a conveyor system at the rear of the shield support (Figure 6-1). This method has been successfully implemented in the first seam mined at Xingtao where the 4^{-1} Seam is 10 meters thick.

Figure 6-1 Seam Schematic



The longwall caving method is explained in detail in Section 5. The mine maps are shown in Figure 6-2 Xingtao, Figure 6-3 Fengxi and Figure 6-4 for Chongsheng.

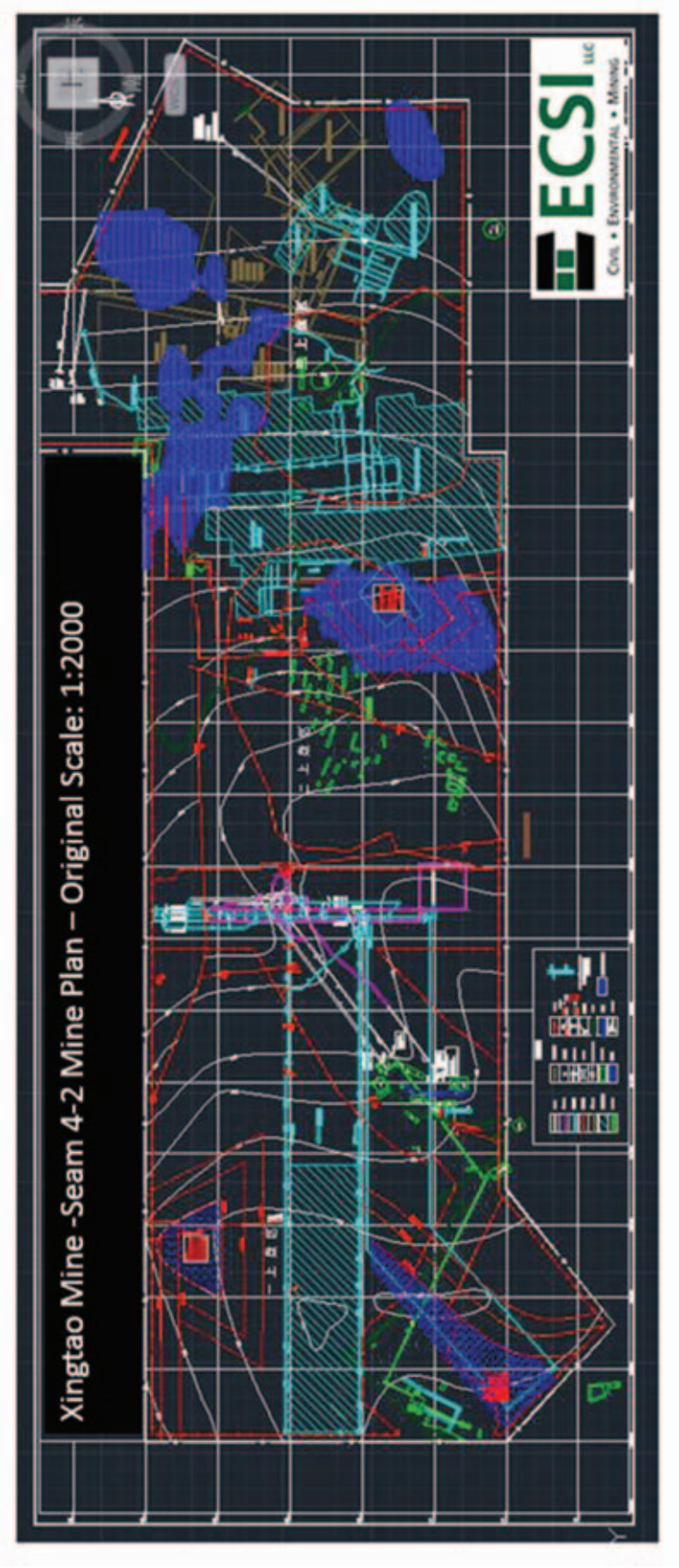


Figure 6-2 Xingtao Mine – Seam 4-2 Mine Plan

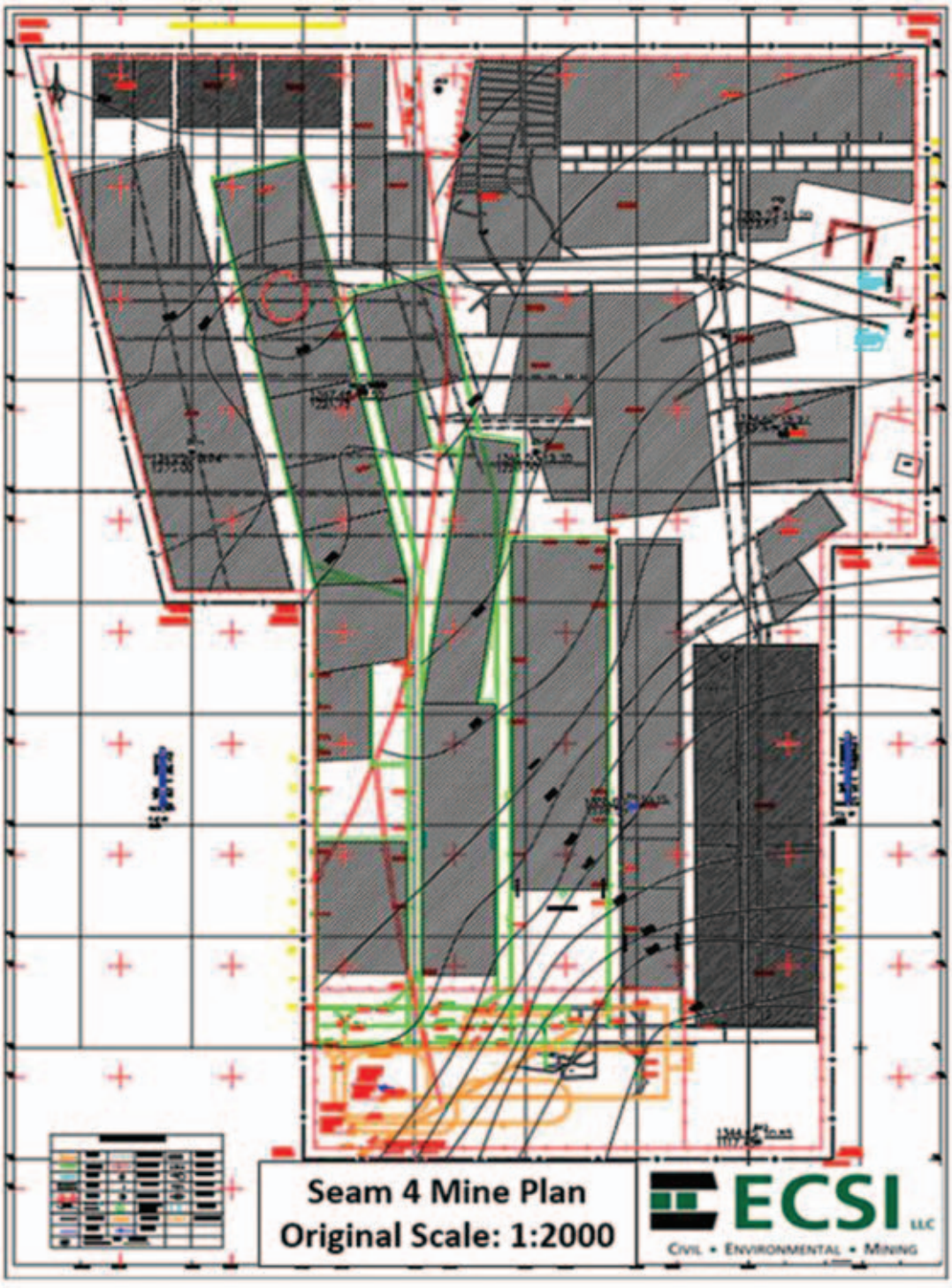


Figure 6-3a Fengxi Mine – Seam 4 Mine Plan

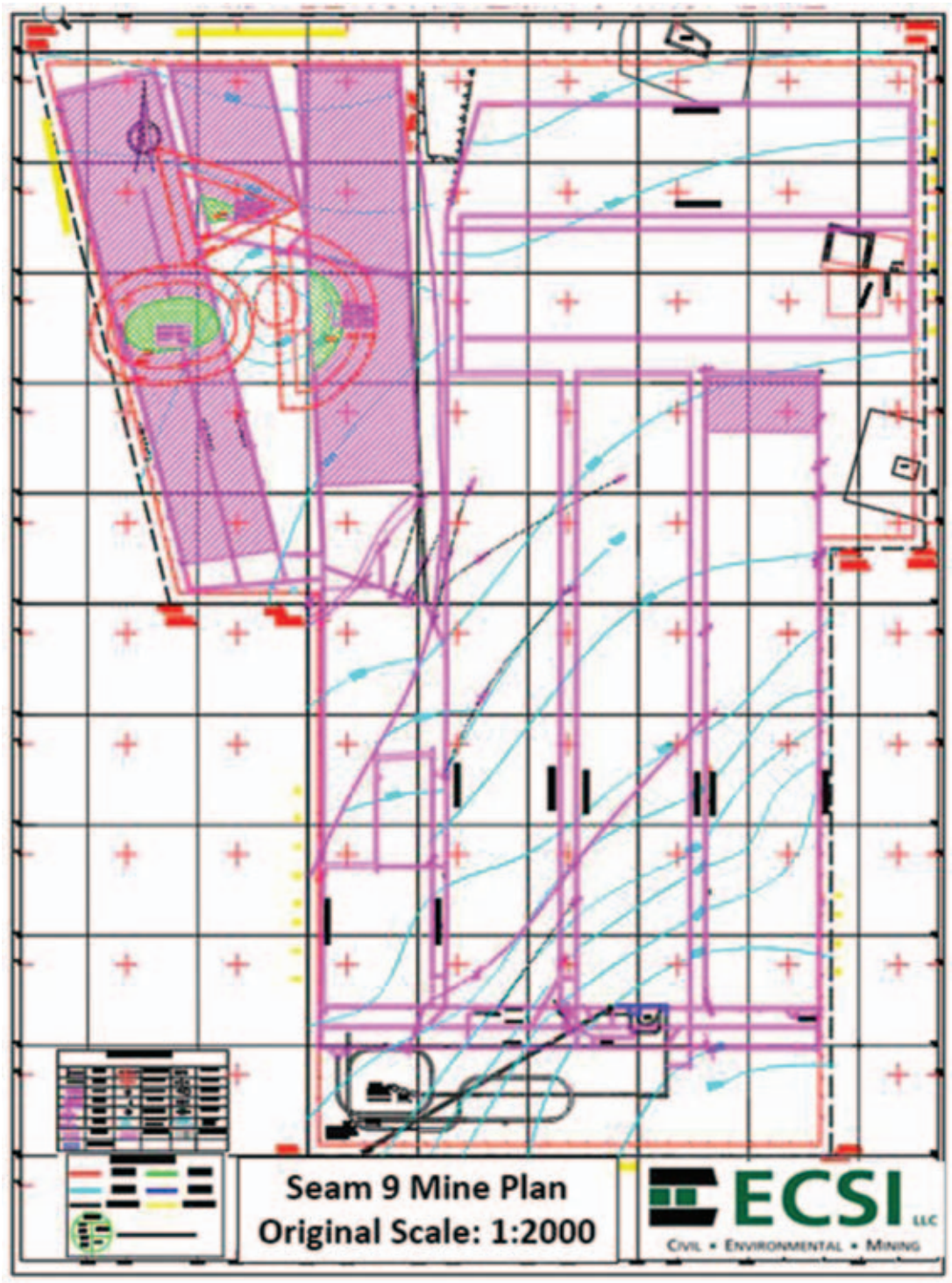


Figure 6-3b Fengxi Mine – Seam 9 Mine Plan

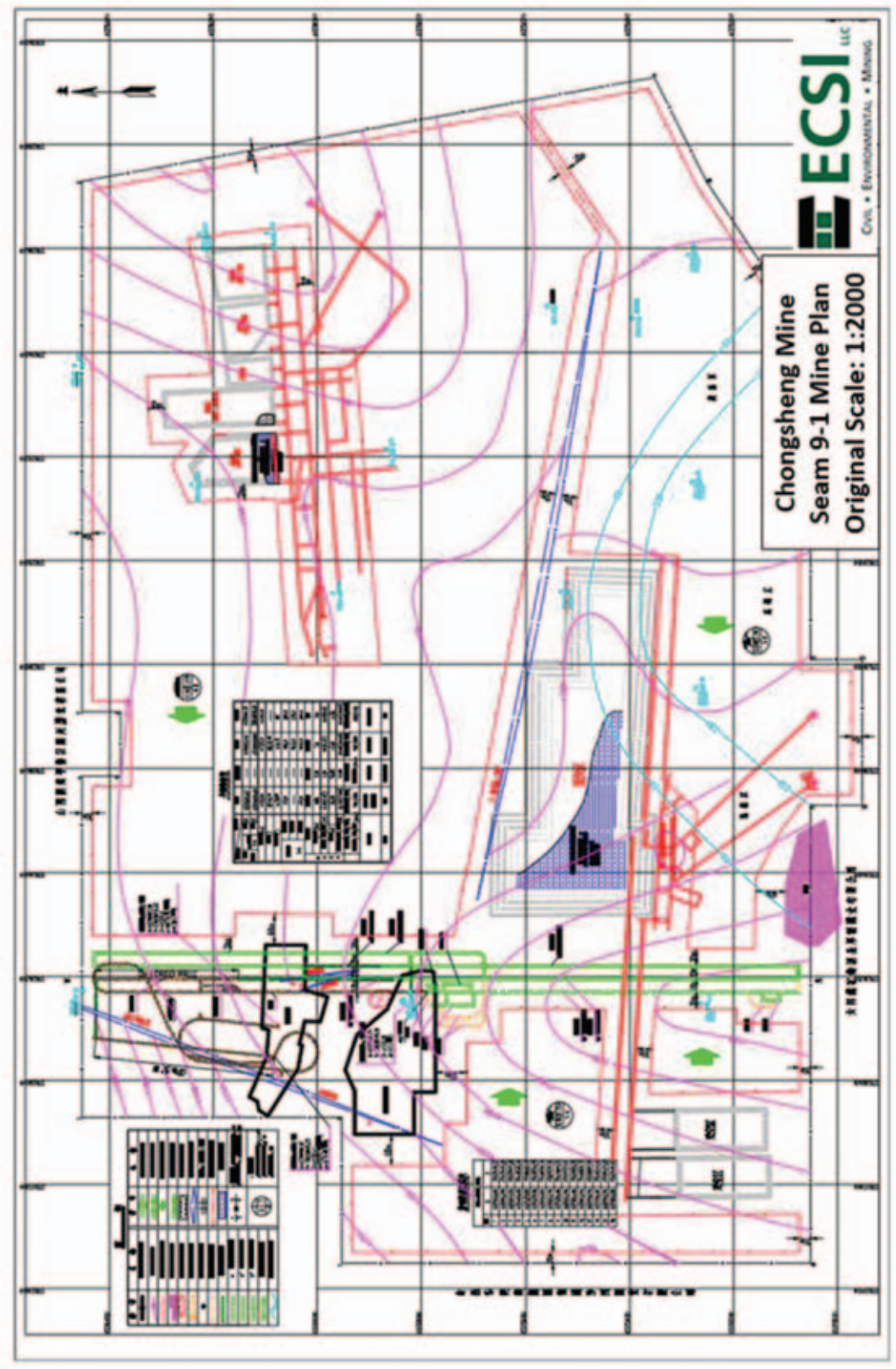


Figure 6-4a Chongsheng Mine – Seam 9-1 Mine Plan

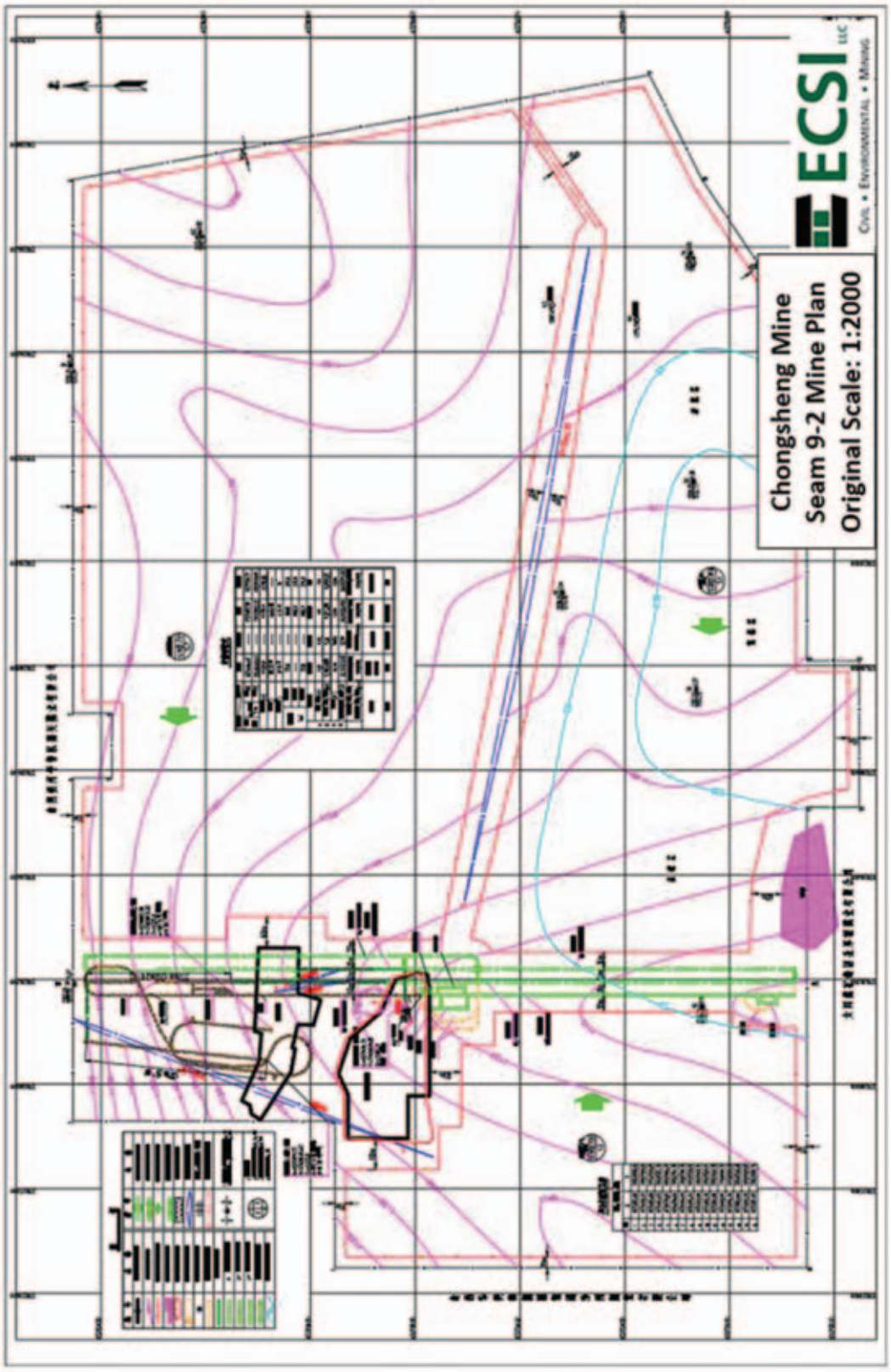


Figure 6-4b Chongsheng Mine – Seam 9-2 Mine Plan

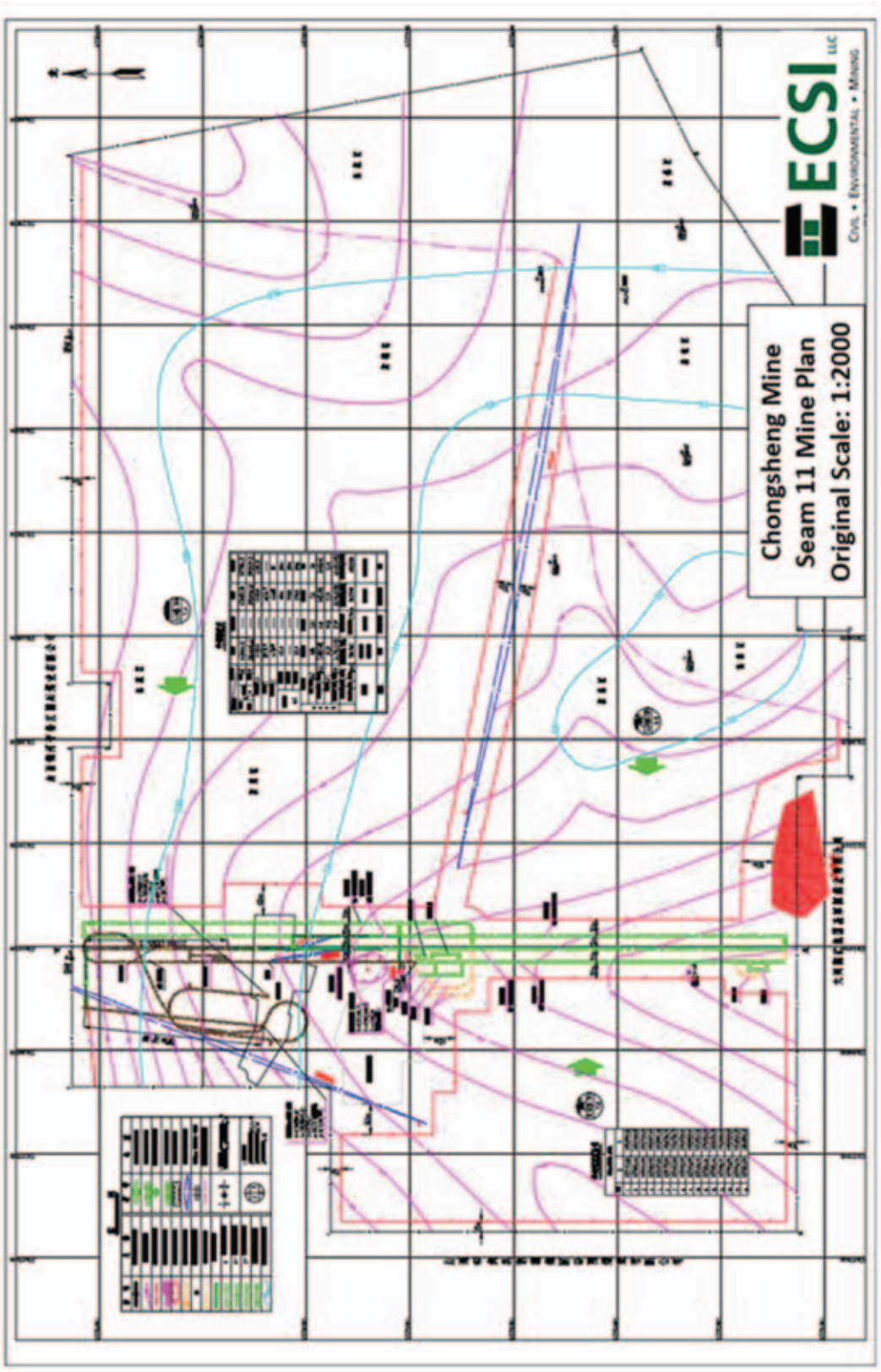


Figure 6-4c Chongsheng Mine – Seam 11 Mine Plan

Figure 6-5 Xinglong Mine – Mine Plan

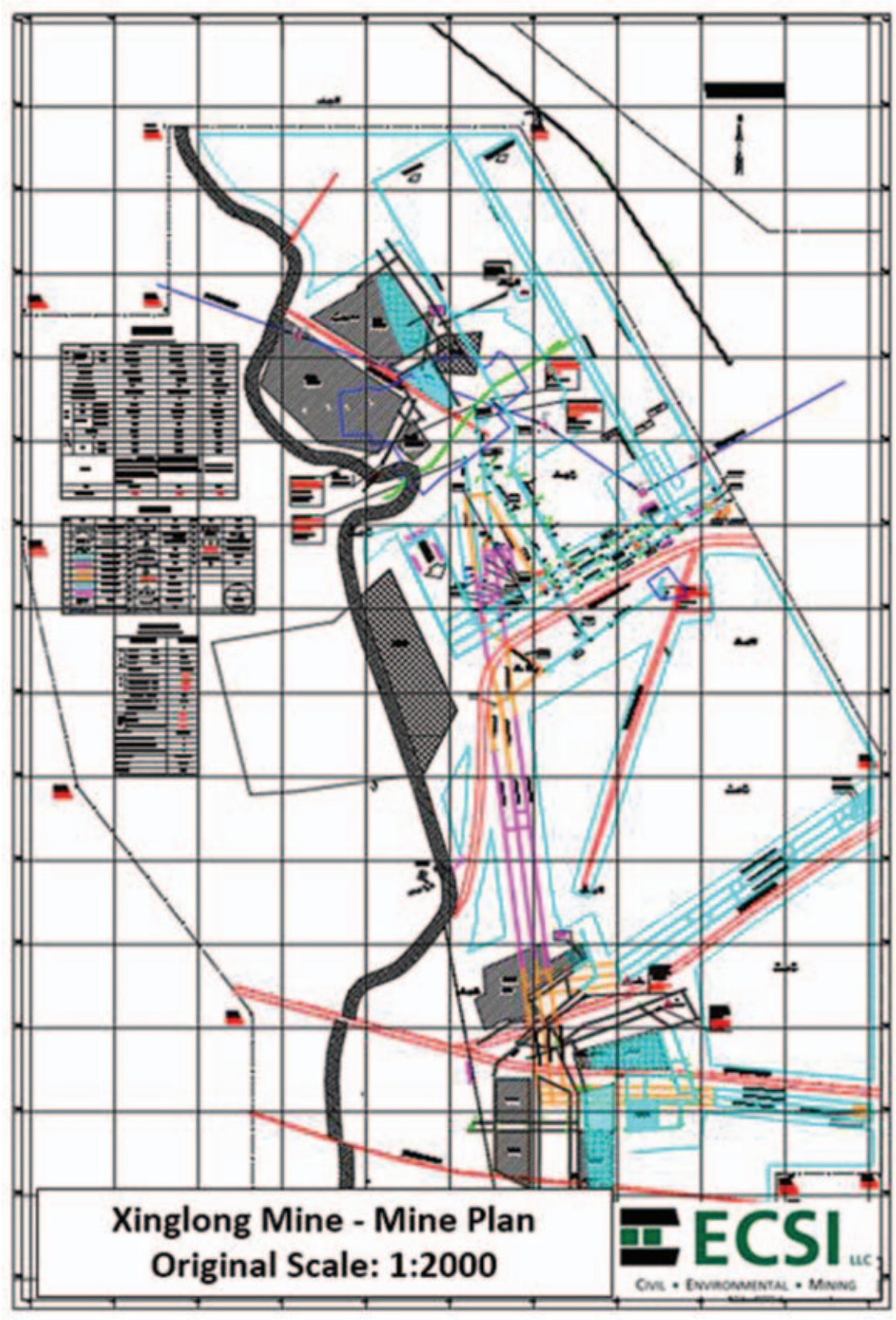
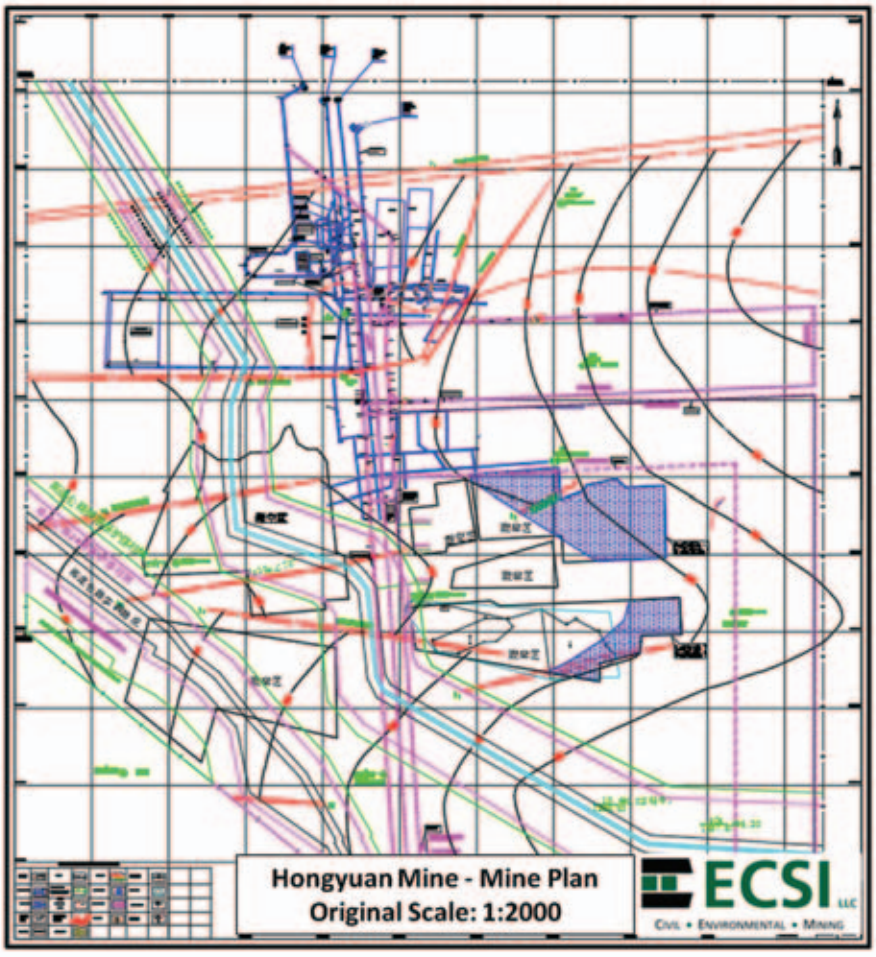


Figure 6-6 Hongyuan Mine – Mine Plan



6.3 Mine Design Practices

The following is a quote from the feasibility studies that states the approach to design is as follows:

1. *"In the light of seriously implementing the principle and policy on national energy development as well as the procedure and practice in coal industry, the design sticks to the principle of seeking truth from the fact and exploring for creativity, it is in close combination with the mine characteristics to make sufficient use of existing facility, equipment and make efforts to reduce the project working load on improvement and expansion.*

2. *Based on the starting point of reasonable concentration for production of One Mine – One Shaft – One Face, it emphasizes on the production system both on the ground and underground as well as the safety facility so as to implement the mine technology reformation.*

3. *Actively apply the new technology, new process, new equipment, and keep each link of production system to be simple, advanced, reliable, reasonable and practical. Relying on the science and technology progress, carefully optimize on each link.*

4. *For the arrangement underground, it makes efforts to construct more coal tunnel, less rock tunnel to reduce the working load. During the design it makes efforts to simplify the production system, reduce the administrative and welfare facility to achieve the target of less input, more output, quick efficient and good benefits. It plans to improve and expand the coal mine into a socialist new mine with the feature of safe in character, quality with benefits, scientific with creativity, resource saving and harmonious development."*

The design approach and basis is well defined in each of the feasibility studies. The practices and standards of design are also listed to sufficient detail for ECSI review, and all of the design criteria is acceptable.

6.4 Raw Coal Production

The past production at Xingtao and Fengxi are shown in Table 6-1. Also shown in Table 6-1 is the planned production build up for all three mines and their volume of coal when full production is reached. The 860,000 tonnes from Fengxi is all development coal from driving the access entries and the sale of this development coal has been used to offset construction costs. This same situation will be utilized at Chongsheng, where the access development and longwall panel development coal can be sold to help offset construction costs.

Table 6-1 Raw coal production

	2008	2009	2010	2011	2012	2013	2014	2015
Production Volume								
Raw coal production volume ('000 tonnes)								
Xingtao		1,800	2,837	4,000	4,000	4,000	4,000	4,000
Fengxi			0	1,750	3,500	3,500	3,500	3,500
Chongsheng			0	875	2,800	3,500	3,500	3,500
Total		1,800	2,837	6,625	10,300	11,000	11,000	11,000

Table 6-1 was originally revived from the owner and contained their projection of total raw coal produced at each mine. ECSI updated it during its recent visit to China in January 2016. In all cases, the mines are planned to produce at a higher level than allowed by the mining license. This same situation has be observer in documentation within other project circulars reviewed by ECSI and it is believed by ECSI that the owners and management of the mines will obtain permission to mine at the levels as projected. Huameiao has indicated to ECSI that it plans to increase the mining volume limit on the licenses, which, as of the date of ECSI's visit, were in the process of being renewed.

ECSI believes that the way the mines are constructed or are being constructed, and with the operating experience from the longwall operations at Xingtao and Fengxi, that all three mines will be able to produce at the levels or higher as shown in Table 6-1. ECSI is concerned that in later years when the longwall mining moves to lower seams and the equipment is older, sustaining the levels in Table 6-1 may be hard. Good maintenance and rock mechanics applications will need to be continuously applied to maintain high production levels.

6.5 Hydrology

In the feasibility study for the three Humeiao mines it was stated that the area water table was below the 11 Seam and in each of the three mines the 11 Seam is the lowest level of mining. Documentation for these statements was from the results of regional hydrological drilling and the water level for the wells in the immediate area. This result suggests that in-mine water will be only from inflow from the surface and not from being below the water table. In some areas there may exist perched water tables or pockets of water that are trapped, but this should be minor amounts of water that will have minimal effect on the mining operations. Designs have been developed for the expected water inflow from the surface rainfall and from the perched system.

A potential for hydrological or water problems does exist from the surface and/or run-off water that has found its way into the old workings that exist in all three mining areas. The K-Series of drill holes that was completed at Xingtao was done specifically to determine the amount of water in the old workings. This is specifically addressed in the feasibility studies and as an example is the following statement from the Xingtao Feasibility Study:

> *"This well-field (coal deposit) and surrounding small kiln (mines) have longer exploration. No. 4 and 9 coal seams have mined-out areas. Water accumulated in mined-out area will pose a threat to safe production of the mine in future. Before exploration (mining), water accumulated in mined-out area must be prospected and drained. Only production is organized when all prospecting and drainage works are done. Control and prevention work must abide by the principle of "Predict, Prospect before tunneling, prospect first and tunneling later, control first and explore later" and adopt comprehensive treatment measures including prevention, blockage, clear, drainage and interception."*

The warning from the potential risk from water inflow required that the existing old mining areas be studied and assessed prior to mining. The following statement is also from the Xingtao FS and defines the problems in the old workings:

> *"There is no other old kiln (mine) inside well-field except existing mined-out areas support in such two mines. Because former Hong Quangou Coal Co., Ltd explores(mined) No. 4^{-1}, 4^{-2}, 4^{-1} and 4^{-2} coal seams beyond approved limits, water accumulated area occurs in each coal seam. One fire area occurs in mined-out area of No. 4^{-2} coal seam. Two water accumulation areas and 1 fire area occur in mined-out area of No. 9^{-1} coal seam. It is predicted in geological report that total water accumulation amount in four areas is 207100m^3 and fire area is 0.253km^2. Water accumulated and fire ignition in mined-out area brings many potential risks to underwell mining works."*

This recognized potential threat to mining from the water accumulated in the old workings was also addressed in a similar manner at Fengxi and Chongsheng. The feasibility studies for both mines include an assessment of the potential threat, volume of water and steps to insure that the water is removed prior to mining below the water filled areas. ECSI reviewed a recent Hydrogeologic report prepared for the newest operation, at Chongsheng, and found that its findings and recommendations are similar to those contained in the feasibility study. Good surface drainage practices will be key to prevent surface water to affect the underground activities at the seams above the water table, while the recommended practices for the seams below water table will also need to be implemented at Chongsheng when the progress of the operations reach those seams.

