THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares of Hidili Industry International Development Limited, you should at once hand this circular to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or the transfer was effected for transmission to the purchaser or the transferee.

Hidili Industry International Development Limited

恒鼎實業國際發展有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1393)

DISCLOSEABLE TRANSACTION
ACQUISITIONS OF MINING RIGHTS AND CERTAIN EQUITY INTERESTS IN PANXIAN PANSHI, PANXIAN PANYING, PANXIN COKING AND PANYI COAL WASHING IN GUIZHOU PROVINCE
AND
CONTINUING CONNECTED TRANSACTIONS

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

taifook

TAIFOOK CAPITAL LIMITED

A letter from the Board is set out on pages 6 to 25 of this circular and a letter from the Independent Board Committee to the Independent Shareholders is set out on page 26 of this circular. A letter of advice from Taifook Capital Limited to the Independent Board Committee and the Independent Shareholders is set out on pages 27 to 34 of this circular.

22 August 2008

CONTENTS

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

"Acquisitions"	the acquisitions of the Target Equity Interests by Liupanshui Hidili pursuant to the Panxian Panshi Acquisition Agreement, the Panxian Panying Acquisition Agreement, the Panxin Coking Acquisition Agreement and the Panyi Coal Washing Acquisition Agreement and each an "Acquisition"
"Articles"	the articles of association of the Company, as amended from time to time
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Company"	Hidili Industry International Development Limited 恒鼎實業國際發展有限公司, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Continuing Connected Transactions"	the transactions contemplated under the Framework Agreement
"Diemaogou Coal Mine"	盤縣柏果鎮迭毛溝煤礦 (Panxian Boguozhen Diemaogou Coal Mine*)
"Director(s)"	director(s) of the Company
"Dongguaao Coal Mine"	盤縣柏果鎮冬瓜凹煤礦 (Panxian Boguozhen Dongguaao Coal Mine*)
"Framework Agreement"	the framework agreement dated 14 July 2008 entered into between Liupanshui Hidili, Panxian Panshi, Panxian Panying, Panxin Coking and Panyi Coal Washing in relation to the provision of railway logistic services to Liupanshui Hidili, Panxin Coking and Panyi Coal Washing by Panxian Panshi and Panxian Panying
"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

"Independent Board Committee"	the independent committee of the Board, comprising all the independent non-executive Directors, established to advise the Independent Shareholders in respect of the Framework Agreement and the Continuing Connected Transactions contemplated thereunder
"Independent Shareholders"	Shareholders who have no interest in the Framework Agreement and the Continuing Connected Transactions
"Independent Technical Adviser"	貴州省煤礦設計研究院 (The Technology and Design Institute of Coal Mine in Guizhou Province*), a firm of mineral industry consultants which is independent of the Company and its connected persons
"Independent Valuer"	四川華夏資產評估事務所有限責任公司 (Sichuan Hua Xia Asset Valuation Company Limited*), an external valuer which is independent of the Company and its connected persons
"Latest Practicable Date"	20 August 2008, 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
"Liupanshui Hidili"	六盤水恒鼎實業有限公司 (Liupanshui Hidili Industry Company Limited*), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
"Mengzhe Jichanghe Coal Mine"	盤縣柏果鎮猛者雞場河煤礦 (Panxian Boguozhen Mengzhe Jichanghe Coal Mine*)
"Mining Rights Acquisition Agreements"	the agreements all dated 29 December 2007 in relation to the sale and purchase of the mining rights and assets related to the mining structures of each of the Target Mines entered into between each of Panxian Boguozhen Diemaogou, Panxian Boguozhen Dongguaao and Panxian Boguozhen Mengzhe Jichanghe respectively on one part (each of which being ultimately and beneficially owned by Mr. Li) and Liupanshui Hidili on the other part
"Mr. Kong"	孔令紅先生 (Mr. Kong Linghong*), the brother-in-law of Mr. Li
"Mr. Li"	黎德勝先生 (Mr. Li Desheng*), the ultimate beneficial owner of the Target Equity Interests, Panxian Boguozhen Diemaogou, Panxian Boguozhen Dongguaao and Panxian Boguozhen Mengzhe Jichanghe

"Panxian Boguozhen Diemaogou"	盤縣柏果鎮迭毛溝煤礦 (Panxian Boguozhen Diemaogou Coal Mine*), a private entity established in the PRC and holder of the Diemaogou Coal Mine
"Panxian Boguozhen Dongguaao"	盤縣柏果鎮冬瓜凹煤礦 (Panxian Boguozhen Dongguaao Coal Mine*), a private entity established in the PRC and holder of the Dongguaao Coal Mine
"Panxian Boguozhen Mengzhe Jichanghe"	盤縣柏果鎮猛者雞場河煤礦 (Panxian Boguozhen Mengzhe Jichanghe Coal Mine*), a private entity established in the PRC and holder of the Mengzhe Jichanghe Coal Mine
"Panxian Hong Cai"	盤縣宏財投資有限責任公司 (Panxian Hong Cai Investment Company Limited*), a limited liability company established in the PRC and the holder of 6% equity interest in Panxian Panshi and 12% equity interest in Panxian Panying respectively
"Panxian Panshi"	盤縣盤實物流配送有限公司 (Panxian Panshi Logistic Distribution Company Limited*), a limited liability company established in the PRC
"Panxian Panshi Acquisition Agreement"	the agreement dated 14 July 2008 and entered into between Mr. Kong and Liupanshui Hidili in relation to the sale and purchase of 37% equity interest in Panxian Panshi
"Panxian Panshi and Panxian Panying Shareholders Agreement"	the agreement dated 14 July 2008 and entered into between Liupanshui Hidili, Yunnan Kaijie and Panxian Hong Cai in relation to the shareholders' rights to the operation and management of Panxian Panshi and Panxian Panying
"Panxian Panying"	盤縣盤鷹物流配送有限公司 (Panxian Panying Logistic Distribution Company Limited*), a limited liability company established in the PRC
"Panxian Panying Acquisition Agreement"	the agreement dated 14 July 2008 and entered into between Panxian Boguozhen Mengzhe Jichanghe and Liupanshui Hidili in relation to the sale and purchase of 37% equity interest in Panxian Panying
"Panxin Coking"	盤縣盤鑫焦化有限公司 (Panxian Panxin Coking Company Limited*), a limited liability company established in the PRC
"Panxin Coking Acquisition Agreement"	the agreement dated 14 July 2008 and entered into between Mr. Li and Liupanshui Hidili in relation to the sale and purchase of 70% equity interest in Panxin Coking

"Panxin Coking and Panyi Coal Washing Shareholders Agreement"	the agreement dated 14 July 2008 and entered into between Liupanshui Hidili and Yunnan Kaijie in relation to the shareholders' rights to the operation and management of Panxin Coking and Panyi Coal Washing
"Panyi Coal Washing"	盤縣盤翼選煤有限公司 (Panxian Panyi Coal Washing Company Limited*), a limited liability company established in the PRC
"Panyi Coal Washing Acquisition Agreement"	the agreement dated 14 July 2008 and entered into between Mr. Li and Liupanshui Hidili in relation to the sale and purchase of 70% equity interest in Panyi Coal Washing
"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 GAAP"	the generally accepted accounting principles in the PRC
"Previous Acquisitions"	the acquisitions by Liupanshui Hidili of mining rights and assets related to the mining structures of each of Diemaogou Coal Mine, Dongguaao Coal Mine and Mengzhe Jichanghe Coal Mine in Guizhou province, the PRC, as disclosed in the Company's announcement dated 31 December 2007
"Principal Products"	clean coal and coke produced by Panxin Coking and Panyi Coal Washing
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	share(s) of HK$0.10 each in the capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"sq. km."	square kilometres
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Taifook" or "Independent Financial Adviser"	Taifook Capital Limited, a corporation licensed to carry on type 6 (advising on corporate finance) regulated activity under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions

"Target Equity Interests"	collectively, 37% equity interest in Panxian Panshi, 37% equity interest in Panxian Panying, 70% equity interest in Panxin Coking and 70% equity interest in Panyi Coal Washing
"Target Mines"	Diemaogou Coal Mine, Dongguaao Coal Mine and Mengzhe Jichanghe Coal Mine
"Yunnan Kaijie"	雲南凱捷實業有限公司 (Yunnan Kaijie Industry Company Limited*), a limited liability company established in the PRC and the holder of 30% equity interest in Panxin Coking, 30% equity interest in Panyi Coal Washing, 57% equity interest in Panxian Panshi and 51% equity interest in Panxian Panying respectively
"%"	per cent.