ECSI believes that the approached to define and mitigate the water filled old workings is a correct approach. ECSI also understands that the development work includes drilling in the entry in advance to determine if there are any unknown mine workings.

For the Shenda mines, the mine field is located in the south of Shentou Spring hydrogeological unit, a secondary hydrogeological unit of the storage structure of Ningjing syncline. The Shentou spring is located in Shentou Town, Shuocheng District, Shuozhou City, occurs in Cambrian and Ordovician strata, with a water elevation of 1,052 to 1,065m and a surface elevation of 1,044 to 1,053m, is a structural ascending spring, with a total area of 4,756km^2, mainly composed of Shentou spring group, Simabo spring group and Hedao spring group, and is the source of Sangan River, a main stream of Yongdinghe system of Haihe valley. The annual mean flow rate of Shentou spring is 6.74m^3/s (1956 to 2003). It has a water quality type of HCO3-Ca.Mg type, a salinity of 285 to 360mg/L, a total hardness of 232 to 277mg/L and a water temperature of 13 to 15 degree centigrade, so that the quality of karst water is generally good. The mine field is located in the southern runoff area of the spring.

Groundwater in Shentou spring hydrogeological unit can be divided into karst fissure water, sandstone fissure water and pore water which have different hosting conditions. Groundwater recharge for the unit is from atmospheric precipitation, concentrating in Shentou spring basin in the southeast through groundwater runoff and discharged on the surface in the form of springs; sandstone fissure water is directly recharged by atmospheric precipitation or through fault water transmitting in some sections with karst water. Except for surface gulches, sandstone fissure water is discharged in the form of descending springs in sandstone outcrop sections. It is in the form of roadway spraying water to be discharged in small amounts during coal mining process, however, the amount is very small; atmospheric precipitation is a direction recharging source of Quaternary fissures. It has general amount of water and it is exploited and used in forms of wells and springs.

6.6 Mine Gases

Xingtao

According to Geological Report of Merger & Acquisition and Integration Mine in Shanxi Shuozhou Pinglu Huameiao Xingtao Coal Co., Ltd compiled by Shanxi Provincial Geophysical and Geochemical Prospecting Institute and No. 89 "Reply on Gas Grade and CO_2 Outflow Identification Results for Mines with Production Capacity Above 300,000 t/a in Shouzhou City in 2008" issued by Shouzhou Coal Industry Department, both obtain consistent results. Absolute gas outflow in No. 4^{-1} Seam is $3.13m^3$/min and relative outflow is $2.73m^3$/t. Absolute CO_2 outflow is $3.27m^3$/min and relative outflow is $2.85m^3$/t. Xingtao is identified to be a low-gas mine.

Fengxi

According to the "Approval of Mine Gas Gradation Appraisal of Shuozhou Shuocheng District Yangjian Coal Mine and Other 62 Mines in 2006" in JAJMZ (2007) No. 31 document issued by Shanxi Administration for Safe Production Supervision, the absolute and relative gas emission rate and the absolute and absolute emission rate of carbon dioxide of Shanxi Shuozhou Fengxi Coal Industry Limited Corporation (originally Shuozhou Pinglu District Fengxi Coal Mine) are $0.38m^3$/min, $0.80m^3$/t, $1.02m^3$/min and $2.16m^3$/t, respectively (Seams 4^{-1}, 9^{-1}, 9^{-2} and 11), which define a low-gas mine.

Chongsheng

According to the *Reply to Evaluation Result on Coal Gas Grading for 41 Local Mines of those below 300k tonnes/year of the City in 2008*, Shuo Mei Fa (2008) No. 303 of Shuozhou Coal Industrial Bureau, the absolute coal gas emission amount in No. 9 Seam is 0.44 m^3/min, relative emission amount is 2.54 m^3/t, the absolute emission amount of coal gas and CO_2 is 0.77 m^3/min and the relative emission amount is 4.45 m^3/t. Shanxi Shuozhou Chongsheng Coal Industry Co., Ltd. (former Shiergou Coal Mine) is a low coal gas mine.

According to *Reply to Evaluation Result for Coal Gas Grading and Emission Amount of CO_2 in 2006 of those 76 Coal Mines such as Shuocheng Nuanshuiquan Coal Mine, etc.,* Shuo An Jian Zi (2006) No. 137 of Shuozhou Safety Production Supervision Administrative Bureau, the absolute coal gas emission amount in No. 4 Seam of Pinglu Fengjialing is 0.45 m^3/min, relative emission amount is 1.93 m^3/t, the absolute emission amount of coal gas and CO_2 is 0.73 m^3/min and the relative emission amount is 3.13 m^3/t. Fengjialing Coal Industrial Industry Co., Ltd. (previous mine name during tests) is a low coal gas mine.

The mine gas potential has been properly assessed for the three Huameiao mines. ECSI believes that the potential for mine gas problems has been properly studied and the mines have all been declared low gas type mines. The ventilation in the Mines during the site visits always appeared adequate for the activities within the mine.

ECSI feels that in all of the mines as production progresses into the lower seams that there is a potential to cave into the gob areas from the mined out seams above. Under this situation, management will need to monitor their gas control and ventilation plans to insure that gas accumulations in the old areas are not a problem for the active mining areas.

Xinglong

Exploration studies done prior to the mine design stage indicate clearly that both coal seams, No. 2 and No. 5, display a relatively high gas content. Table 6-2 lists the principal gas components, including methane (CH_4) and carbon dioxide (CO_2), determined from core samples collected during the most recent exploration phase. These numbers lead to classifying Xinglong Mine as a gassy mine.

Table 6-2 Xinglong Mine Gas Content for No. 2 and No. 5 Coal Seams

Coal Seam No.	Sampling Borehole	Gas Content (cm^3/g.daf)			Gas Content (%)			
		CH_4	CO_2	C_2-C_8	CH_4	CO_2	N_2	C_2-C_8
2	Supplement No. 2	0.02	0.27	trace	trace	10.93	89.07	trace
	Supplement No. 4	0.15	0.09	0.01	36.42	5.55	56.99	1.04
5	Supplement No. 2	0.05	0.15	trace	22.99	5.75	71.26	trace
	Supplement No. 3	0.20	0.25	0.02	23.11	1.05	74.08	1.75
	Supplement No. 4	0.02	0.16	trace	1.43	7.47	90.92	0.18

Hongyuan

Table 6-3 lists the principal gas components, including methane (CH_4) and carbon dioxide (CO_2), determined from core samples collected during the most recent exploration phase. These numbers lead to classifying the Hongyuan Mine as a gassy mine.

Table 6-3 Hongyuan Mine Gas Content for No. 2 and No. 5 Coal Seams

Coal Seam No.	Sampling Borehole	Gas Content (cm^3/g.daf)			Gas Content (%)			
		CH_4	CO_2	C_2-C_8	CH_4	CO_2	N_2	C_2-C_8
2	Supplement No. 1	0.12	0.03	0.02	1.15	3.24	95.38	0.23
5	Supplement No. 1	0.28	0.11	0.03	1.02	6.64	92.34	traces

6.7 Spontaneous Combustion

Xingtao

Spontaneous combustion tendency tests in No. 4^{-1}, 4^{-2}, $9^{-1}(9^{-1} + 9^{-2})$ and 9^{-2} Seams were made by Inner Mongolia Institute of Coal Field Geology on 1 March 2010, showing they belong to Classification II spontaneous combustion. Analysis results are seen in Table 6-4.

Table 6-4 Spontaneous Combustion Analysis Result List

Coal Seam No.	Test No.	Absorbed Oxygen in Coal cm^3/g	Spontaneous Combustion Grade
4^{-1}	0001	0.62	II (Spontaneous Combustion)
4^{-2}	0002	0.60	II (Spontaneous Combustion)
$9^{-1}(9^{-1} + 9^{-2})$	0003	0.60	II (Spontaneous Combustion)
9^{-2}	0004	0.67	II (Spontaneous Combustion)

Fengxi

According to the investigation report presented by the Comprehensive Test Center, Bureau of Coal Industry of Shanxi Province on 2 August 2008, the No. 4 Seam of the mine has a seam oxygen absorption of $0.62cm^3/g$, spontaneous ignition tendency class of II, which is a spontaneous combustion coal seam.

The No. 9 Seam in the Siergou Mine, adjacent to Pinglu District, Shuozhou City, has a seam oxygen absorption of $0.7073cm^3/g$ with a spontaneous ignition tendency class of II, which is a spontaneous combustion coal seam in accordance with the investigation report presented by the Comprehensive Test Center, Bureau of Coal Industry of Shanxi Province on 25 May 2005.