For the purpose of this circular, amounts in RMB have been translated into Hong Kong dollars at HK$1.00 equal to RMB0.89 for the Acquisitions and at HK$1.00 equal to RMB0.94 for the Previous Acquisitions. No representation is made that any amount in RMB or Hong Kong dollars could have been or could be converted at the above rates or at any other rates or at all.

* *for identification purpose only*

Hidili Industry International Development Limited
恒鼎實業國際發展有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1393)

Executive Directors:
Mr. Xian Yang *(Chairman)*
Mr. Sun Jiankun
Mr. Wang Rong

Independent non-executive Directors:
Mr. Chan Chi Hing
Mr. Wang Zhiguo
Mr. Huang Rongsheng

Registered office:
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Hutchins Drive
P.O. Box 2681
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Head office:
16th Floor, Dingli Mansion
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Sichuan 617000
The PRC

22 August 2008

To the Shareholders

Dear Sir/Madam,

DISCLOSEABLE TRANSACTION ACQUISITIONS OF MINING RIGHTS AND CERTAIN EQUITY INTERESTS IN PANXIAN PANSHI, PANXIAN PANYING, PANXIN COKING AND PANYI COAL WASHING IN GUIZHOU PROVINCE AND CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

Discloseable Transaction

The Previous Acquisitions

On 31 December 2007, the Board announced that Liupanshui Hidili, a wholly-owned subsidiary of the Company, entered into three Mining Rights Acquisition Agreements on 29 December 2007 for the acquisitions of the mining rights and assets related to the mining structures of each of Diemaogou Coal Mine, Dongguaao Coal Mine and Mengzhe Jichanghe Coal Mine in Guizhou province, the PRC with considerations of RMB70.0 million (approximately HK$74.5 million), RMB100.0 million (approximately HK$106.4 million) and RMB185.0 million (approximately HK$196.8 million) respectively. The total consideration of RMB355.0 million (approximately HK$377.7 million) was paid in cash.

The Acquisitions

On 14 July 2008, the Board announced that Liupanshui Hidili entered into (i) the Panxin Coking Acquisition Agreement with Mr. Li in relation to the acquisition of 70% equity interest in Panxin Coking at a consideration of RMB96 million (approximately HK$107.9 million); (ii) the Panyi Coal Washing Acquisition Agreement with Mr. Li in relation to the acquisition of 70% equity interest in Panyi Coal Washing at a consideration of RMB31.5 million (approximately HK$35.4 million); (iii) the Panxian Panshi Acquisition Agreement with Mr. Kong, who held the relevant interest in Panxian Panshi on trust for Mr. Li, in relation to the acquisition of 37% equity interest in Panxian Panshi at a consideration of RMB57 million (approximately HK$64.0 million); and (iv) the Panxian Panying Acquisition Agreement with Panxian Boguozhen Mengzhe Jichanghe in relation to the acquisition of 37% equity interest in Panxian Panying at a consideration of RMB57 million (approximately HK$64.0 million). The total consideration of RMB241.5 million (approximately HK$271.3 million) for the Acquisitions shall be payable in cash.

Mr. Li is the ultimate beneficial owner of the Target Equity Interests and has agreed to the entering into of all the acquisition agreements in respect of the Target Equity Interests. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Mr. Li, being the ultimate beneficial owner of the Target Equity Interests, Panxian Boguozhen Diemaoguo, Panxian Boguozhen Dongguaao and Panxian Boguozhen Mengzhe Jichanghe, and Mr. Kong are third parties independent of the Company and connected persons of the Company.

The Acquisitions, when aggregated with the Previous Acquisitions, constitute a discloseable transaction for the Company under the Listing Rules, which is subject to the disclosure requirements under the Listing Rules.