Chongsheng

A coal sample of No. 4 Seam was taken by Shuozhou Pinglu Shiergou Coal Mine on 25 May 2005 and tested by Comprehensive Testing Center of Shanxi Coal Industry Bureau. The oxygen absorption of No. 4 Seam is $0.8586cm^3/g$. It has the self-ignition tendency of Grade I, belonging to self-ignition coal bed. Its spontaneous combustion period is 5-10 months. According to the current standard, it is Grade I self-ignition, belonging to the easy self-ignition coal.

A coal sample of No. 9 Seam was taken by Shuozhou Pinglu Shiergou Coal Mine on 25 May 2005 and tested by Comprehensive Testing Center of Shanxi Coal Industry Bureau. The oxygen absorption of No. 9^{-1} Seam is $0.8773cm^3/g$. It has the self-ignition tendency of Grade I, belonging to the self-ignition type coal seam. Its spontaneous combustion period is 5-10 months. According to the current standard, it is Grade I self-ignition, belonging to the easy self-ignition coal.

The mine organization did not implement any evaluation on the self-ignition for No. 9^{-2} and 11 Seams. It is necessary to invite the qualified unit to do this additional work.

ECSI believes that the evidence from the above data and that in some cases the seams are Category I and in others, they are Category II plus evidence in the local area of spontaneous combustion type mine fires, that all three mines must be designed and

operated to control spontaneous combustion. It was observed during the site visit to Xingtao that the operations management is aware of the SC potential and the mine design took into consideration this potential problem.

Xinglong

Another important issue is the potential for spontaneous combustion at Xinglong Mine. The collection and testing results of No. 2 and No.5 coal seams of the original Shanxi Xinzhou Huaji Coal Industry Limited conducted by the Comprehensive Testing Centre of Shanxi Coal Industry Bureau on 17 April 2007 are shown in Table 6-5:

Table 6-5 Xinglong Mine Data on Spontaneous Combustion

Item	Oxygen Absorption	Spontaneous Combustion	Tendency	Testing	Note
2	0.684	II	Spontaneous combustion	2004-4-17	Previously Huaji Coal Company Limited
	0.58	II	Spontaneous combustion	2008-8-7	Previously Hengjiang Coal Company Limited
5	0.6216	II	Spontaneous combustion	2007-4-17	Previously Huaji Coal Company Limited
	0.51	II	Spontaneous combustion	2008-8-7	Previously Hengjiang Coal Company Limited

Hongyuan

Table 6-6 shows the potential for spontaneous combustion at Hongyuan Mine based on tests performed to samples collected from Seams No. 2 and No. 5 on 19 March 2007 and 14 January 2004, respectively:

Table 6-6 Hongyuan Mine Data on Spontaneous Combustion

Item	Oxygen Absorption	Spontaneous Combustion	Tendency	Testing	Note
2	0.74	I	Easy spontaneous combustion	N/A	Shanxi Sanshui Experimental Test Centre
5	0.54	II	Spontaneous combustion	N/A	Shanxi Sanshui Experimental Test Centre
	0.57	II	Spontaneous combustion	N/A	Shanxi Sanshui Experimental Test Centre
	0.63	II	Spontaneous combustion	N/A	Shanxi Sanshui Experimental Test Centre

6.8 Explosive Dust Potential

Xingtao

The coal dust explosion hazard in No. 4^{-1}, 4^{-2}, $9^{-1}(9^{-1} + 9^{-2})$ and 9^{-2} Seams was tested by Inner Mongolia Institute of Coal Field Geology on 1 March 2010. Through sampling tests, each coal seam is explosive, with flame length between 80 - 400 mm. Minimal rock dust that prohibits coal dust is within 25-65% range (Details are seen in appendix of Xingtao FS). The results were given in Appendix 6-11-1 in the Xingtao FS and show that No. 4^{-1}, 4^{-2}, $9^{-1}(9^{-1} + 9^{-2})$ and 9^{-2} Seams all have explosive coal dust tendencies (Table 6-7).

Table 6-7 Coal Dust Explosion Identification Report – Xingtao

Coal Seam No.	Test No.	Flame Length *(mm)*	Minimal Rock Dust Prohibiting Coal Dust Explosion %	Explosion Conclusion
4^{-1}	1	>400	65	Explosive
4^{-2}	2	80	25	Explosive
$9^{-1}(9^{-1}+9^{-2})$	3	80	25	Explosive
9^{-2}	4	>400	65	Explosive

Fengxi

The flame length of No. 4 Seam is 400mm, the minimize rock dust usage for preventing explosion by the coal dust is 75%, and the coal dust is explosive in accordance with the investigation report presented by the Comprehensive Test Center, Bureau of Coal Industry of Shanxi Province on 2 August 2008.

Also, according to the investigation report presented by the Comprehensive Test Center, Bureau of Coal Industry of Shanxi Province on 25 May 2005, the No. 9 Seam in the Siergou Mine, adjacent to Pinglu District, Shuozhou City, has a flame length of 400mm, the usage of rock dust for preventing explosion by the coal dust is suggested as 65%.

Chongsheng

According to the *Test Report of Coal Mine Dust Explosion and Coal Self-ignition Tendency in No. 4 and 9^{-1} Coal Bed(Seams), Shiergou, Pinglu, Shuozhou* issued in May 2005 by Comprehensive Test Center of Shanxi Coal Industrial Bureau, the rock dust addition in No. 4 Seam by Shanxi Shuozhou Chongsheng Coal Industry Co., Ltd. (former Shiergrou Coal Mine) is suggested as 65% due to a tested flame length of >400 mm. The coal dust is explosive. The rock dust addition in No. 9^{-1} Seam is suggested as 65% due to a tested flame length >400 mm. The coal dust is explosive.

The mine has not implement the evaluation on No. 9^{-2} and 11 Seams for the coal dust explosive issues. It is necessary to invite the qualified unit to do this additional work.

Xinglong

According to the collection and testing results of No. 2 and No.5 coal seams of original Shanxi Xinzhou Huaji Coal Industry Limited conducted by the Comprehensive Testing Centre of Shanxi Coal Industry Bureau on 17 April 2007 and the qualitative analysis on coal dust explosion and the characteristic parameter testing of No. 2 and No. 5 coal seams of original Shanxi Xinzhou Hengjiang Coal Industry Limited conducted by the Shanxi Institute of Coal Geology, coal seams in the mine field are explosive.

Table 6-8 Coal Dust Explosion Identification Report – Xinglong Mine

Project Coal Seam No.	Flame Length	Coal dust Explosion Rock Dust Added (%)	Explosiveness	Test Time	Remarks
2	25	30	Explosive	17 April 2007	Shanxi Xinzhou Huaji Coal Mining Co., Ltd.
5	19	55	Explosive		
2	15	40	Explosive	7 August 2008	Shanxi Xinzhou Hengjiang Coal Mining Co., Ltd.
5	50	65	Explosive		

Hongyuan

According to the sample taken from No. 2 coal seam on 19 March 2007, the flame length in No. 2 coal seam is 120mm as checked by the Test Centre of Shanxi Province Coal Industry Bureau. The amount of stone dust used to restrain coal-dust explosion is 55% as a minimum and this means there is danger for explosion.

According to the sample taken from No. 5 coal seam on 14 January 2004, the flame length in No. 5 coal seam is more than 400mm as checked by the Test Centre of Shanxi Province Coal Industry Bureau. The amount of stone dust used to restrain coal-dust explosion is 80% as a minimum and this means there is danger for explosion.

The sample taken from the Supplement No.1 borehole was sent to the Shanxi Sanshui Experimental Test Centre to test its coal-dust explosion risk. The results were as follows:

Table 6-9 Coal Dust Explosion Identification Report – Hongyuan Mine

Borehole No.	Coal seam No.	Sampling depth *(m)*	Flame length *(mm)*	Rock Dust Added *(%)*	Explosiveness	Testing unit
Supplement 1	2	155.72-159.72	>200	75	Explosive	Shanxi Sanshui Experimental Test Centre
	5	219.24-223.35	300	84	Explosive	Shanxi Sanshui Experimental Test Centre
	5	223.35-225.99	300	70	Explosive	Shanxi Sanshui Experimental Test Centre
	5	226.35-230.02	320	75	Explosive	Shanxi Sanshui Experimental Test Centre

ECSI feels that the data presented for each mine is sufficient to show a real need for continuous and substantial application of rock dust to control or minimize the explosion potential from the coal dust. During the underground visit to the Xingtao Mine it was observed that the rock dust procedures and coverage were inadequate and it is felt by ECSI that rock dusting must be increased and improved. This recommendation will apply to the rest of the mines.

6.9 Subsidence Issues

When coal is extracted, the overlying rock of the coal formation forms three zones, i.e. caving zone, fissure zone and slow sinking zone, due to the pressure existing in the mine.

ECSI has some concerns in the feasibility studies approach to subsidence as referred to the Humeiao mines. The calculations that are shown for determining the barrier or protection pillars for various surface features uses only the thickness of the first seam, 4^{-1} in all cases, to calculate the width of the pillars. In the mining operation at each mine, the plan is to progressively mine the lower seams, and the sequence is from top seam to lowest seam. While this is the correct sequence, the calculation of pillars to protect surface facilities must utilize the total extraction, and not just the uppermost seam. An example is that at Chongsheng the calculation uses 60% of the seam thickness of the uppermost seam or 4 Seam, which shows a potential subsidence of 60% of 15.13 meters or 9.08m. In an actual calculation of the overall effect of the subsidence, all seams must be considered so the calculation would need to be

60%X (thickness of 4 + thickness of 9^{-1} + thickness of 9^{-2} + thickness of 11) or 60% X (15.13m + 8.4m + 5.5m + 2.0m) or a total potential subsidence of 18.62m or double what was used in the calculations. There is a reducing effect to the overall subsidence as mining moves deeper, but in the case of Chongsheng (and the other two mines) the first mineable seam is at about 110m deep and the final mineable seam (11) is 190m deep. In this shallow, overall depth, the subsidence will be effected by all the seams that are to be mined.

Within each feasibility study report there are listed measures for the minimizing of the effects or the repairs required for the damage caused by subsidence. The listed measures are good and will be required, but ECSI believes that the overall effect caused by subsidence is underestimated and will therefore be a higher cost item that anticipated.

6.10 Comments on Overall Mine Plan and Mining Approach

The Approach to the mining of the coal deposits by the owners is correct and utilizes methods that are proven to work in China and other countries. The application of the thick seam longwall method will maximize the recovery of the coal Resources and provide a safer working environment. Mining in the upper seams is complicated by the existence of old mine workings that require panel designs that are unusual in shape and in some cases requires the panel to change direction. This complicated mine layout is working to mine the remaining areas of the upper seams, but it leaves an unusual pattern that will not be necessary to repeat in the lower seams where there is no previous mining.

ECSI agrees with the mining approach and have accepted that the lower seams will have mine plans that will allow the recovery of the Resources in the lower seams. The concern that ECSI has is that the detailed mine plans have not been developed for the lower seams and the actual plans will need to incorporate detailed rock mechanic studies to maximize the safety and Resource recovery in the lower seams. This planning based on ongoing rock mechanic studies is necessary and needs to be completed as soon as possible. The potential interferences from the mining in the upper seams may require that the mining in the lower seams be changed and these changes could result in a lower recovery of the coal Resources and has the potential to increase operating costs.

During their recent visits to the three subject operations in October 2011 and January 2016, ECSI discussed the current mine plans with the general managers of those mines and were satisfied to verify that sound engineering and state of the art techniques are being applied for the preparation of those plans. The active operations appear to closely follow the indications of their mine plans and, overall, these appear to be effectively implemented, with a clear understanding of the prevailing conditions at each of the mine, current production goals and safe mining practices.

ECSI's opinion on Xinglong and Hongyuan Coal Mines have given due consideration to the possible occurrence of subsidence, as a consequence of their underground mining activities. The proposed mine design for both operations have taken into account that possibility and have developed them in a manner that would reduce the likelihood of occurrence of subsidence.

The plans for the Hongyuan Mine mention the following regarding subsidence prevention and/or mitigation measurement:

"The following measures shall be taken for preventing ground surface movement and changes and damage to buildings and water bodies etc. caused by underground coal mining: keep security pillar coal to protect industrial sites and villages etc.; send out personnel to carry out patrol inspection for facilities on which pillar coals cannot be reserved in order to improve reserve recovery rates. In case a problem is found, it should be solved in time. Carry out land and restore vegetation according to relevant laws and regulations to prevent against causing water and soil loss. For mild or moderate damaged land, adopt measures of artificial renovation, farmland reclamation or returning land for farming to forestry; for severely damaged land, carry out mechanical remediation, farmland reclamation or returning land for farming to forestry. For land which is not fit for farmland reclamation or returning for farming to forestry, it should be remodelled according to actual conditions".

7. COAL WASHING

Each of the three mining properties will produce raw coal from multiple coal seams that will essentially provide a high ash, run-of-mine product. Within the feasibility studies for each mine they have documented the need for a coal washing plant at each mine and the type of washing plant they either built or intend to build. In the feasibility studies the production for Xingtao is 1.5Mtpa and both Fengxi and Chongsheng are planned for 0.9Mtpa. As mentioned in other sections within this report, the intention is to mine more that the authorized tonnage and therefore the actual feed to the plant will be higher.

It is assumed by ECSI that the design of the plants will be as stated in the feasibility studies, but the wash plant equipment will be purchased or was purchased that will process the actual volumes that are sent to the plant. This was the case at Xingtao where the design says 1.5Mtpa and the wash plant is processing at least double the stated volume. Under this limitation we have taken excerpts from the feasibility studies that show that they determined they needed a washing plant and the general type of equipment and cleaning methods used within the plants. ECSI was not given detailed equipment lists for any of the plants, but the Xingtao plant was processing all the coal that was sent to the plant, which in 2011 was estimated at 4.0Mtpa.

The plant at Fengxi and Chongsheng were later commissioned and are operational as of the date of this report.

The overall plant yield considered for the preparation plants for the former Shanxi Huameiao Energy Group Company Limited mines (Xingtao, Chongsheng and Fengxi), is 65%.

No details on coal preparation plant are presented in the project reports for Xinglong and Hongyuan in spite of a string of washability tests prepared for both projects. The only preparation activity relates to vibration screening once the run-of-mine product is brought to the surface. One of the local plants in the area could be used to clean the coal produced at Xinglong and Hongyuan Coal Mines. For the purposes of this report, it is assumed that the coal from Xinglong and Hongyuan will be sold raw.

7.1 Raw Coal Quality

The raw coal quality for each mine is complex and depends on the seam that is being mined. All of the Humeiao mines extract coal from the No.'s 4, 9 and 11 Seams in some combination where in some cases there are multiple No. 4 and No. 9 beds with in the Seam. The following tables are for each mine and the stated raw coal quality as shown in the feasibility studies. Table 7-1 is for Xingtao, Table 7-2 is for Fengxi and Table 7-3 is for Chongsheng. The heating values for the Fengxi raw coal are from the geologic and feasibility reports, but the values are much higher than the corresponding seams in the other two mines. ECSI believed that the heating values for Fengxi appear to be incorrect and will require rechecking in the future.

Table 7-1 Xingtao Raw Coal Quality – Averages

Coal Horizon	Moisture	Ash	Volatile	Sulfur	Heating Value	Heating Value	Heating Value
	%	%	%	%	*Mj/kg*	*kcal/kg*	*BTU/lb*
4^{-1}	3.58	27.52	41.11	0.66	19.60	4,684	8,428
4^{-2}	3.54	20.78	40.83	0.96	22.81	5,301	9,808
$9^{-1}(9^{-1} + 9^{-2})$	3.07	26.95	42.07	1.96	20.74	4,957	8,918
9^{-2}	2.65	22.10	42.24	1.82	23.31	5,571	10,023
11	2.72	30.99	40.92	1.90	19.61	4,686	8,432

Table 7-2 Fengxi Raw Coal Quality – Averages

Coal Horizon	Moisture	Ash	Volatile	Sulfur	Heating Value	Heating Value	Heating Value
	%	%	%	%	*Mj/kg*	*kcal/kg*	*BTU/lb*
4	3.42	25.38	40.79	0.54	30.83	7,368	13,257
9^{-1}	3.46	27.73	38.34	0.86	31.52	7,533	13,554
9^{-2}	2.66	25.65	42.22	1.89	32.21	7,698	13,850
11	2.18	37.12	39.84	1.85	30.14	7,204	12,960

Table 7-3 Chongsheng Raw Coal Quality – Averages

Coal Horizon	Moisture	Ash	Volatile	Sulfur	Heating Value	Heating Value	Heating Value
	%	%	%	%	*Mj/kg*	*kcal/kg*	*BTU/lb*
4	2.95	21.33	40.65	0.45	24.86	5,942	10,690
9^{-1}	2.20	21.38	39.65	1.86	25.07	5,992	10,780
9^{-2}	1.90	23.58	42.89	2.29	23.83	5,695	10,247
11	2.38	29.15	37.97	2.58	23.37	5,585	10,049

7.2 Description of the Xingtao Plant

The Xingtao coal washing plant has been constructed and has been in operation for at least 3 years. The following is from the Xingtao Feasibility Study, not from recent operating results. This presentation of the expansion and circuit is approximately how the wash plant was built, but the wash plant is processing more than the stated 1.5Mtpa shown in the study. They have either installed larger equipment than was required for a 1.5Mtpa, are operating the plant more hours per year that planned or both. During the site visit the Mine General Manager stated that they are mining around 4.0Mtpa and they have over 3.0Mtpa of clean coal to sell.

Most of the following is from the Xingtao feasibility with some editing for clarity

A coal washing plant with a production capacity of 0.45Mtpa was built in August, 2004 to process the production from Xingtao Coal Mine. The production capacity was increased to 1.50Mtpa after upgrading and reconstruction to match the project needs after acquisition, reconstruction & recombination of the properties.

The process of coal washing plant can be classified into 6 parts as follows: Raw coal sizing/desliming system, a heavy medium circuit of shallow channel, a heavy medium cyclone circuit of two fine coal products, a slime cyclone circuit and a slurry processing system.

Raw coal can be transported to a crushing station by a conveyor in the coal yard. The coal is crushed to at most 200mm by through crusher in the transfer station. It also can be transported to main plant by another belt to meet production demand so there is no need to build a separate screening & crushing facility.

Raw coal of 200mm to 0mm will be processed and deslimed in the main part of the wash plant. The screen mesh is 13mm and has two sections. The 1st section is a dry screen and the 2nd section is a wet desliming screen. Raw lump coal of 200mm to 13mm is processed by heavy-media after sizing and desliming. Fine raw coal of 13mm to 0mm is mixed by a turning plate for the 1st section so that fine coal can be mixed or bypass. Residual coal is transported to the fine coal process after the desliming. Slurry of 1.5mm to 0mm in the desliming screen shall enter into a slurry bucket and slurry of 1.5mm to 0.15mm shall be selected by a spiral separator after degradation. Fines of less than 0.15mm shall be transported to slurry system as centrifuge spillover.

Light products, namely, clean lump coal of 200mm to 50mm can be crushed to less than 50mm then mixed with fine clean coal after the heavy media process and sizing. Fine clean coal of 50mm to 2mm shall be added to mixed coal after secondary dehydration by a centrifuge.

Fine coal of 13mm to 1.5mm shall be conveyed to a heavy-media cyclone mixing tank. Fine coal and heavy products can be separated by pumping to the heavy media cyclone. Fine coal can also be added into the mixed coal after medium drainage and secondary dehydration in the centrifuge.

Fine coal and tailings can be produced by coal slime of 1.5mm to 0.15mm after spiral selection. Fine coal can be fed to fine coal centrifuge and heavy media fine coal after dehydration of filter. Tailings also can be drained to tailings yard with heavy media process tailings after process and high-frequency sieving hydration.

Fine coal slime of less than 0.15mm shall be conveyed to a condensation tank with spillover of sizing swirler. Materials in thickener include backwater of high-frequency sieve and arc sieve besides spillover of sizing swirler. Spillover water can be used as clarification water for system re-usage after condensation. It can be pumped to pressurized filter for dehydration &recovery. Coal slime can be added to mixed coal or placed individually after dehydration. Filter liquid also can return to condensation tank.

Wash mixed coal and tailings are products of coal wash plant.

Some production facilities of coal wash plant shall be reconstructed to meet mine production.

The surface facilities and wash plant for Xingtao are shown in Figure 7-1.