The Panxin Coking and Panyi Coal Washing Shareholders Agreement

On 14 July 2008, Liupanshui Hidili entered into the Panxin Coking and Panyi Coal Washing Shareholders Agreement with Yunnan Kaijie in relation to the shareholders' rights to the operation and management of Panxin Coking and Panyi Coal Washing.

The Panxian Panshi and Panxian Panying Shareholders Agreement

On 14 July 2008, Liupanshui Hidili entered into the Panxian Panshi and Panxian Panying Shareholders Agreement with Yunnan Kaijie and Panxian Hong Cai in relation to the shareholders' rights to the operation and management of Panxian Panshi and Panxian Panying.

The Continuing Connected Transactions

On 14 July 2008, Liupanshui Hidili entered into the Framework Agreement with Panxian Panshi, Panxian Panying, Panxin Coking and Panyi Coal Washing, pursuant to which, among others, Panxian Panshi and Panxian Panying will provide Liupanshui Hidili, Panxin Coking and Panyi Coal Washing with railway logistic services of its Principal Products in Boguozhen, Pan county, Guizhou province.

Upon completion of the Acquisitions, each of Panxin Coking and Panyi Coal Washing has become a subsidiary of the Company. Given that Yunnan Kaijie holds 30% equity interest in each of Panxin Coking and Panyi Coal Washing, Yunnan Kaijie is a substantial shareholder of each of Panxin Coking and Panyi Coal Washing and has become a connected person of the Company upon completion of the Acquisitions. Since Yunnan Kaijie also holds 57% equity interest in Panxian Panshi and 51% equity interest in Panxian Panying, each of Panxian Panshi and Panxian Panying is an associate of Yunnan Kaijie upon completion of the Acquisitions. The transactions contemplated under the Framework Agreement will therefore constitute continuing connected transactions of the Company and are therefore subject to the requirements under Chapter 14A of the Listing Rules.

As the applicable percentage ratios will exceed 2.5% on an annual aggregate basis and the aggregate annual cap of the Continuing Connected Transactions is more than HK$10 million, the Continuing Connected Transactions contemplated under the Framework Agreement are subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules, the Independent Shareholders' approval requirements under Rules 14A.48 to 14A.54 of the Listing Rules at the Company's general meeting and the annual review requirements by the independent non-executive Directors and the auditors of the Company under Rules 14A.37 to 14A.41 of the Listing Rules. As no Shareholder has material interests in the Continuing Connected Transactions, no Shareholder is required to abstain from voting on the proposed resolution in respect of the Continuing Connected Transactions.

The Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders as to whether the Framework Agreement was entered into after arm's length negotiations, on normal commercial terms and in the ordinary and usual course of business of the Group and whether the terms of the Continuing Connected Transactions were fair and reasonable, and were in the interests of the Company and the Shareholders as a whole. Taifook has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in this respect.

On 7 July 2008, a written shareholder's approval has been obtained from Sanlian Investment Holding Limited which then held 1,150,000,000 Shares (representing approximately 55.8% of the then issued share capital of the Company) for the entering into of the Framework Agreement and the Continuing Connected Transactions. The interest of Sanlian Investment Holding Limited in the Company was decreased to 1,085,620,000 Shares (representing approximately 52.7% of the existing issued share capital of the Company) on 18 July 2008. Such 52.7% shareholding interest represents the deemed shareholding interest of Mr. Xian Yang, the Chairman of the Board, who has no interest in the Continuing Connected Transactions (other than in the capacity as a Shareholder). Pursuant to Rule 14A.43 of the Listing Rules, the Company has made an application to the Stock Exchange applying for a waiver from the requirement to hold a Shareholders' meeting to approve the Framework Agreement and the Continuing Connected Transactions, on the basis that Sanlian Investment Holding Limited is not required to abstain from voting if a Shareholders' meeting is convened to approve the Continuing

Connected Transactions, and that written approval of the entering into of the Framework Agreement and the Continuing Connected Transactions has already been obtained from Sanlian Investment Holding Limited, which holds more than 50% in nominal value of the Shares giving the right to attend and vote at the Shareholders' meeting to approve the Continuing Connected Transactions. Waiver from the Stock Exchange has been obtained on 18 July 2008.

The purpose of this circular is to provide you with further information in relation to, among other matters, (i) the Previous Acquisitions and the Acquisitions; (ii) the Framework Agreement; (iii) the letter of recommendation from the Independent Board Committee; and (iv) the letter from Taifook to the Independent Board Committee and the Independent Shareholders.

THE PREVIOUS ACQUISITIONS

Mining Rights Acquisition Agreements Dated 29 December 2007

Vendors

1st agreement	—	Panxian Boguozhen Diemaogou
2nd agreement	—	Panxian Boguozhen Dongguaao
3rd agreement	—	Panxian Boguozhen Mengzhe Jichanghe

Each of Panxian Boguozhen Diemaogou, Panxian Boguozhen Dongguaao and Panxian Boguozhen Mengzhe Jichanghe is a private entity established in the PRC, and is ultimately and beneficially owned by Mr. Li. Each of Panxian Boguozhen Diemaogou, Panxian Boguozhen Dongguaao and Panxian Boguozhen Mengzhe Jichanghe is the legal owner of the mining rights and assets related to the mining structures of each of the Target Mines.

Mr. Li is a merchant carrying out the business of coal mining, coal washing and coking in Pan county, Guizhou province. Mr. Kong is the brother-in-law of Mr. Li and holds the 37% equity interest in Panxian Panshi on trust for Mr. Li. The Company became acquainted with Mr. Li and Mr. Kong while performing research works on business development of coal mines in Guizhou province in mid-2006.

There was no condition precedent in each of the Mining Rights Acquisition Agreements.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Mr. Kong (who held the relevant interest in Panxian Panshi on trust for Mr. Li) and Mr. Li (being the ultimate beneficial owner of Panxian Boguozhen Diemaogou, Panxian Boguozhen Dongguaao and Panxian Boguozhen Mengzhe Jichanghe) are third parties independent of the Company and connected persons of the Company.

Purchaser in all three agreements

Liupanshui Hidili

Subject matter

1st agreement	—	Mining right and assets related to the mining structures of Diemaogou Coal Mine in Guizhou province, the PRC

2nd agreement — Mining right and assets related to the mining structures of Dongguaao Coal Mine in Guizhou province, the PRC

3rd agreement — Mining right and assets related to the mining structures of Mengzhe Jichanghe Coal Mine in Guizhou province, the PRC

Consideration of the Mining Rights Acquisition Agreements

The aggregate consideration of RMB355.0 million (approximately HK$377.7 million) for the Target Mines (RMB70.0 million (approximately HK$74.5 million) for Diemaogou Coal Mine, RMB100.0 million (approximately HK$106.4 million) for Dongguaao Coal Mine and RMB185.0 million (approximately HK$196.8 million) for Mengzhe Jichanghe Coal Mine) was satisfied in cash. The payment terms for each of the Target Mines were as follows:

1. the initial deposit of 20% of the respective consideration, totalling RMB71.0 million (approximately HK$75.5 million), has been paid to Panxian Boguozhen Diemaogou, Panxian Boguozhen Dongguaao and Panxian Boguozhen Mengzhe Jichanghe upon the signing of the Mining Rights Acquisition Agreements;

2. the second instalment of 60% of the respective consideration, totalling RMB213.0 million (approximately HK$226.6 million), has been paid to Panxian Boguozhen Diemaogou, Panxian Boguozhen Dongguaao and Panxian Boguozhen Mengzhe Jichanghe upon the handing over of the mining rights and assets related to the mining structures of the Target Mines before 31 December 2007; and

3. the final payment of 20% of the respective consideration, totalling RMB71.0 million (approximately HK$75.5 million), has been paid to Panxian Boguozhen Diemaogou, Panxian Boguozhen Dongguaao and Panxian Boguozhen Mengzhe Jichanghe before 31 May 2008.

The aggregate consideration of the Mining Rights Acquisition Agreements was funded solely by the net proceeds from the initial public offering of the Company in September 2007.