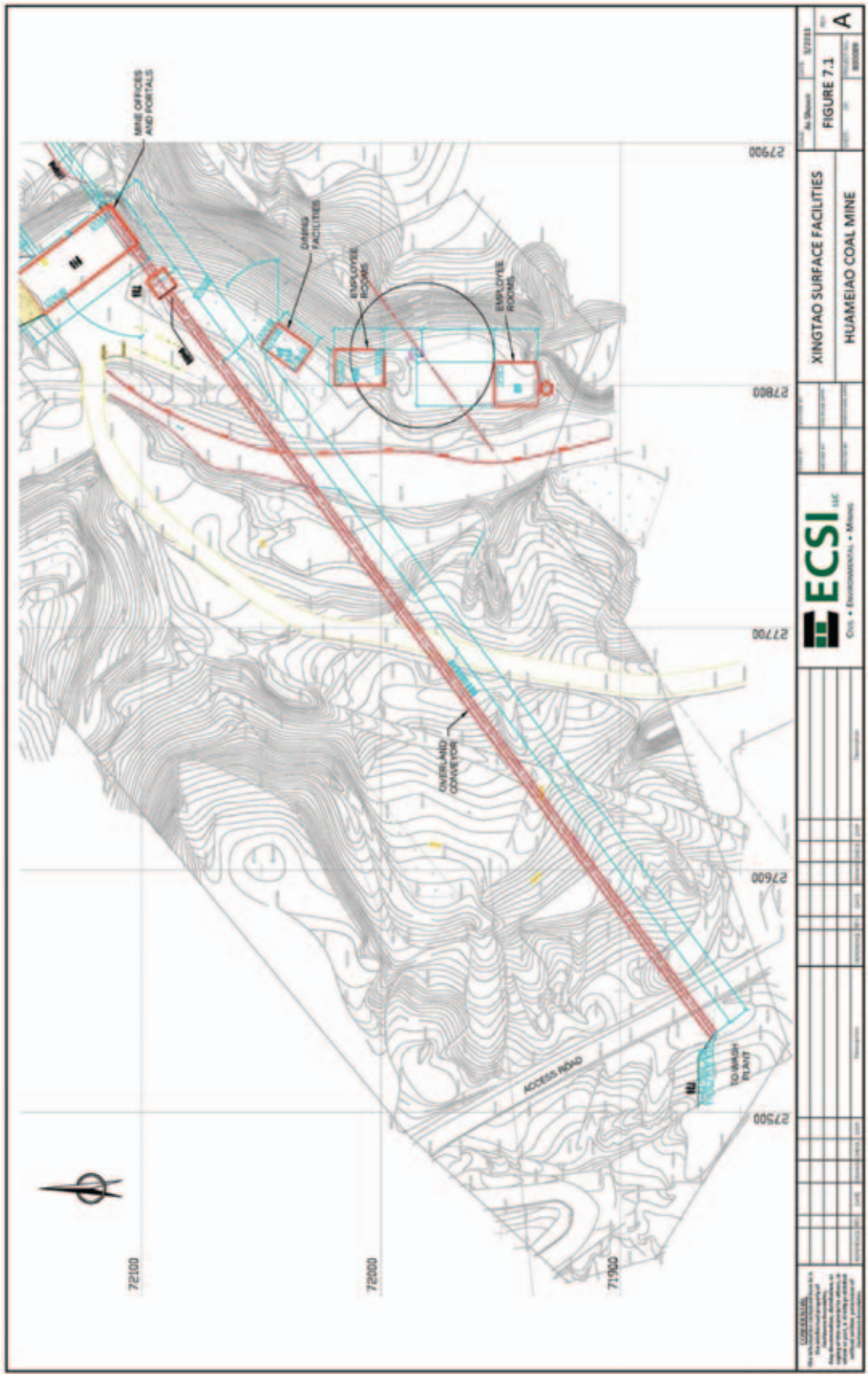


Figure 7-1 Xingtao Surface Facilities

Subsequent information shows that the Xingtao Wash Plant produced 1.8 million tonnes of clean coal in 2010 from 2.8 million tonnes of raw coal feed. Similarly, production records corresponding to the period 2010 to 2016 show that the plant reached a peak production of 1.8 million tonnes in 2010 and 2011. The plan at Xingtao is to mine and send up to 4.0Mtpa of raw coal to the plant and to produce approximately 3.2Mtpa of clean coal for sales. This level of production and sales was used by ECSI in the economic model and not the amounts as shown on the Xingtao mine license. Xingtao is currently producing above the mine license volume and ECSI believes Xingtao will obtain the permission to produce at the 4.0Mtpa rate.

7.3 Description of the Plant at Fengxi

Most of the following is from the Fengxi feasibility with some editing for clarity.

The raw coal produced by the mine is mainly for power generation and the product scheme is determined based on the market demand and the suggestions of the mine owner. The planned wash plant for Fengxi is similar in design to the Xingtao wash plant, where the raw coal mine screening system is established by the coal owner, which classifies the raw coal as three grades, +50mm, 50-25mm and -25mm. The +50mm run-mine coal is screened and the obvious dirt is extracted, then the +50mm raw coal is stored, transported separately and can be sold as raw coal if the owner has a raw coal market.

The raw coal product scheme and processing method is consistent with the national requirements for a 0.9Mt/a mine design, but the actual plant will be built to process 4.0Mt/a.When the ash content of raw coal is relatively low and the percentage of shale content is significantly decreased by coal washing methods then this can improve the economic benefits of coal mine and allow the coal to meet the different requirements of residential and industrial coals, possibly reduce the transportation costs and show high social and economic benefits.

According to the coal quality of No. 4, 9^{-1}, 9^{-2} and 11 coal seams, and considering the market demands to the thermal coal, a supporting 0.9Mtpa coal washing plant is planned for Fengxi to provide coal cleaning for the mine. The coal with ash content less than 16% and calorific power of above 5,600Kcal/kg can meet the market demand and specifications. At a 16% ash coal product, the raw coal of Fengxi increases the efficient to wash. Initially the raw coal is crushed and screened prior to undergoing the full preparation stages. The process flow system of a jig washing plant is designed, as the jigging method is characterized by low investment, simple technology and low production costs and is well suited for the medium-sized coal washing plant plus it provides good product control. The centrifugal dehydrator is used to maintain a water content below 16%. The recovered coarse coal slime and the fine coal particles are dehydration with the concentrated pressure filter and then mixed into the cleaned coal product. The entire coal cleaning plant mainly produces two kinds of products, namely the waste rock and cleaned coal. Since the ash percentage cannot be guaranteed, the quantity of the middling is minimized.

The underground waste rock is brought to the surface in the auxiliary slope and transported to the rock dumping yard for disposal. The handpicked waste rock is placed in the refuse bin and hauled to the waste rock dumping yard.

The waste rock dumping yard is located northwest of the plant in an existing gully, which is 250m long with the average width of 60m, it covers an area of about 1.5ha and the average depth is about 50m.There is currently no waste rocks stored at this site and the yearly output of waste rock and hand-picked waste rock is estimated to be about 110kt. This will provide about a service life of 8 years. The waste rock dumping yard prior to being utilized as the storage of waste rock is designed with water diversion culverts and a cut-off dike is constructed in the gully upstream of rock dumping yard. The downstream has a dam to control the water within the waste rock facility. The rock dumping yard shall be filled in layers and covered with loess (soil). A bulldozer will be used for compaction and then the area will undergo water and soil conservation treatment in accordance with the environmental requirements.

The planned and existing surface facilities for Fengxi are shown on Figure 7-2.

The above description of the type of plant for Fengxi is based on good design and functions similar to the Xingtao wash plant. The Fengxi Wash Plant was constructed to process tonnage in excess of the mine license of 0.9Mtpa. The plan going forward at Fengxi is to mine and send 3.5Mtpa of raw coal to the plant and to produce 2.8Mtpa of clean coal for sales. This level of production and sales was used by ECSI in the economic model. Fengxi can produce volumes above the mine license volume.

The wash plant at Fengxi has been commissioned for commercial production.

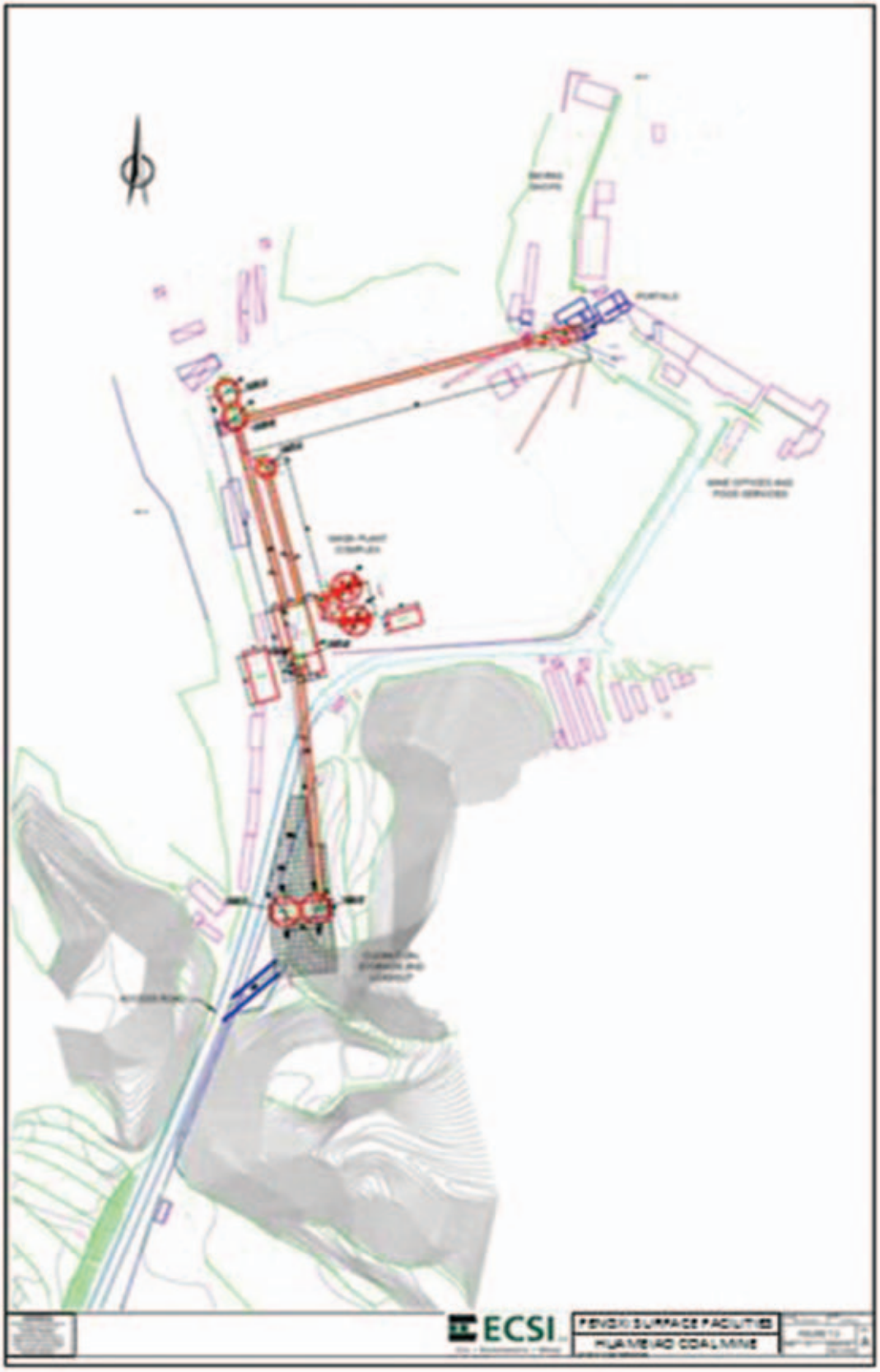


Figure 7-2 Fengxi Surface Facilities

7.4 Description of the Plant for Chongsheng

Most of the following is from the Chongsheng feasibility with some editing for clarity.

Shanxi Shuozhou Luping Huameiao Chongsheng Coal Industrial Industry Co., Ltd. is the result of acquisition, reorganization and consolidation between Shanxi Shuozhou Chongsheng Coal Industry Co., Ltd. and Shanxi Shuozhou Pinglu Fengjialing Yirong Coal Industry Co., Ltd. This Group is in the process of constructing a mine with the production capacity of 0.9Mtpa (feasibility study rate, but the actual will be built to process 4.0Mtpa). In order to reduce the ash in raw coal, improve the calorific value and increase the economic benefit for the mine, the owner plans to construct a coal preparation plant at the southern side of main shaft. The planned operating schedule for the coal preparation plant is 330 d/a, 16 h/d.

Processing Capacity of Coal Preparation Plant:

- Annual Processing Volume: 0.9 Mt;
- Daily Processing Volume: 2727.27 tonnes;
- Hourly Processing Volume: 170.45 tonnes;
- Operating Schedule: 330 d/a, 16 h/d.

Process for Coal Preparation

According to the requirements from the owner in combination with the knowledge of coal quality in Shuozhou area, as well as the designing experience (Xingtao), this suggests a design for the coal preparation plant as:

- All the raw coal is fully washed after it is crushed to ≤200mm:
- 200-13mm – this fraction is separated by screens and then a dense medium circuit;
- 13-1.5mm – this fraction is separated by screens and then a dense medium hydrocyclone;
- 1.5-0.15mm – the coarse slime is recovered by a centrifuge system for hydration;
- 0.15-0mm – the recovery is a combination from through the screen-bowl sedimentation centrifuge, and plate and frame filter presses;
- 13-0mm – the raw coal fines can be fully by-passed, partially washed or fully washed;
- The coal slime is recovered through the press filter for hydration.

The main product of this coal preparation plant is for steam coal. It is necessary to adjust the production and be flexible according to the market situation and quality of the raw coal.

The waste rock from the auxiliary shaft is about 10ktpa and the waste from the coal preparation plant is at about 270ktpa. The waste storage site is located in the valley and is in a southeast direction from the industrial site. The width of the storage valley bottom is about 54 m, valley depth is about 53 m, the width of valley opening at the top is about 110 m, and length of valley is over 100 m giving a capacity of this site at about 870km^3. The waste is moved to the waste site by dump trucks. The capacity of waste site can satisfy the produced waste from the mine and the coal preparation plant as well as the boiler debris for approximately 5 years. In the future, for more storage area, the waste site can be increased in size. A debris retaining dam will be installed at the valley of waste site with a constructed ditch to provide flood drainage. The system to be utilized for the waste storage is to stack 3 m as one layer, compact and cover with the loess soil to a thickness of 0.5 m. After the waste valley is no longer needed it will be reclaimed by covering it with the loess soil of 1.0 m in thickness, compaction of the soil for rehabilitation and planting herbs or fruit trees. It can also be used as a pasture for the development of grass to be used in the animal husbandry industry.

The planned surface facilities and wash plant for Chongsheng are shown on Figure 7-3.

The above description of the type of plant for Chongsheng is based on good design and functions similar to the Xingtao wash plant. The Chongsheng Wash Plant was constructed to process tonnage in excess of the mine license of 0.9Mtpa. The plan at Chongsheng is to mine and send 3.5Mtpa of raw coal to the plant and to produce 2.8Mtpa of clean coal for sales. This level of production and sales was used by ECSI in the economic model. Chongsheng can produce volumes above the mine license volume.

The wash plant at Chongsheng has been commissioned for commercial production.

In the case of the former Shenchi Shenda Energy Investment Co., Ltd. operations (Xinglong and Hongyuan), no preparation plant is available as of the date of this report. It is estimated that the product will be sold raw; therefore, no plant yield factor was applied to the reported reserves and a raw coal price was considered.

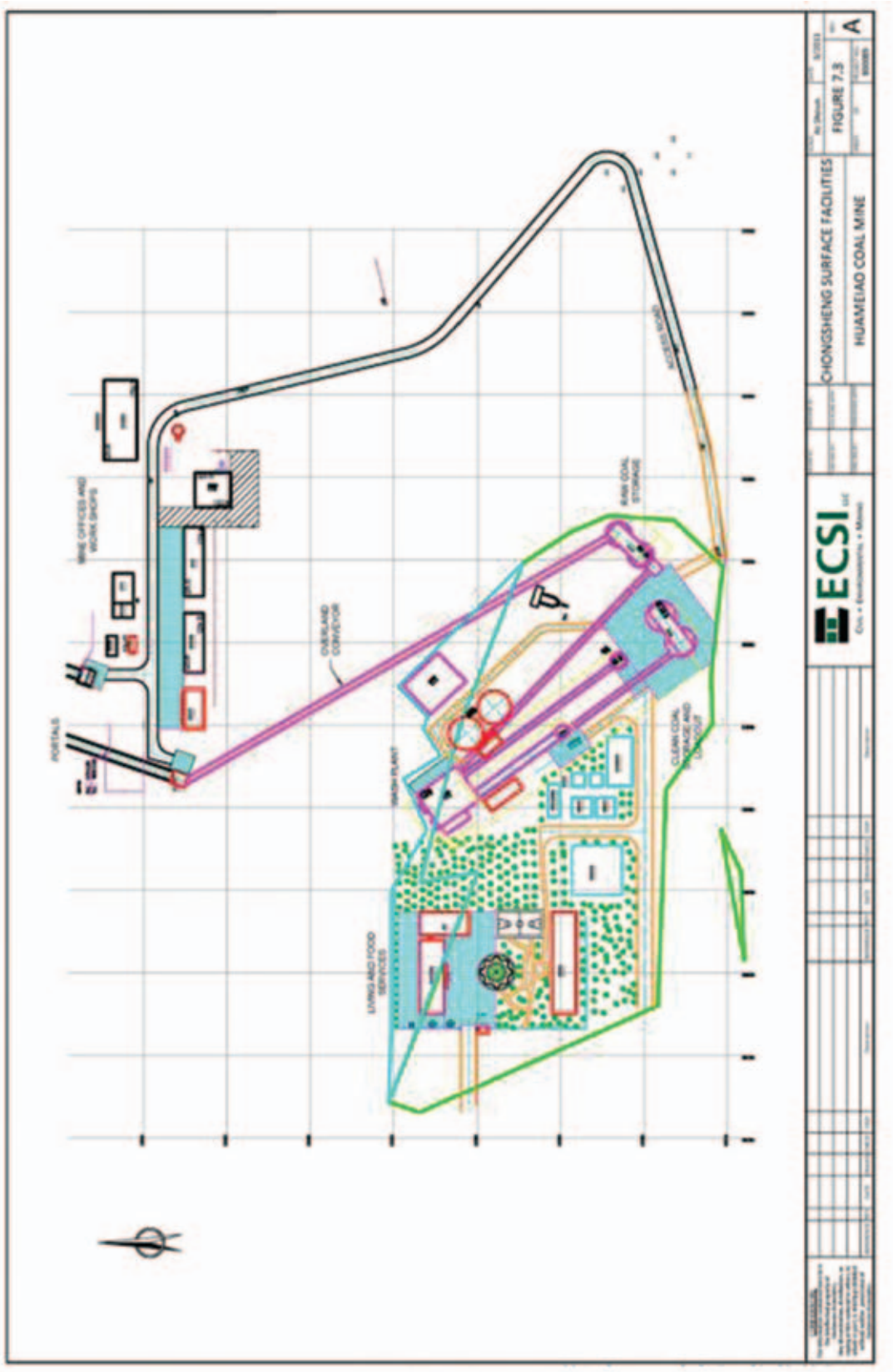


Figure 7-3 Chongsheng Surface Facilities

7.5 Washed Coal Quality and Saleable Products

The raw coal values shown in Section 7.1 are from the geological reports and laboratory testing results. The same results given in the tables for the geologic reports provided the washed coal results that are presented in Tables 7-4, 7-5 and 7-6. During the site visit to Xingtao ECSI inspected the coal washing plant. The plant was idle and the management was not available to provide operational information for the plant, coal volume processed or the specific results of the saleable products. ECSI was later told that the plant at Xingtao was on a planned maintenance shutdown and the information that was required for this report was supplied at a later date.

Therefore, the data listed here for all three mining operations is from the feasibility studies and the geologic reports. If the Xingtao operation is now performing as predicted and the Fengxi and Chongsheng operations also meet their estimated results as shown in the Tables, then the products are as presented as high grade power generation coals.

Table 7-4 Xingtao Clean Coal Quality – Averages

Coal Horizon	Moisture	Ash	Volatile	Sulfur
	%	%	%	%
4^{-1}	3.18	7.58	40.69	0.78
4^{-2}	3.54	6.10	40.24	0.81
$9^{-1}(9^{-1} + 9^{-2})$	2.82	7.58	40.83	1.39
9^{-2}	3.01	7.47	41.48	0.94
11	3.31	7.51	40.31	1.14

Table 7-5 Fengxi Clean Coal Quality – Averages

Coal Horizon	Moisture	Ash	Volatile	Sulfur
	%	%	%	%
4	3.30	7.41	40.29	0.63
9^{-1}	3.15	9.03	39.00	0.56
9^{-2}	2.63	9.49	42.96	1.33
11	2.63	11.11	44.12	1.52

Table 7-6 Chongsheng Clean Coal Quality – Averages

Coal Horizon	Moisture	Ash	Volatile	Sulfur
	%	%	%	%
4	1.85	8.73	41.09	0.47
9^{-1}	1.80	7.02	40.26	0.91
9^{-2}	1.60	9.50	43.68	1.59
11	2.56	8.81	39.51	1.91

The raw coal and clean coal production for 2009 through June 2016 for Xingtao, Fengxi and Chongsheng are provided in Table 7-7. Comments from the owner state that all of the mined raw coal will be sent to the respective wash plant and the sales product is clean coal. No additional data was provided on the quality of the clean coal and it is assumed by ECSI that the clean coal quality will be similar to that shown in Tables 7-4, 7-5 and 7-6 in Section 7.5.

Table 7-7 Raw and Clean Coal Production

	2008	2009	2010	2011	2012	2013	2014	2015
Tons of Raw coals for Processing to clean coal ('000 tonnes)								
Xingtao		1,800	2,837	4,000	4,000	4,000	4,000	4,000
Fengxi			0	1,750	2,800	3,500	3,500	3,500
Chongsheng			0	875	2,800	3,500	3,500	3,500
Tons of Clean coal ('000 tonnes)								
Xingtao		1,440	2,270	2,474	2,600	2,600	2,600	2,600
Fengxi			0	320	1,820	2,275	2,275	2,275
Chongsheng		0	0	0	1,820	2,275	2,275	2,275
		1,440	2,270	2,794	6,240	7,150	7,150	7,150

In order to estimate the revenue of the former by Shanxi Huameiao Energy Group Company Limited mines (Xingtao, Chongsheng and Fengxi), a 65% preparation plant yield was considered; in other words, the saleable clean coal tonnes correspond to 65% of the raw coal feed. A clean coal price is used for this purpose.

In the case of the former Shenchi Shenda Energy Investment Co., Ltd. operations (Xinglong and Hongyuan), since no preparation plant is available as of the date of this report, it is estimated that the product will be sold as raw; therefore, no plant yield factor is applied to the reported reserves and a raw coal price is considered.

8. PROJECT DEVELOPMENT

Project development for Xingtao, Fengxi and Chongsheng is complete and the three mines have been capable to produce at commercial levels since 2011-2012. Xinglong and Hongyuan are still in construction.

The following schedule reflects the status of the projects as of the date of the site visits (January 9 and 10, 2016) as explained by project personnel.

1. **Xingtao**

   a. Currently obtaining Safety Certificate

   b. Estimated date to obtain Safety Certificate: before December 2016

   c. Commercial production will start in December 2016

2. **Fengxi**

   a. Mine construction and development work for seam # 9 was completed in December 2015

   b. Safety Certificate: Current – Valid until 13 October 2017

   c. Test Production started in May 2016

   d. Commercial production will start in August 2016

3. **Chongsheng**

   a. Mine construction and development work for seam # 9 is in progress. Will be completed by the end of October 2016

   b. Test Production will start in December 2016

   c. Safety Certificate: Current – Valid until 26 January 2017

   d. Commercial production will start in April 2017

4. **Hongyuan**

   a. 80% construction progress (seam # 2)

   b. Estimated completion of construction: December 2016

   c. Estimated date to obtain Safety Certificate: January 2017

   d. Commercial production will start in February 2017

5. **Xinglong**

   a. 50% construction advance (seam # 2)

   b. Construction to be completed by June 2017

   c. Estimated date to obtain Safety Certificate: July 2017

   d. Commercial production will start in August 2017

Table 8-1 summarizes the status of the various permits and licenses for each one of the subject operations.

Table 8-1 China Qinfa Mines – Summary of Licenses and Permits

Operation	Document	Expiration	Comments	Document (Appendix A)
Xingtao	Safety Production Permit	12/31/2010	Expired – Being Renewed	1
	Mining License	10/14/2018	Current	2
	Coal Production License	1/31/2018	Current	3
Chongsheng	Safety Production Permit	1/26/2017	Current	4
	Mining License	10/14/2018	Current	5
	Coal Production License	4/17/2044	Current	6
Fengxi	Safety Production Permit	10/13/2017	Current	7
	Coal Production License	3/31/2051	Current	8
	Mining License	1/24/2034	Current	9
Hongyuan	Mining License	10/12/2016	Current	10
	Mine Construction Permit	1/23/2016	Expired – Being Renewed	11

China Qinfa has informed ECSI that since the Safety Production Permits and Mining Licenses are being renewed, the local regulatory authorities of Shanxi Province will not impede the production of coal at the subject operations.

It should be noted that China Qinfa has obtained long term Coal Production Licenses and Safety Production Permits obtained for Chongsheng and Fengxi. China Qinfa has indicated that it is confident that it will expeditiously obtain the necessary licenses.

8.1 Combined Schedule and Production

The following Table summarizes the historical production of the subject mines, as of the dates of the site visits. The production records were supplied by China Qinfa:

Table 8-2 China Qinfa Historical Production by Mine

Xingtao	**Raw coal** *'000 tonnes*	**Clean Coal** *'000 tonnes*
2010	2,837	1,844
2011	2,800	1,820
2012	2,075	1,349
2013	2,134	1,387
2014	1,313	854
2015	452	294
2016 Jan-June	222	144

Fengxi	**Raw coal** *'000 tonnes*	**Clean Coal** *'000 tonnes*
2010	860	559
2011	1,862	1,210
2012	1,851	1,203
2013	1,871	1,216
2014	2,212	1,438
2015	545	354
2016 Jan-June	302	196

Chongsheng	**Raw coal** *'000 tonnes*	**Clean Coal** *'000 tonnes*
2010	–	–
2011	486	316
2012	1,726	1,122
2013	1,708	1,110
2014	1,342	873
2015	445	289
2016 Jan-June	244	160

Xinglong	**Raw coal** *'000 tonnes*	**Clean Coal** *'000 tonnes*
2010	–	–
2011	–	–
2012	–	–
2013	–	–
2014	–	–
2015	–	–
2016 Jan-June	–	–

Hongyuan	**Raw coal** *'000 tonnes*	**Clean Coal** *'000 tonnes*
2010	–	–
2011	–	–
2012	–	–
2013	1,404	1,109
2014	172	136
2015	–	–
2016 Jan-June	–	–

9. OPERATING AND CAPITAL COSTS

A complete life-of-mine model was completed for the five individual mines. The models include the labor, operating costs and capital costs. The models were completed based on the information from the owners for budgeted production until the Reserves were exhausted (life-of-mine).

The overall effect of this analysis is to provide a sales volume and coal quality on a per-year basis for the individual mines and the value of the mining as stand-alone operations.

Some of the results of the models developed are presented in this section to define the capital and operating costs for the mines. This was done in detail for each mine and as a combined project to provide ECSI with the information required for Section 9.

The costs within the model were directly obtained from Xingtao's Profit & Losses Statements and other accounting documents provided by the Owner, as well as some indicators obtained from the feasibility studies. Information on the CAPEX was obtained directly from China Qinfa and is consistent with the information contained in previous Competent Person's Reports on the subject properties.

The total life of mine capital expenditures for all five mines is shown in Table 9-5. This summary does not include the capital costs spent prior to 2011 (Huameiao Mines) or 2013 (Shenda Mines), which were considered to be sunk costs.

9.1 Capital Costs

The following are the capital costs estimated for all five mines.

Capital expenditures (Capex) at Xingtao Mine call for a total investment of RMB845.83 million, which is equivalent to approximately US$127.27 million on the date the report is being written.

Breakdown of capital expenditures of the Xingtao Mine is presented in Table 9-1 below:

Table 9-1 Capital Expenditure Breakdown of Xingtao Mine

Item	**Xingtao** *(10,000 RMB)*
Fixed Assets	52,341
Depreciation	(318,640)
Construction in Progress	54,500
Intangible Assets	9,606
Depreciation of IA	0
Total Capital Costs	84,583

Capital expenditures (Capex) at Fengxi Mine call for a total investment of RMB1,111 million, which is equivalent to approximately US$167.24 million on the date the report is being written.

Breakdown of capital expenditures of the Fengxi Mine is presented in Table 9-2 below:

Table 9-2 Capital Expenditure Breakdown of Fengxi Mine

Item	**Fengxi** *(10,000 RMB)*
Fixed Assets	133,694
Depreciation	(31,183)
Construction in Progress	2,137
Intangible Assets	6,496
Depreciation of IA	0
Total Capital Costs	111,144

Capital expenditures (Capex) at Chongsheng Mine call for a total investment of RMB1,099.65 million, which is equivalent to approximately US$165.46 million on the date the report is being written.

Breakdown of capital expenditures of the Chongsheng Mine is presented in Table 9-3 below:

Table 9-3 Capital Expenditure Breakdown of Chongsheng Mine

Item	**Chongsheng** *(10,000 RMB)*
Fixed Assets	113,577
Depreciation	(16,689)
Construction in Progress	6,205
Intangible Assets	7,139
Depreciation of IA	266
Total Capital Costs	109,965

Capital expenditures (Capex) at Xinglong Mine call for a total investment of RMB491.12 million, which is equivalent to approximately US$73.90 million on the date the report is being written.

Breakdown of capital expenditures of the Xinglong Mine is presented in Table 9-4 below:

Table 9-4 Capital Expenditure Breakdown of Xinglong Mine

Item	**Xinglong** *(10,000 RMB)*
Fixed Assets	20,706
Depreciation	(5,410)
Construction in Progress	29,978
Intangible Assets	3,837
Depreciation of IA	0
Total Capital Costs	49,111

Relatively speaking, the cost assigned to the mining equipment calculated for this project in relation to international case histories is low, even after adding the entire amount of the portion labelled as installations. Longwall mining is known to be capital intensive, as opposed to labour intensive, which in a way is what applies to the Xinglong Mine proposition. On the other hand, the combined numbers for working capital and miscellaneous expenses appear to have been tallied on the comfortable side.

Capital expenditures (Capex) at Hongyuan Mine calls for a total investment of RMB451.76 million, which is equivalent to approximately US$67.97 million on the date the report is being written.

Breakdown of capital expenditures of the Hongyuan Mine is presented in Table 9-5 below:

Table 9-5 Capital Expenditure Breakdown of Hongyuan Mine

Item	**Hongyuan** *(10,000 RMB)*
Fixed Assets	1,666
Depreciation	(1,424)
Construction in Progress	41,495
Intangible Assets	3,440
Depreciation of IA	0
Total Capital Costs	45,176

Also for the Hongyuan Mine, the cost assigned to the mining equipment calculated for this project in relation to international case histories is low, even after adding the entire amount of the portion labelled as installations. The combined numbers for working capital and miscellaneous expenses appear to have been tallied on the comfortable side.

9.2 Operating Costs

ECSI has obtained historical Cost of Goods Sold (COGS) and Selling, General and Administrative Expenses (SG&A) for all five mines from China Qinfa.

All three Huameiao mines are completely built and operational, as well as Hongyuan, while Xinglong is still in construction. Tables 9-6 and 9-7 present a summary of these costs.

Table 9-6 Cost of goods sold (COGS) for all mines (Xinglong is under construction)

	COGS (in RMB)			
	Xingtao	**Fengxi**	**Chongsheng**	**Hongyuan**
2011				
Materials	65,716,294.05	66,457,871.37	5,734,090.80	–
Staff cost	22,458,476.74	54,070,902.79	4,628,200.06	–
Depreciation and amortization	31,137,181.35	35,981,307.04	2,190,708.98	–
Transportation	19,271,382.53	1,973,311.69	–	–
Others	205,153,781.83	145,348,984.95	23,386,395.46	–
	343,737,116.49	303,832,377.85	35,939,395.29	–
COGS ex dep	***312,599,935***	***267,851,071***	***33,748,686***	**–**

	COGS (in RMB)			
	Xingtao	**Fengxi**	**Chongsheng**	**Hongyuan**
2012				
Materials	26,089,267.07	34,458,138.74	62,328,780.91	–
Staff cost	18,410,263.23	34,548,876.60	36,420,247.64	–
Depreciation and amortization	45,560,098.68	23,946,264.30	13,594,634.37	–
Transportation	6,386,842.46	5,736,943.30	5,989,517.64	–
Others	48,929,790.42	47,946,087.61	79,784,122.58	–
	145,376,261.85	146,636,310.55	198,117,303.15	–
COGS ex dep	***99,816,163***	***122,690,046***	***184,522,669***	**–**
2013				
Materials	21,745,499.44	14,487,875.61	24,924,045.36	–
Staff cost	9,189,177.48	15,450,693.62	12,730,437.23	–
Depreciation and amortization	50,381,981.15	32,787,374.05	15,313,983.90	–
Transportation	3,177,413.95	4,496,161.61	1,199,134.04	–
Others	(49,226,583.04)	(8,633,610.86)	8,044,434.01	37,961,305.25
	35,267,488.99	58,588,494.03	62,212,034.54	37,961,305.25
Add back reversal of 兩礦基金調整	74,996,830.89	33,199,630.42	9,421,395.36	–
	110,264,319.88	91,788,124.45	71,633,429.90	–
COGS ex dep	***59,882,339***	***59,000,750***	***56,319,446***	***37,961,305***
2014				
Materials	31,429,550.19	34,715,607.12	38,097,895.12	–
Staff cost	33,647,142.78	53,450,896.22	33,044,088.55	–
Depreciation and amortization	60,766,401.86	58,641,475.48	23,473,462.47	1,689,200.70
Transportation	1,515,393.00	1,203,317.61	224,000.00	–
Others	46,299,064.41	29,745,803.31	38,785,607.10	8,834,244.77
	173,657,552.24	177,757,099.74	133,625,053.24	10,523,445.47
COGS ex dep	***112,891,150***	***119,115,624***	***110,151,591***	***8,834,245***

	COGS (in RMB)			
	Xingtao	**Fengxi**	**Chongsheng**	**Hongyuan**
2015				
Materials	11,472,400.71	22,216,615.97	12,144,029.78	–
Staff cost	41,891,362.40	63,634,268.01	33,659,440.20	–
Depreciation and amortization	44,872,477.97	62,699,443.84	37,919,972.30	–
Transportation	2,755,380.00	–	29,126.21	–
Others	33,497,358.35	44,614,970.38	34,013,303.82	–
	134,488,979.43	193,165,298.21	117,765,872.30	–
COGS ex dep	***89,616,501***	***130,465,854***	***79,845,900***	**–**
2016/6				
Materials	1,288,035.51	5,585,262.22	3,396,746.13	–
Staff cost	5,900,000.00	11,714,347.00	8,420,805.00	–
Depreciation and amortization	12,930,453.60	33,212,678.61	30,543,591.20	–
Transportation	136,000.00	–	248,300.97	–
Others	6,681,569.57	8,020,112.11	12,692,779.49	–
	26,936,058.68	58,532,399.94	55,302,222.79	–
COGS ex dep	***14,005,605***	***25,319,721***	***24,758,632***	**–**

Table 9-7 Historic Selling, General and Administrative Expenses (SG&A) for all mines (Xinglong is under construction)

	SG&A (in RMB)			
	Xingtao	**Fengxi**	**Chongsheng**	**Hongyuan**
2012				
Staff cost	9,950,510.65	–	–	9,950,510.65
Depreciation and amortization	784,948.80	–	–	784,948.80
Others	51,521,955.74	37,246,749.13	29,298,081.87	118,066,786.74
	62,257,415.19	37,246,749.13	29,298,081.87	128,802,246.19
SG&A ex dep	***61,472,466***	***37,246,749***	***29,298,082***	**–**

	SG&A (in RMB)			
	Xingtao	**Fengxi**	**Chongsheng**	**Hongyuan**
2013				
Staff cost	31,911,629.24	–	–	–
Depreciation and amortization	1,626,715.24	–	503,178.15	–
Others	42,396,856.08	25,958,125.26	27,044,696.59	19,870,275.76
	75,935,200.56	25,958,125.26	27,547,874.74	19,870,275.76
SG&A ex dep	***74,308,485***	***25,958,125***	***27,044,697***	***19,870,276***
2014				
Staff cost	8,033,799.41	3,673,227.02	2,392,405.68	–
Depreciation and amortization	1,482,991.60	–	–	–
Others	20,519,063.99	7,128,498.98	5,855,653.32	15,590,000.00
	30,035,855.00	10,801,726.00	8,248,059.00	15,590,000.00
SG&A ex dep	***28,552,863***	***10,801,726***	***8,248,059***	***15,590,000***
2015				
Staff cost	41,891,362.40	63,634,268.01	33,659,440.20	–
Depreciation and amortization	44,872,477.97	62,699,443.84	37,919,972.30	–
Others	33,497,358.35	44,614,970.38	34,013,303.82	–
	120,261,198.72	170,948,682.24	105,592,716.31	–
SG&A ex dep	***75,388,721***	***108,249,238***	***67,672,744***	**–**
2016/6				
Staff cost	488,679.73	139,362.92	2,592,647.10	–
Depreciation and amortization	2,640,817.58	–	–	–
Others	6,072,901.92	2,908,481.82	1,810,010.77	–
	9,202,399.23	3,047,844.74	4,402,657.87	–
SG&A ex dep	***6,561,582***	***3,047,845***	***4,402,658***	**–**

ECSI believes that the model defines a mine life that is attractive and that by adding additional Reserves, the mine life can be extended and production continued.

All of the information listed above was provided by the owners within various documentations. The mine life was determined by the mining rate and the amount of Reserves available to be mined.

10. ENVIRONMENT AND SAFETY

The Chinese government has gradually expanded to closely monitor the environmental consequences of practically all mineral commodities.

The environmental and safety issues were covered in considerable detail for each mine in the feasibility studies.

The safety and environmental practices in the Huameiao underground mines were much better than expected and were at a high standard for coal mines in China. That said, there is still room for improvement in both the safety and environment areas for both the surface and underground operations.

It is evident by reviewing the technical documents on all five projects and observing the actual environmental practices at the three Huameiao mines that the companies have the mentality to exploit their mineral resources in an environmentally conscious fashion.

It appears from the documentation that all three mine operations have been instructed in the regulations for both safety and environmental improvement and that the practices were meeting China standards and regulations. Great awareness of the importance of appropriate safety practices was observed at all three active operations as well as at the two projects under construction during the site visits in January 2016.

10.1 Safety

One of the primary concerns when assessing a coal mining operation in China is the safety practices and the overall approach to worker's safety. Historically, the China coal mining industry has had many problems and accidents. The approach in the Ping Lu coal field where the three mines are located is to merge/consolidate the smaller properties and producers into larger tracts that can be mined using highly productive mining methods. This move to larger mines and higher production has also inspired a move to a safer work environment.

The feasibility studies for the three Huameiao mines, as well as those for the Shenda projects included the results of studies to determine the various underground conditions. The results and assessments of these studies are presented in Section 6 of this report and mine designs and layouts were made in consideration of this information. The owners and management have considered the needs resulting from the studies and have developed a safety program to educate and train the workers.

During the site visits to Xingtao, Fengxi and Chongsheng, in October 19 and 20, 2011 and January 2016, ECSI discussed at length with the corresponding mine managers the most relevant aspects of their safety practices and policies. Special emphasis was given to ventilation plans, escape routes, etc. Generally speaking, the information provided by those managers and the team's independent observations at the three sites show a high level of commitment towards safety practices. Safety-related signs were prominently displayed at various areas of the operations and numerous billboards with safety-education themes were strategically located in the three operations.

Safety equipment, procedures and practices were evident in the three visited operations. New hard hats were worn, safety glasses were used, self-rescuers were carried and signs were posted to inform workers of potentially dangerous conditions.

The monitoring at Xingtao is accomplished by way of a state-of-the-art system located in a centralized control room in the main office building, near the mine manager's office. The system monitors gas, ventilation, diesel emissions, cameras viewing various main areas and the location of every worker that is underground via a Radio Frequency Identification system (RFID). This feature of knowing the location of each person is specifically implemented to provide information in case of any emergency. The system continually records the position of all the workers underground in real-time.

Not all safety issues are solved, but the program and focus on safety at Xingtao is the proper approach and a culture of safety awareness appears to have been developed. The same approach was observed at Fengxi and Chongsheng.

Safety at any mine is dynamic and must be continuously monitored and assessed. The management's approach for these three mines is well organized and is a priority. If this continues, then the mines should continue to be safety-focused and some of the safer mines in China.

10.2 Environmental

10.2.1 Laws & Rules Basis of Environmental Protection and Water and Soil Conservation (As listed in the feasibility studies)

The following are the regulations and control laws for the protection during the construction and operation of all three mine projects. There was no information to suggest that the mines were out of compliance with the design and operating environmental laws and regulations.

1. "Law of Environment Protection of the People's Republic of China", 26 December 1989.

2. "Air Pollution Prevention and Control Law of the People's Republic of China", 29 April 2000.

3. "Specific Rules for Enforcing the Prevention and Cure Law on Water Pollution of the P.C.C", 20 March 2000.

4. "Law on the Prevention of Environmental Pollution from Solid Wastes", revised on 29 December 2004.

5. "Law of the People's Republic of China on the Prevention and Control of Environmental Noise Pollution", 29 October 1996.

6. "National Outline of Ecologic Environmental Protection", 26 November 2002.

7. "Soil and Water Conservation Law of the People's Republic of China", 29 June 1991.

8. "Implementation Rules for Water and Soil Conservation Method of the People's Republic of China", 1 August 1993.

9. "Formulation Examination & Approval Management Regulations for Water and Soil Conservation Program of Development Construction Project," No. 5 Command of the Ministry of Water Resources in 1995.

10. "Management Method for Water and Soil Conservation Program of Development Construction Project", No. 513 document issued by the Ministry of Water Resources, State Development Planning Commission, State Environmental Protection Administration and Water Protection on 12 November 1994.

11. "Regulations on the Administration of Construction Project Environmental Protection", 18 November 1998.

12. "Code for Design of Environmental Protection of Coal Industry".

The Huameiao mines are all relatively new and the Shenda mines are in construction.

The feasibility studies for each mine addressed the environmental standards and regulations that were to be complied with during construction and operation. The mine managers or project managers confirmed that the projects were built as per the feasibility studies. If this is truly the situation, then the mines are in compliance with all local and Chinese Environmental Laws. It would require an extensive audit to determine the exact compliance situation, but observations onsite were that the mines were built/are being built to good standards. Barriers to prevent coal dust from being blown towards populated areas, drainage and sediment control structures, slope stabilization and revegetation of affected areas were some of the environmental measures observed during ECSI's site visits in 2011, 2013 and 2016.

One area of concern to ECSI during their first visit in December 2010 was the amount of dust from the roads and coal piles. As mentioned in the description of the area and climate, the mines are located where the wind blows 270 plus days per year. The Huameiao mine sites look cleaner and better organized than other mines in the immediate area. ECSI noticed during their visit in October 2011 that several measures had been implemented at the mines in order to mitigate the migration of dust from the coal piles, including the construction of coal-dust barriers around the coal yards. This is an effective control measure and will greatly contribute to mitigate coal dust problems affecting the surrounding areas. These measures were observed again during the visits in 2016.

11. RISKS, OPPORTUNITIES AND CRITICAL ISSUES

11.1 Risk Summary

The following are the potential risks that ECSI believes may negatively impact the economic or safety potential for the mining operations:

One of the main risks faced by all five operations is the current state of the coal market in China, with surplus production and a decreased demand, which result in challenging low prices. This is reflected in the cash flows of the operations, in which, generally speaking, the margins between operational costs and sales revenues are very slim. This low-price market may extend in the near future while the internal market in China levels itself and new power stations and factories absorb the production surplus.

In the meantime, all producers are faced with the challenge of getting creative and develop new and efficient ways to reduce their production costs in order to maximize profits while staying competitive in a difficult market.

Another risk affecting all five operations is the time involved in the process to obtain the Provincial Safety Certificates. Since this appears to be a complex process, related to the activities to be carried out in specific coal seams, the companies need to develop a more efficient way to stay ahead of their mine plans and obtain those certificates in a timely manner, in order to avoid costly production interruptions due to the lack of the necessary certificates.

The depletion of low-sulfur seams (4^{-1} and 4^{-2}) presents new challenges to the Huameiao operations since they will have to compete in the clean coal market with higher-sulfur coal from seam 9. Further washability studies and the possibility to blend those coals with cleaner products will need to be studied.

ll.l.l Huameiao Mines (Xingtao, Fengxi and Chongsheng)

- The mining of several successively lower coal seams within a close proximity to each other may cause the development of rock mechanic conditions that will be unsafe or cause the loss of Reserves. Rock mechanics studies need to be done sooner than later and the results integrated into the mine design for the lower seams.

- The old mine workings near and above the planned mining areas could be a risk of flooding to the new mine operations, if the old areas are not dewatered in advance. The management of each mine must ensure that the assessment and correction of these old mine areas is done well in advance of any mining that is below the old works. During their visit in October 2011, ECSI were informed that an accident had occurred at another mine in the region, due to a flood originated in old mine works, resulting in 11 casualties. These risks need to be kept in mind and good practices such as advance dewatering need to be implemented at all times.

- ECSI is concerned that in later years when the longwall mining moves to lower seams and the equipment is older, that sustaining the projected production levels may be difficult. Good maintenance and rock mechanics applications will need to be continuously applied to maintain high production levels.