The consideration of the Mining Rights Acquisition Agreements was arrived at after arm's length negotiations with Panxian Boguozhen Diemaogou, Panxian Boguozhen Dongguaao and Panxian Boguozhen Mengzhe Jichanghe with reference to the estimated coal resources of the Target Mines and the then current price range of coal resources in Guizhou province, the PRC. The technical review of the estimated coal resources of the Target Mines was conducted by the Independent Technical Adviser. The estimated coal reserves of Diemaogou Coal Mine, Mengzhe Jichanghe Coal Mine and Dongguaao Coal Mine were approximately 15.2 million tonnes, approximately 35.0 million tonnes and approximately 25.4 million tonnes respectively. To the best of the knowledge of the Directors having made all reasonable enquiries, the market price at the time of the Previous Acquisitions of coal resources in Guizhou province, the PRC ranged from RMB4 to RMB6 per tonne, subject to the grade of the coal resources. The Directors considered that the terms of the Mining Rights Acquisition Agreements were on normal commercial terms and that the entering into of the Mining Rights Acquisition Agreements was in the interests of the Company and the Shareholders as a whole.

Upon completion of the Previous Acquisitions, the Company commenced commercial exploitation activity in Mengzhe Jichanghe Coal Mine and Dongguaao Coal Mine. Diemaogou Coal Mine is still under construction and has not yet commenced mining operations. The aggregate consideration of the Target Mines was recorded as mining rights and mining structures under non-current assets of the Group under the item of "property, plant and equipment" in the consolidated balance sheet of the Company and stated at cost. No valuation of the assets related to the mining structures of the Target Mines was made by the Company. The mining rights and mining structures of the Target Mines were subject to amortization using the units of production method over the total proven reserves of the coal mines.

The Previous Acquisitions were completed on 31 December 2007.

THE ACQUISITIONS

The Panxian Panshi Acquisition Agreement, the Panxian Panying Acquisition Agreement, the Panxin Coking Acquisition Agreement and the Panyi Coal Washing Acquisition Agreement

The principal terms of each of the Panxian Panshi Acquisition Agreement, the Panxian Panying Acquisition Agreement, the Panxin Coking Acquisition Agreement and the Panyi Coal Washing Acquisition Agreement are as follows:

Vendors

Panxin Coking Acquisition Agreement	—	Mr. Li
Panyi Coal Washing Acquisition Agreement	—	Mr. Li
Panxian Panshi Acquisition Agreement	—	Mr. Kong
Panxian Panying Acquisition Agreement	—	Panxian Boguozhen Mengzhe Jichanghe

Mr. Li is the ultimate beneficial owner of the Target Equity Interests. The ultimate beneficial owner of Panxian Boguozhen Mengzhe Jichanghe is Mr. Li. Mr. Kong is the brother-in-law of Mr. Li and holds the 37% equity interest in Panxian Panshi on trust for Mr. Li.

Purchaser

Liupanshui Hidili

Subject matter

Panxin Coking Acquisition Agreement	—	70% equity interest in Panxin Coking
Panyi Coal Washing Acquisition Agreement	—	70% equity interest in Panyi Coal Washing
Panxian Panshi Acquisition Agreement	—	37% equity interest in Panxian Panshi
Panxian Panying Acquisition Agreement	—	37% equity interest in Panxian Panying

Consideration

The aggregate consideration of RMB241.5 million (approximately HK$271.3 million) for the Target Equity Interests has been satisfied in cash. The payment terms of each of the Target Equity Interests were as follows:

70% equity interest in Panxin Coking — RMB96 million (approximately HK$107.9 million)

1. the initial deposit of RMB20 million (approximately HK$22.5 million) of the consideration has been paid to Mr. Li upon signing of the Panxin Coking Acquisition Agreement; and

2. the remaining portion of RMB76 million (approximately HK$85.4 million) of the consideration has been paid to Mr. Li before 31 July 2008.

70% equity interest in Panyi Coal Washing — RMB31.5 million (approximately HK$35.4 million)

1. the initial deposit of RMB6.3 million (approximately HK$7.1 million) of the consideration has been paid to Mr. Li upon signing of the Panyi Coal Washing Acquisition Agreement; and

2. the remaining portion of RMB25.2 million (approximately HK$28.3 million) of the consideration has been paid to Mr. Li before 31 July 2008.