- ECSI agrees with the mining approach and have accepted that the lower seams will have mine plans that will allow the recovery of the Resources in the lower seams. ECSI has a concern that detailed mine plans have not been developed for the lower seams and that the actual plans will need to incorporate detailed rock mechanic studies to maximize the safety and Resource recovery in the lower seams. This planning based on ongoing rock mechanic studies is necessary and needs to be completed as soon as possible. The potential interferences from the mining in the upper seams may require that the mining in the lower seams be changed and these changes could result in a lower recovery of the coal Resources and has the potential to increase operating costs.

- In later mine years when the mining moves to the 9^{-2} and 11 seams, there will be a higher percentage of sulfur in the coal that is produced. Mine management will need to understand that this higher sulfur may reduce the marketability of the coal and potentially reduce income

11.1.2 Shenda Mines (Xinglong and Hongyuan)

- Rock mechanics issues need to be better addressed in the Mineral Assets. The engineering process will be more effective after revisions and greater details in the design of the roof support systems, pillar dimensioning and the determination of the bearing capacity of the upper floor strata.

- Special attention needs to be paid to the control of the atmosphere in the interior of the mines. Mine safety procedures should be assembled in a more complete set of manuals, especially on account that Xinglong and Hongyuan Coal Mines can be classified as gassy mines.

- The potential for spontaneous combustion should also be seriously considered at both mines. Good engineering design in the detailed phase of the project will allow the mitigation of this risk.

- A thorough regional investigation should be carried out, in order to confirm that no small-scale operation, that may have been taken place in the area in the past, has inadvertently crossed into the areas where the Xinglong and Hongyuan Coal Mines are being developed.

11.2 Opportunity Summary

11.2.1 Huameiao Mines (Xingtao, Fengxi and Chongsheng)

The following are areas where ECSI believes that the operations have opportunities for improvements that will increase the safety and or profitability of the mines.

- ECSI believes that that all three mines are able to produce at the projected levels or higher, based on the way the mines are constructed or are being constructed, combined with the operating experience from the longwall operations at Xingtao.

- The existence of other mineable seams within the mine boundaries provides the opportunity to add Resources and Reserves by obtaining the mining licenses. This additional Resource is currently estimated at over 59 million tonnes.

- There are adjacent properties to Xingtao, Fengxi and Chongsheng that could possibly be purchased to add mining Resources and Reserves.

- Each mine has or will have a wash plant with sufficient capacity to process more volume than is currently produced. If the mining production increases, then there is existing processing capacity without additional capital cost.

- All the mines operate with or are being built with State-of-the-Art monitoring systems and have a good focus on worker's safety. Good safety within the mines is not only good for the workers, but helps lower operation costs.

11.2.2 Shenda Mines (Xinglong and Hongyuan)

- ECSI believes that that the mines will be able to produce at the projected levels or higher, based on the sound engineering principles applied in the reviewed study.

- The existence of other mineable areas that have not been explored yet offers the opportunity to add Resources and Reserves by obtaining the necessary mining licenses. These additional Resources could be significant, based on the current knowledge of the region's geology and the extensive exploration carried out by the owners. The resource potential of the seam No. 6 must be seriously considered.

- A financial analysis should be carried out in order to determine the potential merits of building a wash plant that could serve both mines. The required investment should be compared with the additional profits to be generated by the sales of clean coal instead of raw coal.

- The strategic geographic location of the mine, the remarkable quality of its coal and the size of the Chinese market for steam coal offer a unique combination of opportunities that make this project a very interesting prospect.

APPENDIX A – Mining Licenses

China Qinfa Mines - Summary of Licenses and Permits				
Operation	**Document**	**Expiration**	**Comments**	**Document**
Xingtao	Safety Production Permit	12/31/2010	Expired - Being Renewed	1
	Mining License	10/14/2018	Current	2
	Coal Production License	1/31/2018	Current	3
Chongsheng	Safety Production Permit	1/26/2017	Current	4
	Mining License	10/14/2018	Current	5
	Coal Production License	4/17/2044	Current	6
Fengxi	Safety Production Permit	10/13/2017	Current	7
	Coal Production License	3/31/2051	Current	8
	Mining License	1/24/2034	Current	9
Hongyuan	Mining License	10/12/2016	Current	10
	Mine Construction Permit	1/23/2016	Expired - Being Renewed	11

安全生产许可证

编号：(晋)MK安许证字〔 2010 〕 X002Y1

单 位 名 称:山西朔州平鲁区华美奥兴陶煤业有限公司
主 要 负 责 人:郭艾东
经 济 类 型:有限责任公司
许 可 范 围:煤炭开采
单 位 地 址:朔州市平鲁区陶村乡下韩佐沟村南
有 效 期:2010 年 7 月 15 日至2010 年12 月 31 日

发证机关:山西煤矿安全监察局
二〇一〇 年 七 月 十五 日

国家煤矿安全监察局监制

Document 1:

Xingtao Safety Permit

Expiration: December 31, 2010

中华人民共和国

采 矿 许 可 证

（正本）

证号： C1400002009101220038680

采矿权人： 山西朔州平鲁区华美奥兴陶煤业有限公司

地　　址： 朔州市平鲁区

矿山名称： 山西朔州平鲁区华美奥兴陶煤业有限公司

经济类型： 有限责任公司

有效期限： 叁年 自 2015年10月14日至 2018年10月14日

开采矿种： 煤、4#-11#

开采方式： 地下开采

生产规模： 150.00万吨/年

矿区面积： 4.2515平方公里

矿区范围：（见副本）

发 证 机 关

（采矿登记专用章）

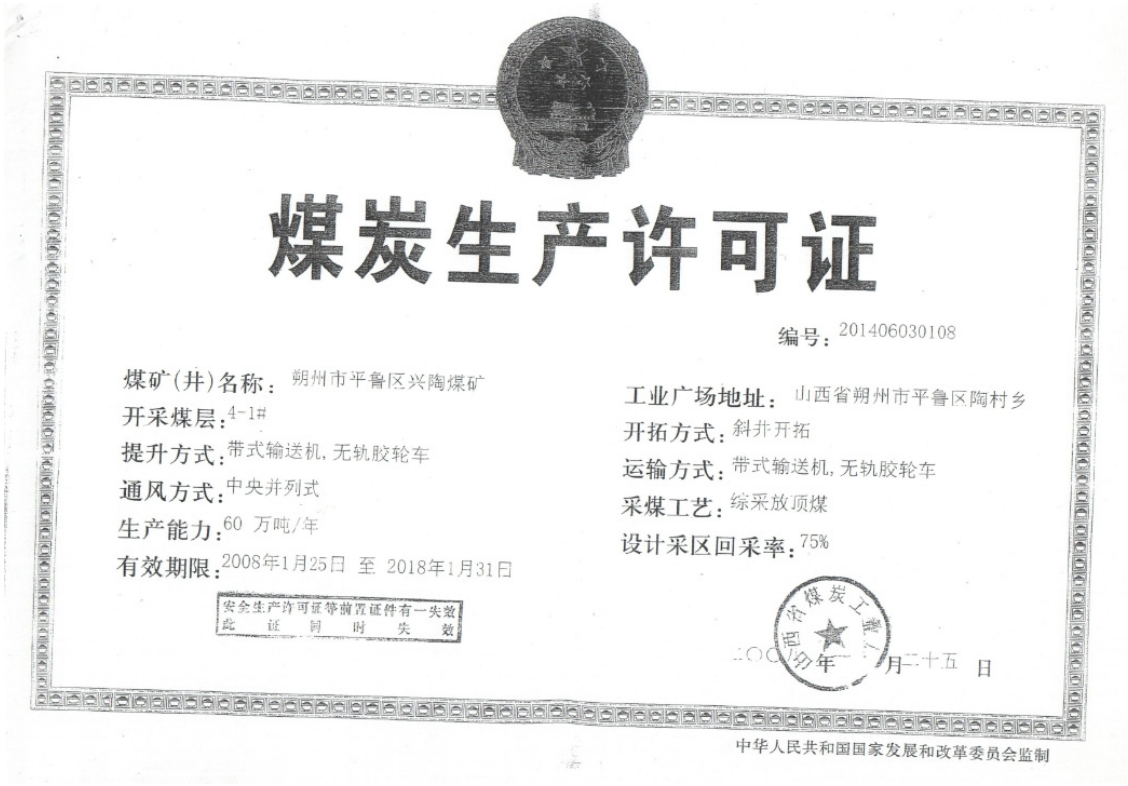
二〇一五年 十月 二十日

中华人民共和国国土资源部印制

Document 2:

Xingtao Mining License (Seam 4-11)

Expiration: October 14, 2018



煤炭生产许可证

编号：201406030108

煤矿(井)名称：朔州市平鲁区兴陶煤矿
开采煤层：4-1#
提升方式：带式输送机，无轨胶轮车
通风方式：中央并列式
生产能力：60 万吨/年
有效期限：2008年1月25日 至 2018年1月31日

工业广场地址：山西省朔州市平鲁区陶村乡
开拓方式：斜井开拓
运输方式：带式输送机，无轨胶轮车
采煤工艺：综采放顶煤
设计采区回采率：75%

安全生产许可证等前置证件有一失效
此 证 同 时 失 效

二〇〇八年一月二十五日

中华人民共和国国家发展和改革委员会监制

Document 3:

Xingtao Coal Production License

Expiration: January 31, 2018

安全生产许可证

编号：（晋 ）MK安许证字〔 2014 〕 X139

单 位 名 称：山西朔州平鲁区华美奥崇升煤业有限公司
主 要 负 责 人：和发新
经 济 类 型：有限责任公司
许 可 范 围：煤炭开采
单 位 地 址：朔州市平鲁区
有 效 期：2014年 1 月 26日至 2017年 1 月 26日

发证机关：山西煤矿安全监察局
二〇一四年 一月 二十日

国家煤矿安全监察局监制

安全生产许可证
（副本）

编号：（晋）MK安许证字〔 2014 〕 X139

单 位 名 称：山西朔州平鲁区华美奥崇升煤业有限公司
主要负责人：和发新
经 济 类 型：有限责任公司
许 可 范 围：煤炭开采、开采4#煤层、许可能力90万吨/年
单 位 地 址：朔州市平鲁区
有效期：2014年 1月 26日至 2017年 1月 26日

发证机关：山西煤矿安全监察局
二〇一年 月 日

延 期 核 准 栏

经审查，准予该企业安全生产许可证有效期延期三年。

自：
至：

延期核准机关（章）
年 月 日

经审查，准予该企业安全生产许可证有效期延期三年。

自：
至：

延期核准机关（章）
年 月 日

Document 4:

Chongsheng Safety Permit

Expiration: January 26, 2017

中华人民共和国

采矿许可证

（正本）

证号：C1400002009101220038704

采矿权人：山西朔州平鲁区华美奥崇升煤业有限公司

地　　址：朔州市平鲁区

矿山名称：山西朔州平鲁区华美奥崇升煤业有限公司

经济类型：有限责任公司

有效期限：叁年 自 2015年10月14日至 2018年10月14日

开采矿种：煤、2#-11#

开采方式：地下开采

生产规模：90.00万吨/年

矿区面积：2.8809平方公里

矿区范围：（见副本）

发证机关

（采矿登记专用章）

二〇一五年十月二十日

中华人民共和国国土资源部印制

Document 5:

Chongsheng Mining License (Seam 2-11)

Expiration: October 14, 2018

煤炭生产许可证

（副 本）

编号：201406032152

煤矿(井)名称:山西朔州平鲁区华美奥崇升煤业有限公司

工业广场地址:山西省朔州市平鲁区下面高乡

开采煤层:4#

开拓方式:斜井开拓

提升方式:带式输送机，无轨胶轮车

运输方式:带式输送机，无轨胶轮车

通风方式:中央并列式

采煤工艺:综采放顶煤

生产能力:90 万吨/年

设计采区回采率:75%

有效期限:2014年04月25日 至 2044年04月17日

二〇一四 年 四 月二十五 日

中华人民共和国国家发展和改革委员会监制

矿井范围拐点坐标

点号	X坐标	Y坐标	点号	X坐标	Y坐标
1	4375953.00	37627649.32			
2	4375952.99	37627929.29			
3	4376453.00	37627929.29			
4	4376453.00	37628585.30			
5	4376379.00	37628585.30			
6	4376379.00	37628709.30			
7	4376453.00	37628709.30			
8	4376452.99	37629729.31			
9	4375352.98	37629929.31			
10	4375252.98	37629729.31			
11	4375052.98	37629429.30			
12	4375052.98	37628809.30			
13	4374952.98	37628809.30			
14	4374952.98	37628529.29			
15	4375052.98	37628529.29			
16	4375053.00	37627649.32			

井口坐标

序号	名 称	X	Y	Z
1	主斜井	4376086.87	37628945.63	1325.00
2	副斜井	4376083.58	37628102.82	1325.00
3	回风立井	4375816.75	37628149.81	1381.01

煤炭生产许可证

编号：201406032152

煤矿(井)名称：山西朔州平鲁区华美奥崇升煤业有限公司

工业广场地址：山西省朔州市平鲁区下面高乡

开采煤层：4#

开拓方式：斜井开拓

提升方式：带式输送机，无轨胶轮车

运输方式：带式输送机，无轨胶轮车

通风方式：中央并列式

采煤工艺：综采放顶煤

生产能力：90万吨/年

设计采区回采率：75%

有效期限：2014年04月25日 至 2044年04月17日

二〇一四年 四月二十五日

中华人民共和国国家发展和改革委员会监制

Document 6:

Chongsheng Coal Production License

Expiration: April 17, 2044

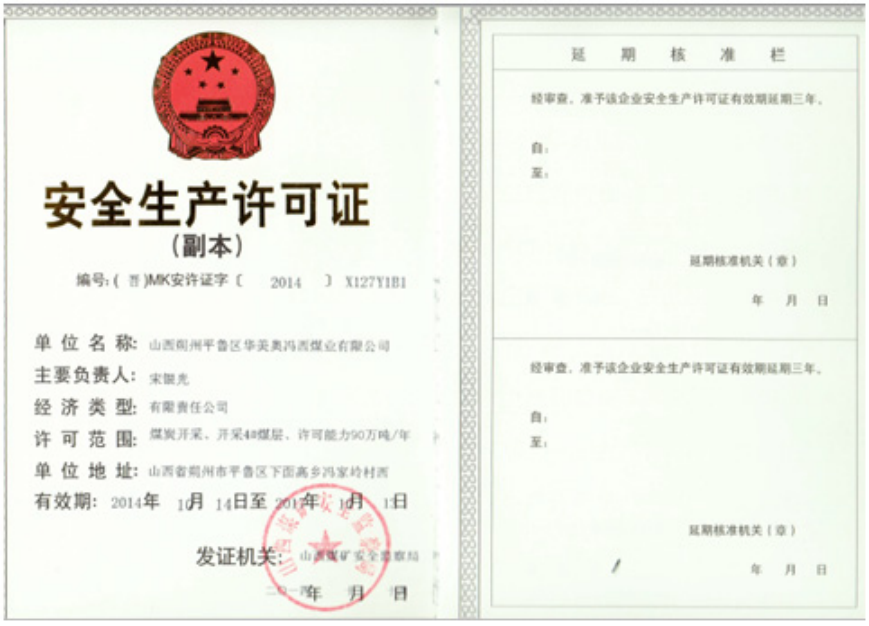
安全生产许可证

编号：（晋）MK安许证字〔 2014 〕 X127Y1B1

单 位 名 称：山西朔州平鲁区华美奥冯西煤业有限公司
主 要 负 责 人：宋银光
经 济 类 型：有限责任公司
许 可 范 围：煤炭开采
单 位 地 址：山西省朔州市平鲁区下面高乡冯家岭村西
有 效 期：2014年 10月 14日至 2017年 10月 13日

发证机关：山西煤矿安全监察局
二〇一四年 十月 十四日

国家煤矿安全监察局监制



安全生产许可证
（副本）

编号：（晋）MK安许证字〔 2014 〕 X127Y1B1

单 位 名 称：山西朔州平鲁区华美奥冯西煤业有限公司
主要负责人：宋银光
经 济 类 型：有限责任公司
许 可 范 围：煤炭开采、开采4#煤层、许可能力90万吨/年
单 位 地 址：山西省朔州市平鲁区下面高乡冯家岭村西
有效期：2014年 10月 14日至 2017年 10月 13日

发证机关：
二〇一四年 十月 十四日

延 期 核 准 栏

经审查，准予该企业安全生产许可证有效期延期三年。

自：
至：

延期核准机关（章）
年 月 日

经审查，准予该企业安全生产许可证有效期延期三年。

自：
至：

延期核准机关（章）
年 月 日

Document 7:

Fengxi Safety Permit

Expiration: October 13, 2017

煤炭生产许可证

（副　本）

编号：201406032125

煤矿（井）名称：山西朔州平鲁区华美奥冯西煤业有限公司

工业广场地址：山西省朔州市平鲁区下面高乡

开采煤层：4#

开拓方式：斜井开拓

提升方式：带式输送机，无轨胶轮车

运输方式：带式输送机，无轨胶轮车

通风方式：中央并列式

采煤工艺：综采放顶煤

生产能力：90 万吨/年

设计采区回采率：75%

有效期限：2014年01月22日 至 2051年03月31日

二〇一四 年 月 日

矿井范围拐点坐标

点号	X坐标	Y坐标	点号	X坐标	Y坐标
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2	4375953.01	37627649.31			
3	4375053.00	37627649.31			
4	4375053.00	37627479.31			
5	4373952.99	37627479.31			
6	4373952.99	37626529.29			
7	4374953.00	37626529.30			
8	4374953.01	37626279.29			

井口坐标

序号	名　称	X	Y	Z
1	主斜井	4373959.02	37626628.08	305.85
2	副斜井	4374018.12	37626617.97	305.50
3	回风斜井	4374064.03	37626693.22	305.24

煤炭生产许可证

编号：201406032125

煤矿（井）名称：山西朔州平鲁区华美奥冯西煤业有限公司

开采煤层：4#

提升方式：带式输送机，无轨胶轮车

通风方式：中央并列式

生产能力：90万吨/年

有效期限：2014年01月22日 至 2051年03月31日

工业广场地址：山西省朔州市平鲁区下面高乡

开拓方式：斜井开拓

运输方式：带式输送机，无轨胶轮车

采煤工艺：综采放顶煤

设计采区回采率：75%

二〇一四年 一月二十二日

中华人民共和国国家发展和改革委员会监制

Document 8:

Fengxi Coal Production License

Expiration: March 31, 2051

中华人民共和国

采 矿 许 可 证

（正本）

证号：C1400002009101220038812

采矿权人：山西朔州平鲁区华美奥冯西煤业有限公司

地　　址：朔州市平鲁区

矿山名称：山西朔州平鲁区华美奥冯西煤业有限公司

经济类型：有限责任公司

有效期限：贰拾年 自 2014年1月24日至 2034年1月24日

开采矿种：煤、1#-11#

开采方式：地下开采

生产规模：90.00万吨/年

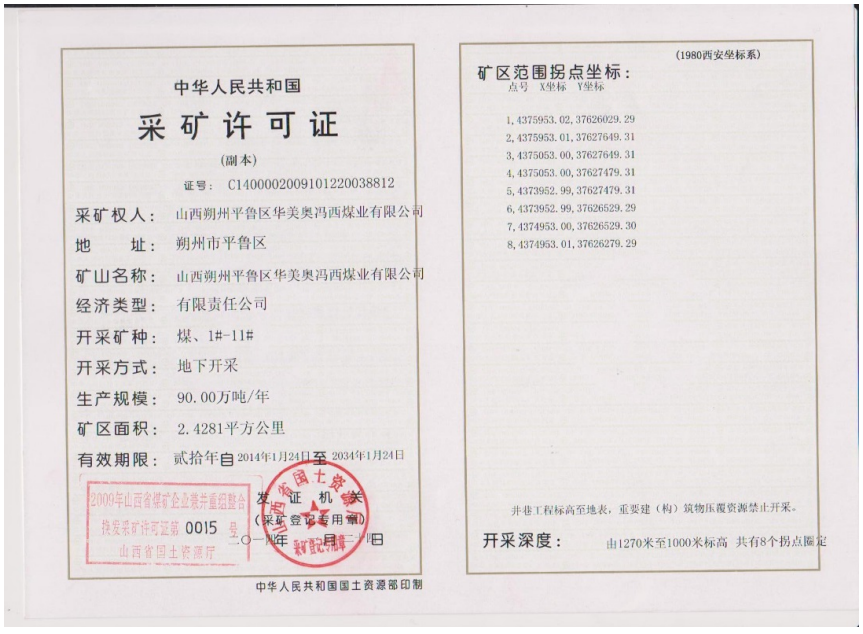
矿区面积：2.4281平方公里

矿区范围：（见副本）

2009年山西省煤矿企业兼并重组整合 技发采矿许可证第 0015 号 山西省国土资源厅

二〇一四年 一月 二十四日

中华人民共和国国土资源部印制



中华人民共和国

采 矿 许 可 证

（副本）

证号：C1400002009101220038812

采矿权人：山西朔州平鲁区华美奥冯西煤业有限公司

地　　址：朔州市平鲁区

矿山名称：山西朔州平鲁区华美奥冯西煤业有限公司

经济类型：有限责任公司

开采矿种：煤、1#-11#

开采方式：地下开采

生产规模：90.00万吨/年

矿区面积：2.4281平方公里

有效期限：贰拾年自2014年1月24日至2034年1月24日

2009年山西省煤矿企业兼并重组整合 技发采矿许可证第 0015 号 山西省国土资源厅

发证机关（采矿登记专用章）

二〇一四年 一月 二十四日

中华人民共和国国土资源部印制

（1980西安坐标系）

矿区范围拐点坐标：

点号	X坐标	Y坐标
1	4375953.02	37626029.29
2	4375953.01	37627649.31
3	4375053.00	37627649.31
4	4375053.00	37627479.31
5	4373952.99	37627479.31
6	4373952.99	37626529.29
7	4374953.00	37626529.30
8	4374953.01	37626279.29

井巷工程标高至地表，重要建（构）筑物压覆资源禁止开采。

开采深度：由1270米至1000米标高 共有8个拐点圈定

Document 9:

Fengxi Mining License (Seam 1-11)

Expiration: January 24, 2034

中华人民共和国

采矿许可证

（正本）

证号：C1400002013031220129035

采矿权人：山西忻州神池宏远煤业有限公司

地　　址：忻州市神池县

矿山名称：山西忻州神池宏远煤业有限公司

经济类型：有限责任公司

有效期限：壹年　自　2015年1月12日至　2016年1月12日

开采矿种：煤、2#5#

开采方式：地下开采

生产规模：90.00万吨/年

矿区面积：4.0456平方公里

矿区范围：（见副本）

有效期延续三个月

有效期延续三个月

中华人民共和国国土资源部印制

Document 10:

Hongyuan Mining License (Seams 2 and 5)

Expiration: October 12, 2016

山西省煤炭工业厅文件

晋煤办基发〔2013〕1197号

关于山西忻州神池兴隆煤业有限公司矿井兼并重组整合项目开工建设的批复

忻州市煤炭工业局：

你局报送的《关于申请山西忻州神池兴隆煤业有限公司矿井兼并重组整合项目开工建设的报告》（忻煤〔2013〕167号）及有关资料收悉。山西忻州神池兴隆煤业有限公司矿井兼并重组整合项目是山西省煤矿企业兼并重组整合工作领导组办公室以晋煤重组办发〔2009〕16号和晋煤重组办函〔2009〕100号文核准的90万吨/年整合改造矿井，主体企业为神池县神泰能源投资有限公司。2012年11月，省国土资源厅为山西忻州神池兴隆煤业有限公司换发了采矿许可证，证号为：C1400002009111220045955。目前，省煤炭厅分别以晋煤规发〔2012〕1338号和晋煤办基发〔2012〕1659号文批复了该矿井地质报告、初步设计；初步设计安全专篇由忻州煤矿安全监察局以忻煤监〔2013〕23号文批复；环境影响评价报告书经省环保厅审查符合审批条件（序号：2013353）。施工准备方面，项目建设所选定的施工、监理单位资质符合要求，并已在山西省煤炭基本建设局备案，质量监督已完成注册登记，施工组织设计已通过设计、建设、施工、监理等单位会审。经审查，山西忻州神池兴隆煤业有限公司90万吨/年矿井兼并重组整合项目建设的前期审批及准备工作已基本就绪，方此，同意你局意见，该项目可于2013年8月23日开工建设，建设工期29个月，同时，你局要加强对该项目建设期间的安全管理、基础技术管理和工程进展情况的监督检查，并督促该矿做好以下工作：

一、严格按照批准的初步设计以及安全设施设计等专篇设计内容，合理安排和组织好井下各单位工程及地面工程的施工顺序，做到安全、环保等专项设施与矿井主体工程建设的"三同时"，确保在批准的工期内完成全部建设任务。

二、健全安全组织机构，抓好安全管理的落实工作，建设、施工、监理单位必须按照省政府晋政办发〔2009〕172号、晋政办发〔2010〕47号和晋政办发〔2012〕34号以及省煤炭厅晋煤办基发〔2010〕300号等文件相关规定，各司其职各负其责，确保矿井建设安全。

三、该矿井田内和周边存在着采空区积水、积气隐患，建设期间要进一步勘查矿井的水文地质条件，建立防治水专业队伍，配备探放水设备，制定有效的防治水措施，严格落实煤矿防治水规定，做到预测预报、有掘必探、先探后掘，严防突水事故的发生。

四、要加强"一通三防"管理工作，严格执行相应的瓦斯管理制度，加强煤层自然发火的预测预报和综合防灭火管理，严格落实防灭火制度，采取有效的综合防尘措施，建立完善的防尘供水系统。

五、建设过程中如瓦斯涌出量增大或水文地质勘探结果与批复的内容差异较大时，必须立即停止矿井建设，对初步设计及安全设施设计进行修改，报原设计审批部门批准后方可恢复施工。

六、抓好施工现场管理，完善各种规章制度，规范作业行为，杜绝施工现场脏、乱、差现象，努力实现文明施工，创建文明工地。

七、严格按照《山西省煤矿建设标准》、《山西省煤矿建设施工管理标准》等我省有关现代化矿井建设管理标准，将该矿建设成为"七高一文明"的现代化矿井。

八、建设过程中如出现由于企业自身原因或政策性长期停工，致使项目不能顺利建设等重大事件时，要及时向山西省煤炭基本建设局报告。

九、为更好地了解和掌握全省煤炭项目投资完成情况，按照晋煤办基发〔2010〕1054号文件要求，做好基本建设财务报表和项目竣工财务决算的报送工作。

山西省煤炭工业厅

2013年8月23日

山西省煤炭工业厅办公室 2013年8月23日印发

Document 11:

Hongyuan Construction Permit

Expiration: January 23, 2016

APPENDIX B – Certificates of Competent Persons

This report is prepared by Mr. Edmundo J. Laporte ("Mr. Laporte"). All Mineral Resources and Ore Reserves are estimated and reported in accordance with the JORC Code (2012 Edition).

The opinions expressed in this report have been based on the information supplied by China Qinfa Group Limited. The opinions in this report are provided in response to a specific request from China Qinfa Group Limited to do so. Mr. Laporte has exercised all due care in reviewing the supplied information. Whilst Mr. Laporte has compared key supplied data with expected values, the accuracy of the results and conclusions from the review are entirely reliant on the accuracy and completeness of the supplied data. Mr. Laporte does not accept responsibility for any errors or omissions in the supplied information and does not accept any consequential liability arising from commercial decisions or actions resulting from them.

The information in this report that relates to Mineral Resources and Reserves is based on information compiled by Mr. Laporte, a Competent Person who is a Registered Member of the Society for Mining, Metallurgy and Exploration (SME).

Mr. Laporte is employed by ECSI, LLC.

Mr. Laporte is not an officer, employee or proposed officer for China Qinfa or any group, holding or associate company of China Qinfa.

Mr. Laporte has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration to qualify as a Competent Person as defined in the 2012 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.

Edmundo J. Laporte
Competent Person
Professional Engineer
Registered Member of SME No. 4150038

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this circular received from BMI Appraisals Limited, an independent valuer, in connection with its valuations as at 31 August 2016 of the properties held by the Group located in the People's Republic of China.

BMI APPRAISALS

BMI Appraisals Limited 中和邦盟評估有限公司

33rd Floor, Shui On Centre, Nos. 6-8 Harbour Road, Wanchai, Hong Kong
香港灣仔港灣道6-8號瑞安中心33樓
Tel電話：(852) 2802 2191 Fax傳真：(852) 2802 0863
Email電郵：info@bmintelligence.com Website網址：www.bmi-appraisals.com

26 October 2016

The Directors
China Qinfa Group Limited
Room 1303, 13th Floor
MassMutual Tower
No. 38 Gloucester Road
Wanchai
Hong Kong

Dear Sirs,

INSTRUCTIONS

We refer to the instructions from China Qinfa Group Limited (the "Company") for us to value the properties held by the Company and/or its subsidiaries (together referred to as the "Group") located in the People's Republic of China (the "PRC"). We confirm that we have conducted inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the properties as at 31 August 2016 (the "valuation date").

BASIS OF VALUATION

Our valuations of the properties have been based on the Market Value, which is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

PROPERTY CATEGORISATIONS

In the course of our valuations, the portfolio of the properties are categorised into the following groups:–

Group I	–	Properties held and occupied by the Group in the PRC
Group II	–	Properties partly held for owner-occupation and partly held under development by the Group in the PRC
Group III	–	Property partly leased and partly held under development/held and occupied by the Group in the PRC

VALUATION METHODOLOGIES

We have valued Property No. 1 on market basis by the Comparison Approach assuming sale in its existing state with the benefit of vacant possession and by making reference to comparable sales evidence as available in the market. Appropriate adjustments have been made to account for the differences between the property and the comparables in terms of time, floor level, size and other relevant factors.

For the Property Nos. 2 to 7, we have adopted the Depreciated Replacement Cost Approach. Depreciated replacement cost is defined as "the aggregate amount of the value of the land for the existing use or a notional replacement site in the same locality and the new replacement cost of the buildings and other site works, from which appropriate deductions may then be made to allow for the age, condition, economic or functional obsolescence and environmental factors, etc.; all of these might result in the existing property being worth less to the undertaking in occupation than would a new replacement". This basis has been used due to the lack of an established market upon which to base comparable transactions, which generally furnishes the most reliable indication of values for assets without a known used market. This opinion of value is subject to adequate profitability of the business compared to the value of the total assets employed.

For the Property Nos. 3 to 7, we have assumed that the properties will be developed and completed in accordance with the latest development proposal provided to us. We have adopted the Comparison Approach by making reference to the comparables sales evidence as available in the relevant market and have also taken into account the accrued construction cost and professional fees relevant to the stage of construction as at the valuation date and the remainder of the cost and fees expected to be incurred for completing the development.

TITLE INVESTIGATION

We have been provided with copies of title documents and have been advised by the Group that no further relevant documents have been produced. However, we have not examined the original documents to verify ownership or to ascertain the existence of any amendment documents, which may not appear on the copies handed to us. In the course of our valuations, we have relied upon the advice and information given by the Group's PRC legal advisor – Guangdong FaSheng Law Firm (廣東法盛律師事務所) regarding the title of the properties located in the PRC. All documents have been used for reference only.

VALUATION ASSUMPTIONS

Our valuations have been made on the assumption that the properties are sold in the market without the benefit of deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which would serve to affect the values of the properties.

In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the properties and no forced sale situation in any manner is assumed in our valuations.

VALUATION CONSIDERATIONS

The inspections of the properties were conducted by Mr. Man Lam (MHKIS), Ms. Yates Wong (Master of Science in Real Estate) and Mr. Lawrence Lee (Msc in Construction and Real Estate) respectively in January and July 2016.

We inspected the properties externally and where possible, the interior of the properties during the inspections. During the course of our inspections, we did not note any serious defects. However, no structural survey has been made nor have any tests been carried out on any of the services provided in the properties. We are, therefore, unable to report that the properties are free from rot, infestation or any other structural defects.

We have relied to a considerable extent on the information provided by the Group and have accepted advice on such matters as planning approvals, statutory notices, easements, tenures, particulars of occupancy, site/floor areas, identification of the properties and all other relevant matters.

Except otherwise stated, dimensions, measurements and site/floor areas included in the valuation certificates are based on information contained in the documents provided to us and are therefore only approximations.

We have not carried out detailed on-site measurements to verify the correctness of the site/floor areas in respect of the properties but have assumed that the site/floor areas shown on the documents handed to us are correct.

We have no reason to doubt the truth and accuracy of the information provided to us by the Group and we have relied on your confirmation that no material facts have been omitted from the information provided. We consider that we have been provided with sufficient information for us to reach an informed view.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties or for any expenses or taxation, which may be incurred in effecting a sale or purchase.

Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

Our valuations have been prepared in accordance with The HKIS Valuation Standards (2012 Edition) published by The Hong Kong Institute of Surveyors.

Our valuations have been prepared under the generally accepted valuation procedures and are in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

REMARKS

Unless otherwise stated, all money amounts stated herein are in Renminbi (RMB) and no allowances have been made for any exchange transfer.

Our summary of values and the valuation certificates are attached herewith.

Yours faithfully,
For and on behalf of
BMI APPRAISALS LIMITED
Joannau W.F. Chan
BSc., MSc., MRICS, MHKIS, RPS(GP)
Senior Director

Note:

Ms. Joannau W.F. Chan is a member of the Hong Kong Institute of Surveyors (General Practice) who has over 23 years' experience in valuations of properties in Hong Kong and over 17 years' experience in valuations of properties in the People's Republic of China.

SUMMARY OF VALUES

No.	Property	Market Value in existing state as at 31 August 2016 *RMB*
Group I – Properties held and occupied by the Group in the PRC		
1.	Unit Nos. 2201 to 2208, Level 22, Tower B, Poly International Plaza, No. 1 Pazhou East Road, Haizhu District, Guangzhou City, Guangdong Province, The PRC 中國廣東省 廣州市海珠區 琶洲大道東 1 號 保利國際廣場 B 座 第 22 層 2201 至 2208 室	43,100,000
2.	A parcel of land (Land Parcel No. 140232203007), various buildings and structures located at Xiezhuang Village, Beijiazao Town, Datong County, Shanxi Province, The PRC 位於中國山西省 大同縣倍加造鎮 解莊村之一塊土地 (地號:140232203007) 、若干房屋及構築物	22,500,000
	Sub-total:	65,600,000

No.	Property	Market Value in existing state as at 31 August 2016 *RMB*
Group II	**– Properties partly held for owner-occupation and partly held under development by the Group in the PRC**	
3.	A parcel of land, various buildings, structures and structures under construction located at the west of Fengjialing Village, Xiamiangao Township, Pinglu District, Shuozhou City, Shanxi Province, The PRC 位於中國山西省 朔州市平魯區 下面高鄉馮家嶺村西之一塊土地、若干建築物、構築物及在建中構築物	No Commercial Value
4.	A parcel of land, various buildings, structures and structures under construction located at Xisunzhuang Village North, Taocun Township, Pinglu District, Shuozhou City, Shanxi Province, The PRC 位於中國山西省 朔州市平魯區 陶村鄉西孫莊村北之一塊土地、若干房屋、構築物及在建中構築物	No Commercial Value
5.	A parcel of land (under mining permit No. C1400002009111220045955), various buildings and structures located at the Rear Village of Longquan Town, Shenchi County, Xinzhou City, Shanxi Province, The PRC 位於中國山西省 忻州市神池縣 龍泉鎮後村 之一塊土地(採礦証編號 No. C1400002009111220045955)、若干建築物及構築物	No Commercial Value

No.	Property	Market Value in existing state as at 31 August 2016 *RMB*
6.	A parcel of land (under mining permit No. C1400002013031220129035), various buildings and structures located at Dagouerjian Village, Longquan Town, Shenchi County, Xinzhou City, Shanxi Province, The PRC 位於中國山西省 忻州市神池縣 龍泉鎮大溝兒澗村 之一塊土地(採礦証編號 No. C1400002013031220129035)、 若干建築物及構築物	No Commercial Value
	Sub-total:	Nil

Group III – Property partly leased and partly held under development/ held and occupied by the Group in the PRC

7.	3 land parcels, various buildings, structures and structures under construction located at Fengjialing Village, Xiamiangao Village and Beiyandun Village, Xiamiangao Township, Pinglu District, Shuozhou City, Shanxi Province, The PRC 位於中國山西省 朔州市平魯區 下面高鄉 馮家嶺村、下面高村及北煙墩村之三塊土地、若干棟房屋、 構築物及在建中構築物	No Commercial Value
	Sub-total:	Nil
	Grand-total:	65,600,000

VALUATION CERTIFICATE

Group I – Properties held and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 August 2016 *RMB*
1.	Unit Nos. 2201 to 2208, Level 22, Tower B, Poly International Plaza, No. 1 Pazhou East Road, Haizhu District, Guangzhou City, Guangdong Province, The PRC 中國廣東省廣州市海珠區琶洲大道東 1 號保利國際廣場 B 座第 22 層 2201 至 2208 室	The property comprises 8 office units on Level 22 of a 34-storey office building completed in about 2007. The total gross floor area ("GFA") of the property is approximately 1,758.35 sq.m. The land use rights of the property have been granted for a term of 50 years expiring on 1 June 2054 for office use.	The property is occupied by the Group for office purpose.	43,100,000

Notes:

1. Pursuant to 8 Commodity House Sale and Purchase Agreement entered into between Poly Real Estate Group Company Limited (保利房地產 (集團) 股份有限公司) and Zhuhai Qinfa Trading Company Limited ("Zhuhai Qinfa Trading") (珠海秦發貿易有限公司) dated 19 December 2006, the property with a total GFA of approximately 1,786.56 sq.m. was contracted to be purchased by Zhuhai Qinfa Trading at a total consideration of RMB27,661,009.

2. Pursuant to 8 Real Estate Title Certificates, Yue Fang Di Quan Zheng Sui Zi Di Nos. 0820005907, 0820005908, 0820005909, 0820005910, 0820005911, 0820005912, 0820005913 and 0820005914, the land use rights of the property have been granted for a term of 50 years commencing on 2 June 2004 and expiring on 1 June 2054 for office use and the building ownership rights of the property with a total gross floor area of approximately 1,758.35 sq.m. are legally vested in Zhuhai Qinfa Trading.

3. The opinion given by the PRC legal advisor to the Group is as follows:

   a. The building ownership rights of the property are legally vested in Zhuhai Qinfa Trading and Zhuhai Qinfa Trading has the rights to use, transfer and lease the property;

   b. The property is subject to a mortgage in favour of China Minsheng Bank Guangzhou Branch (中國民生銀行股份有限公司廣州分行) for a term commencing on 31 October 2013 and expiring on 16 December 2016; and

   c. Apart from the above mentioned mortgage, the property is not subject to any other material encumbrances.

4. Zhuhai Qinfa Trading is an indirectly wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 August 2016 *RMB*
2.	A parcel of land (Land Parcel No. 140232203007), various buildings and structures located at Xiezhuang Village, Beijiazao Town, Datong County, Shanxi Province, The PRC 位於中國山西省大同縣倍加造鎮解莊村之一塊土地(地號:140232203007)、若干房屋及構築物	The property comprises a land parcel with a site area of approximately 106,460 sq.m. and 12 buildings and various ancillary structures completed in various stages between 1999 and 2012 erected thereon. The total gross floor area ("GFA") of the buildings is approximately 3,205.87 sq.m. The buildings mainly include office buildings, dormitories and a pump room. The structures mainly include a water tower, walls, a well, railway links and roads. The land use rights of the property have been granted for a term expiring on 9 April 2053 for coal station use.	The property is occupied by the Group for coal transportation station purpose.	22,500,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate, Da Guo Yong (2003) Zi Di No. 01005, the land use rights of the property with a site area of approximately 106,460 sq.m. have been granted to Datong Xiejiazhuang Jinfa Trading and Transportation Company Limited (大同解家莊晉發運銷有限公司) ("Datong Jinfa") for a term expiring on 9 April 2053 for coal station use.

2. Pursuant to 3 Building Ownership Certificates, Da Fang Quan Zheng Bei Zi Di No. B0500004, Da Fang Quan Zheng Da Tong County Zi Di Nos. B0500011 and B0500012, the building ownership rights of 9 buildings of the property with a total GFA of approximately 3,125.87 sq.m. are legally owned by Datong Jinfa.

3. For the remaining 3 buildings of the property with a total GFA of 80 sq.m., we have not been provided with any title certificates.

4. In the valuation of this property, we have attributed no commercial value to the buildings stated in Note 3 as relevant title certificates of the buildings have not been obtained. However, for your reference purpose, we are of the opinion that the depreciated replacement cost of the buildings (excluding the land) as at the valuation date would be in the sum of approximately RMB50,000 assuming all relevant title certificates have been obtained and the buildings could be freely transferred in the market.

5. The opinion given by the PRC legal advisor to the Group is as follows:

   a. The land use rights of the property are legally vested in Datong Jinfa and Datong Jinfa has the rights to use, transfer, mortgage and lease the land use rights of the property with the residual term of the land use rights;

   b. The land premium of the property has been settled in full;

   c. The land use rights and the buildings of the property are not subject to mortgage, lease and other encumbrances; and

   d. The building ownership rights of the buildings stated in note 2 are legally vested in Datong Jinfa and Datong Jinfa has the rights to use, transfer, lease or mortgage the buildings.

6. Datong Jinfa is an indirectly wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

Group II – Properties partly held for owner-occupation and partly held under development by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 August 2016 *RMB*
3.	A parcel of land, various buildings, structures and structures under construction located at the west of Fengjialing Village, Xiamiangao Township, Pinglu District, Shuozhou City, Shanxi Province, The PRC 位於中國山西省朔州市平魯區下面高鄉馮家嶺村西之一塊土地、若干建築物、構築物及在建中構築物	The property comprises a parcel of land with a site area of approximately 20,925.64 sq.m. and 85 buildings and various ancillary structures completed in various stages between 2004 to 2013 erected thereon (the "completed property"). The total gross floor area ("GFA") of the buildings of the completed property is approximately 27,538.69 sq.m. The buildings mainly include office buildings, dormitories and warehouses. The structures mainly include water pools and a transformer room. In addition to the completed property, the property also comprises various structures which are under construction (the "CIP"). The estimated total construction cost is approximately RMB13,800,000, of which approximately RMB12,300,000 had been paid up to the valuation date. The construction works of the CIP are scheduled to be completed in about 2016. The land use rights of the property have been obtained for mining use.	The completed property is occupied by the Group for coal production purpose whilst the CIP is under development.	No Commercial Value

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate, Ping Ji Yong (2006) Di No. 000012, the land use rights of the property with a site area of approximately 20,925.64 sq.m. have been obtained by Shuozhou City Pinglu District Fengxi Coal Mine (朔州市平魯區馮西煤礦) ("Fengxi Coal Mine") for mining use. As advised by the Group, Fengxi Coal Mine is held by Shanxi Shuozhou Pinglu District Huameiao Fengxi Coal Company Limited (山西朔州平魯區華美奧馮西煤業有限公司) ("Huameiao Fengxi Coal").

2. For the buildings of the completed property and the CIP, we have not been provided with any title certificates or construction permits.

3. In the valuation of this property, we have attributed no commercial value to the property as the nature of the land use rights of the property could not be ascertained and the relevant title certificates of the buildings have not been obtained. However, for your reference purpose, we are of the opinion that the depreciated replacement cost of the buildings and structures (excluding the land) as at the valuation date would be in the sum of approximately RMB739,700,000 assuming all relevant title certificates have been obtained and the buildings and structures could be freely transferred in the market.

4. The opinion given by the PRC legal advisor to the Group is as follows:

   a. According to Company Law and Land Management Law of the PRC, since the name of the company has been changed from Fengxi Coal Mine to Huameiao Fengxi Coal, the rights to use the land parcel should be changed accordingly;

   b. The land use rights of the property obtained by Fengxi Coal Mine, have not been changed to Huameiao Fengxi Coal, thus the rights to use the land parcel cannot be ascertained; and

   c. The title documents of the buildings have not been obtained, thus the ownership of the buildings cannot be ascertained.

5. Huameiao Fengxi Coal is an 80%-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 August 2016 *RMB*
4.	A parcel of land, various buildings, structures and structures under construction located at Xisunzhuang Village North, Taocun Township, Pinglu District, Shuozhou City, Shanxi Province, The PRC 位於中國山西省朔州市平魯區陶村鄉西孫莊村北之一塊土地、若干房屋、構築物及在建中構築物	The property comprises a parcel of land with a site area of approximately 176,642.42 sq.m. and 72 buildings and various ancillary structures completed in various stages between 2004 and 2014 erected thereon (the "completed property"). The total gross floor area ("GFA") of the buildings of the completed property is approximately 30,861 sq.m. In addition to the completed property, the property comprises various structures which are under construction (the "CIP"). The estimated total construction cost is approximately RMB213,500,000, of which approximately RMB184,400,000 had been paid up to the valuation date. The construction works of the CIP are scheduled to be completed in about 2016. The land use rights of the property have been obtained for industrial use.	The completed property is occupied by the Group for coal production purpose whilst the CIP is under development.	No Commercial Value

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate, Ping Ji Yong (2006) Di No. 000005, the land use rights of the property with a site area of approximately 176,642.42 sq.m. have been obtained by Shuozhou City Pinglu District Xingtao Coal Mine (朔州市平魯區興陶煤礦) ("Xingtao Coal Mine") for industrial use. As advised by the Group, Xingtao Coal Mine is held by Shanxi Shuozhou Pinglu District Huameiao Xingtao Coal Company Limited (山西朔州平魯區華美奧興陶煤業有限公司) ("Huameiao Xingtao Coal").

2. For the buildings of the completed property and the CIP, we have not been provided with any title certificates or construction permits.

3. In the valuation of this property, we have attributed no commercial value to the property as the nature of the land use rights of the property could not be ascertained and the relevant title certificates of the buildings have not been obtained. However, for your reference purpose, we are of the opinion that the depreciated replacement cost of the buildings and structures (excluding the land) as at the valuation date would be in the sum of approximately RMB496,600,000 assuming all relevant title certificates have been obtained and the buildings and structures could be freely transferred in the market.

4. The opinion given by the PRC legal advisor to the Group is as follows:

   a. According to Company Law and Land Management Law of the PRC, since the name of the company has been changed from Xingtao Coal Mine to Huameiao Xingtao Coal, the rights to use the land parcel should be changed accordingly;

   b. The land use rights of the property obtained by Xingtao Coal Mine, have not been changed to Huameiao Xingtao Coal, thus the rights to use the land parcel cannot be ascertained; and

   c. The title documents of the buildings have not been obtained, thus the ownership of the buildings cannot be ascertained.

5. Huameiao Xingtao Coal is an 80%-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 August 2016 *RMB*
5.	A parcel of land (under mining permit No. C1400002009111220045955), various buildings and structures located at the Rear Village of Longquan Town, Shenchi County, Xinzhou City, Shanxi Province, The PRC 位於中國山西省忻州市神池縣龍泉鎮後村之一塊土地(採礦証編號No. C1400002009111220045955)、若干建築物及構築物	The property comprises a parcel of land with a site area of approximately 4,012,800 sq.m. and various buildings and ancillary structures completed in about 2013 erected thereon (the "completed property"). The total gross floor area ("GFA") of the buildings of the completed property is approximately 15,508.9 sq.m. In addition to the completed property, the property comprises various structures which are under construction (the "CIP"). The estimated total construction cost is approximately RMB173,400,000, of which approximately RMB86,700,000 had been paid up to the valuation date. The construction works of the CIP are scheduled to be completed in 2018.	The completed property is occupied by the Group for coal production purpose whilst the CIP is under development.	No Commercial Value

Notes:

1. Pursuant to a Mining Permit No. C140000200911122004595 5, Shanxi Xinzhou Shenchi Xinglong Coal Company Limited (山西忻州神池興隆煤業有限公司) ("Xinglong Coal") has the right to use the land parcel of the property for a term expiring on 29 November 2015 which had been extended to 29 February 2016 for mining purpose.

2. For the buildings of the completed property and the CIP, we have not been provided with any title certificates or construction permits.

3. In the valuation of this property, we have attributed no commercial value to the property as the nature of the land use rights could not be ascertained and the relevant title certificates of the buildings have not been obtained. However, for your reference purpose, we are of the opinion that the depreciated replacement cost of the buildings and structures (excluding the land) and the CIP as at the valuation date would be in the sum of approximately RMB132,000,000 assuming all relevant title certificates have been obtained and the buildings and structures could be freely transferred in the market.

4. The opinion given by the PRC legal advisor to the Group is as follows:

   The title documents of the property have not been provided, thus the rights to use and occupy the property cannot be ascertained.

5. Xinglong Coal is an indirectly wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 August 2016 *RMB*
6.	A parcel of land (under mining permit No. C140000201303122 0129035), various buildings and structures located at Dagouerjian Village, Longquan Town, Shenchi County, Xinzhou City, Shanxi Province, The PRC 位於中國山西省忻州市神池縣龍泉鎮大溝兒澗村之一塊土地 (採礦証編號 No. C140000201303122 0129035)、若干建築物及構築物	The property comprises a parcel of land with a site area of approximately 4,045,600 sq.m. and various buildings and ancillary structures completed in about 2013 erected thereon (the "completed property"). The total gross floor area ("GFA") of the buildings of the completed property is approximately 12,223.9 sq.m. In addition to the completed property, the property comprises various structures which are under construction (the "CIP"). The estimated total construction cost is approximately RMB181,600,000, of which approximately RMB145,300,000 had been paid up to the valuation date. The construction works of the CIP are scheduled to be completed in 2017.	The completed property is occupied by the Group for coal production purpose whilst the CIP is under development.	No Commercial Value

Notes:

1. Pursuant to a Mining Permit No. C1400002013031220129035, Shanxi Xinzhou Shenchi Hongyuan Coal Company Limited (山西忻州神池宏遠煤業有限公司) ("Hongyuan Coal") has the right to use the land parcel of the property for a term expiring on 12 January 2016 for mining purpose.

2. For the buildings of the completed property and the CIP, we have not been provided with any title certificates or construction permits.

3. In the valuation of this property, we have attributed no commercial value to the property as the nature of the land use rights could not be ascertained and the relevant title certificates of the buildings have not been obtained. However, for your reference purpose, we are of the opinion that the depreciated replacement cost of the buildings and structures (excluding the land) and the CIP as at the valuation date would be in the sum of approximately RMB157,100,000 assuming all relevant title certificates have been obtained and the buildings and structures could be freely transferred in the market.

4. The opinion given by the PRC legal advisor to the Group is as follows:

   The title documents of the property have not been provided, thus the rights to use and occupy the property cannot be ascertained.

5. Hongyuan Coal is an indirectly wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

Group III – Property partly leased and partly held under development/held and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 August 2016 *RMB*
7.	3 land parcels, various buildings, structures and structures under construction located at Fengjialing Village, Xiamiangao Village and Beiyandun Village, Xiamiangao Township, Pinglu District, Shuozhou City, Shanxi Province, The PRC 位於中國山西省朔州市平魯區下面高鄉馮家嶺村、下面高村及北煙墩村之三塊土地、若干棟房屋、構築物及在建中構築物	The property comprises 3 parcels of land with a total site area of approximately 80,667 sq.m. ("Land Parcel I", "Land Parcel II" and "Land Parcel III") and 89 buildings and various structures completed in various stages between 1984 and 2013 erected thereon (the "completed property"). The total gross floor area ("GFA") of the buildings of the completed property is approximately 32,830.02 sq.m. In addition to the completed property, the property also comprises various structures which are under construction (the "CIP"). The estimated total construction cost is approximately RMB61,100,000, of which approximately RMB59,500,000 had been paid up to the valuation date. The construction works of the CIP are scheduled to be completed in about 2016. The land use rights of Land Parcel I of the property have been obtained for industrial use. The land use rights of Land Parcel II have been transferred to the Group, and the land use rights of Land Parcel III have been leased to the Group for various terms.	The completed property is occupied by the Group for coal production purpose whilst the CIP is under development.	No Commercial Value

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate, Ping Guo Yong (2002) Zi Di No. 0017 (平國用(2002)字第 0017 號), the land use rights of the property with a site area of approximately 12,533.3 sq.m. have been obtained by Shuozhou City Pinglu District Siergou Coal Mine (朔州市平魯區寺兒溝煤礦) ("Siergou") for industrial use. As advised by the Group, Siergou is held by Shanxi Shuozhou Pinglu District Huameiao Chongsheng Coal Company Limited (山西朔州平魯區華美奧崇升煤業有限公司) ("Chongsheng Coal").

2. Pursuant to 3 Land Transfer Agreements all issued on 13 November 2011, Land Parcel II with a total site area of approximately 12.23 mu (or about 8,153.37 sq.m.) has been transferred to Chongsheng Coal from 3 independent third parties at a total consideration of RMB305,750.

3. Pursuant to 23 Land Tenancy Agreements (租用土地協議書) entered into between various independent third parties and Chongsheng Coal, Land Parcel III with a site area of approximately 89.97 mu (or about 59,980.3 sq.m.) has been leased to Chongsheng Coal for various terms of 20 years at a total rent of RMB2,009,088.

4. For the buildings of the completed property and the CIP, we have not been provided with any title certificates or construction permits.

5. In the valuation of this property, we have attributed no commercial value to the property as the nature of the land use rights could not be ascertained and the relevant title certificates of the buildings have not been obtained. However, for your reference purpose, we are of the opinion that the depreciated replacement cost of the buildings and structures (excluding the land) as at the valuation date would be in the sum of approximately RMB716,900,000 assuming all relevant title certificates have been obtained and the buildings and structures could be freely transferred in the market.

6. The opinion given by the PRC legal advisor to the Group is as follows:

   a. According to Company Law and Land Management Law of the PRC, since the name of the company has been changed from Siergou to Chongsheng Coal, the rights to use Land Parcel I should be changed accordingly;

   b. The land use rights of Land Parcel I obtained by Siergou, have not been changed to Chongsheng Coal, thus the rights to use the land parcel cannot be ascertained;

   c. According to Land Management Law of the PRC, without legal procedures, the land use rights of agricultural lands cannot be granted, transferred and leased for non-agricultural uses, Chongsheng Coal has not obtained land use conversion documents, certificates of land use rights and legal leasing documents of Land Parcel II and Land Parcel III, thus the ownership of Land Parcel II and Land Parcel III cannot be ascertained; and

   d. The title documents of the buildings have not been obtained, thus the ownership of the buildings cannot be ascertained.

7. Chongsheng Coal is an 80%-owned subsidiary of the Company.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(a) Interest of Directors

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors and chief executive was taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Listing Rules were as follows:

(i) Interest in Shares and underlying Shares

		Number of Shares held		Approximate percentage of the issued Share capital of the Company (%)	
Name of Director	**Nature of interests**	**Long positions**	**Short positions**	**Long positions**	**Short positions**
Mr. XU Jihua*	Corporate	1,168,229,610 *(note 1)*	Nil	46.85	Nil
Ms. WANG Jianfei	Beneficial Owner	100,000,000	Nil	4.01	Nil
Mr. XU Da	Beneficial Owner	45,135,251	Nil	1.81	Nil
Mr. HUANG Guosheng	Beneficial Owner *(note 2)*	500,000	Nil	0.02	Nil
Mr. LAU Sik Yuen	Beneficial Owner *(note 3)*	500,000	Nil	0.02	Nil
Mr. XING Zhiying	Beneficial Owner *(note 4)*	500,000	Nil	0.02	Nil

Notes:

1. These Shares include 1,036,000,000 Shares and 118,000,000 Shares to be allotted and issued upon full conversion of the perpetual subordinated convertible securities ("PSCS") are held directly by Fortune Pearl International Limited ("Fortune Pearl") which is wholly owned by Mr. Xu Jihua. By virtue of the SFO, Mr. Xu is deemed to have interests in the Shares so held by Fortune Pearl. The remaining Shares are held directly by Mr. Xu.

2. The beneficial interest represents 500,000 Shares that may be issued pursuant to the full exercise of the options granted to Mr. HUANG Guosheng under the Share Option Scheme dated 30 April 2015.

3. The beneficial interest represents 500,000 Shares that may be issued pursuant to the full exercise of the options granted to Mr. LAU Sik Yuen under the Share Option Scheme dated 30 April 2015.

4. The beneficial interest represents 500,000 Shares that may be issued pursuant to the full exercise of the options granted to Mr. XING Zhiying under the Share Option Scheme dated 30 April 2015.

5. Save as disclosed herein, as at the Latest Practicable Date, none of the Directors and chief executive of the Company was a director or employee of a company which has an interest or short position in the Shares and underlying shares which would fall to be disclosed to the Company under the provision of Division 2 and 3 of Part XV of the SFO.

* Mr. XU Jihua, being a Director, is also acting as the Chairman of the Board.

(ii) Interests in associated corporations

Name of Director	**Name of associated corporations**	**Capacity**	**Number of shares**	**Percentage of issued shares** *(%)*
Mr. XU Jihua	Fortune Pearl	Beneficial owner	1	100

Save as disclosed above, as at the Latest Practical Date, none of the Directors or chief executive of the Company had interests or short positions in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be recorded in the register required to be kept by the Company pursuant to section 352 of the SFO; or (b) to be notified to the Company and the Stock Exchange pursuant to the Model Code.

3. DIRECTORS' INTERESTS IN ASSETS, CONTRACTS OR ARRANGEMENTS

As at the Latest Practicable Date:

(i) save for the Disposal as set out in this circular, none of the Directors has or had any direct or indirect interest in any assets acquired or disposed of by or leased to any member of the Group or is proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2015, being the date to which the latest published audited consolidated financial statements of the Group were made up; and

(ii) save for the Structure Contracts as defined in the prospectus of the Company dated 19 June 2009 in which Mr. XU is interested, none of the Directors has or had any material interests in contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group taken as a whole.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, there was no existing or proposed service contract between any member of the Group and any Director or proposed Director excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensations).

5. COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or their respective associates has any interest in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

6. QUALIFICATION AND CONSENTS OF EXPERTS

The following is the qualifications of the expert who has been named in this circular or has given opinion or advice contained in this circular:

Name	Qualifications
BMI Appraisals Limited	Property valuer
Edmundo J. Laporte P.E., ECSI, LLC	Competent Person
Octal Capital Limited	a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong), the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Sale and Purchase Agreement
Moore Stephens CPA Limited	Certified public accountants

Each of the experts above has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name and letter in the form and context in which it appear.

As at the Latest Practicable Date:

(i) each of the experts above did not have any shareholding in any member of the Group nor the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and

(ii) none of the experts have any direct or indirect interest in any assets acquired or disposed of by or leased to any member of the Group or is proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2015, being the date to which the latest published audited consolidated financial statements of the Group were made up.

7. MATERIAL ADVERSE CHANGE

Save as disclosed in the interim results announcement of the Group for the 6 months ended 30 June 2016 dated 19 August 2016, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2015, the date to which the latest published audited financial statement of the Group were made up.

8. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) were entered into by the members of the Group within the two years immediately preceding the issue of this circular and are or may be material:

(a) the sale and purchase agreement dated 16 December 2014 pursuant to which Datong Xiejiazhuang Jinfa Trading and Transportation Company Limited* (a wholly-owned subsidiary of the Company) agreed to dispose and Shanxi Heng Sheng Yong Xing Gong Mao Company Limited* agreed to acquire 87.88% of the equity interest in Shanxi Hun Yuan Ruifeng Coal Industry Company* for a total consideration of RMB80,000,000;

(b) the sale and purchase agreement dated 26 June 2015 pursuant to which Hong Kong Qinfa Trading Limited (a wholly-owned subsidiary of the Company) agreed to dispose and Zhuhai Port Logistics Centre Company Limited (a wholly-owned subsidiary of Zhuhai Port Holdings Group Company Limited) agreed to acquire 60% of the equity interest in Zhuhai Qinfa Port Company Limited (a non-wholly owned subsidiary of Hong Kong Qinfa Trading Limited) for a total consideration of RMB350,000,000;

(c) the Agreement; and

(d) the letter of undertaking signed by Mr. XU dated 14 July 2016 in favour of the Company that he undertakes not to reduce his shareholding interest in the Company for 12 months from the date of Completion.

* *for identification purposes only*

9. LITIGATION

Details of the litigations are set out in the section headed "Indebtedness – Contingent liabilities – (a) Outstanding litigations" as disclosed Appendix I in this circular. These outstanding litigations was related to the Disposal Group. Other than that, the Group was not involved in any other material litigation or arbitration. As far as the Group was aware, the Group had no other material litigation or claim which was pending or threatened against the Group. As at the Latest Practicable Date, the Group was the defendant of certain non-material litigations, and also a party to certain litigations arising from the ordinary course of business.

The likely outcome of these contingent liabilities, litigations or other legal proceedings cannot be ascertained at present, but the management of the Group believes that any possible legal liability which may be incurred from these cases will not have any material impact on the financial position of the Group.

10. MISCELLANEOUS

(a) The secretary of the Company is Mr. Fung Wai Shing who is an associate member of Hong Kong Institute of Certified Public Accountants.

(b) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

(c) The Hong Kong branch share registrar and transfer office of the Company is Union Registrars Limited, Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong.

(d) The English text of this circular shall prevail over the Chinese text for the purpose of interpretation.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection at the office of the Company, at Room 1303, 13th Floor, MassMutual Tower No. 38 Gloucester Road, Wanchai, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. on any business day for a period of 14 days from the date hereof:

(a) the letter from the Board, the text of which is set out on pages 6 to 25 of this circular;

(b) the letter from Octal Capital, the text of which is set out on pages 28 to 44 of this circular;

(c) the letter of advice from the Independent Board Committee, the text of which is set out on pages 26 to 27 of this circular;

(d) the memorandum of association and the amended and restated articles of association of the Company;

(e) the annual reports of the Company for each of the years ended 31 December 2013, 31 December 2014 and 31 December 2015;

(f) the interim report of the Company for the six months ended 30 June 2016;

(g) a written statement signed by the reporting accountants setting out the adjustments made in arriving at the figures shown in pro forma financial information of the Remaining Group with the reasons therefor;

(h) the competent person's report as at 30 June 2016;

(i) the property valuation report as at 31 August 2016;

(j) the consent letter from experts referred to in the paragraph headed "Qualification and consents of experts" in this appendix;

(k) the material contracts (including, without limitation, the Agreement) referred to in the paragraph headed "Material Contracts" in this Appendix; and

(l) this circular.

中國秦發集團有限公司
CHINA QINFA GROUP LIMITED

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 00866)

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the "**EGM**") of CHINA QINFA GROUP LIMITED (the "**Company**", together with its subsidiaries, the "**Group**") will be held at Caine Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Thursday, 24 November 2016 at 2:00 p.m. for the purpose of considering and, if thought fit, passing (with or without amendments) the following resolution:

AS AN ORDINARY RESOLUTION

"**THAT**

(a) the conditional sale and purchase agreement dated 25 April 2016 (as supplemented by a supplemental agreement dated 11 July 2016 and a letter of exchange dated 19 October 2016) (the "**Sale and Purchase Agreement**") entered into between Qinfa Investment Limited (a wholly-owned subsidiary of the Company) ("**Qinfa Investment**") as the vendor and Bo Hai Investment Limited (a company wholly-owned by Mr. XU Jihua) as the purchaser in relation to the sale and purchase of the entire issued shares in Qinfa Investment at a consideration of RMB176,740,000 out of which (i) RMB154,700,000 will be set off against an equivalent amount due to Hong Kong Qinfa International Trading Limited (a wholly-owned subsidiary of the Group) ("**Hong Kong Qinfa**") by the Group (excluding Hong Kong Qinfa) and (ii) the remaining RMB22,040,000 will be payable in cash by the purchaser to the vendor (a copy of the Sale and Purchase Agreement has been tabled at the meeting marked "A" and signed by the Chairman of the meeting for the purpose of identification), and the transaction contemplated thereunder be and are hereby approved, confirmed and ratified; and

(b) the Directors, acting together, individually or by committee, be and are hereby authorized to take such actions, do all such acts and things and execute all such further documents or deeds as they may consider necessary, appropriate, desirable or expedient for implementation of or giving effect to the Sale and Purchase Agreement and any of the transaction contemplated thereunder."

By Order of the Board of
China Qinfa Group Limited
XU Jihua
Chairman

Hong Kong, 26 October 2016

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

Principal place of business in Hong Kong:
Room 1303, 13th Floor,
MassMutual Tower,
No. 38 Gloucester Road,
Wan Chai, Hong Kong

Notes:

1. A form of proxy for the EGM is enclosed.

2. Any member entitled to attend and vote at the EGM shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the EGM. A proxy need not be a member of the Company.

3. In order to be valid, the form of proxy completed in accordance with the instructions set out therein, together with the power of attorney or other authority (if any) under which it is signed (or a certified copy of that power or authority) must be deposited at the Company's branch share registrar in Hong Kong, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

4. In case of joint holders of any share of the Company (the "Share"), any one of such joint holders may vote at the EGM, either in person or by proxy, in respect of such Share as if he were solely entitled thereto, but if more than one of such joint holders are present at the EGM in person or by proxy, then one of the said persons so present whose name stands first on the register of members in respect of such Share shall alone be entitled to vote in respect thereof.

5. The register of members of the Company will be closed from Tuesday, 22 November 2016 to Thursday, 24 November 2016, both days inclusive, during which period no transfer of Shares will be effected. In order to determine the entitlement to attend and vote at the EGM, all share transfers accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration not later than 4:00 p.m. on Monday, 21 November 2016 for such purpose.

6. A circular containing, inter alia, details of the Sale and Purchase Agreement will be despatched to shareholders of the Company on 26 October 2016.

7. If Typhoon Signal No. 8 or above, or a "black" rainstorm warning is in effect any time after 7:00 a.m. on the date of the EGM, the EGM will be postponed. The Company will post an announcement on the website of Company at http://www.qinfagroup.com and on the HKExnews website of the Stock Exchange at http://www.hkexnews.hk to notify Shareholders of the date, time and place of the rescheduled meeting.

As at the date of this notice, the Board comprises Mr. XU Jihua, Ms. WANG Jianfei, Mr. XU Da and Mr. BAI Tao as the executive Directors, and Mr. HUANG Guosheng, Mr. LAU Sik Yuen and Mr. XING Zhiying as the independent non-executive Directors.