37% equity interest in Panxian Panshi — RMB57 million (approximately HK$64.0 million)

1. the initial deposit of RMB14 million (approximately HK$15.7 million) of the consideration has been paid to Mr. Kong upon signing of the Panxian Panshi Acquisition Agreement; and

2. the remaining portion of RMB43 million (approximately HK$48.3 million) of the consideration has been paid to Mr. Kong before 31 July 2008.

37% equity interest in Panxian Panying — RMB57 million (approximately HK$64.0 million)

1. the initial deposit of RMB14 million (approximately HK$15.7 million) of the consideration has been paid to Panxian Boguozhen Mengzhe Jichanghe upon signing of the Panxian Panying Acquisition Agreement; and

2. the remaining portion of RMB43 million (approximately HK$48.3 million) of the consideration has been paid to Panxian Boguozhen Mengzhe Jichanghe before 31 July 2008.

The aggregate consideration for the acquisition of the Target Equity Interests was funded solely by the net proceeds from the initial public offering of the Company in September 2007.

The consideration contemplated under the Panxin Coking Acquisition Agreement and the Panyi Coal Washing Acquisition Agreement was determined after arm's length negotiations with Mr. Li with reference to the unaudited net assets value under PRC GAAP at 30 November 2007 of Panxin Coking and Panyi Coal Washing revalued by the Independent Valuer, using replacement cost method, as at 30 November 2007. To the best of the Directors' knowledge, there were no material changes in relation to the net assets value of each of Panxin Coking and Panyi Coal Washing since 30 November 2007 up to 30 June 2008. The Directors (including the independent non-executive Directors) considered that the consideration contemplated under the Panxin Coking Acquisition Agreement and the Panyi Coal Washing Acquisition Agreement were on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The consideration contemplated under the Panxian Panshi Acquisition Agreement and the Panxian Panying Acquisition Agreement was determined after arm's length negotiations with Mr. Kong and Panxian Boguozhen Mengzhe Jichanghe. Such consideration represents the compensation to Mr. Li in exchange for the termination of his right procured pursuant to the then cooperative agreement signed between Panxin Coking and Panyi Coal Washing with Panxian Panshi and Panxian Panying for the provision of railway logistic service of Principal Products with a guaranteed delivery volume from Panxin Coking and Panyi Coal Washing in the nearby railway stations. The then cooperative agreement was terminated on 14 July 2008. Considering the monopolistic position of Panxian Panshi and Panxian Panying over the local railway logistic service in Boguozhen, Pan county, Guizhou province and, to the best of the Directors' knowledge, information and belief having made reasonable enquiries, there is no logistic service provider with comparable size in the vicinity. The Company believes that additional transaction costs, mainly including local transportation costs and railway freight charges, of RMB30 to RMB40 per tonne will be required for the delivery of Principal Products far away from the nearby railway stations. Pursuant to the Panxian Panshi and Panxian Panying Shareholders Agreement, the terms of provision of railway logistic service and the guaranteed delivery volume of Principal Products by Panxian Panshi and Panxian Panying are agreed to be 30 years effective from 14 July 2008. The consideration contemplated under the Panxian Panshi Acquisition Agreement and the Panxian Panying Acquisition Agreement represents a transaction cost to the Company of approximately RMB4.2 per tonne calculated by amortizing the consideration of RMB114 million with 900,000 tonnes over 30 years. Accordingly, the Directors believe that this will result in cost-effectiveness to the Company. The Directors (including the independent non-executive Directors) considered that the terms of the Panxian Panshi Acquisition Agreement and the Panxian Panying Acquisition Agreement were on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

There was no condition precedent in each of the Panxin Coking Acquisition Agreement, the Panyi Coal Washing Acquisition Agreement, the Panxian Panshi Acquisition Agreement and the Panxian Panying Acquisition Agreement.

The Directors (including the independent non-executive Directors) considered that the terms under the Panxin Coking and Panyi Coal Washing Shareholders Agreement and the Panxian Panshi and Panxian Panying Shareholders Agreement were fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Acquisitions were completed on 31 July 2008.

Panxin Coking and Panyi Coal Washing Shareholders Agreement

On 14 July 2008, Liupanshui Hidili and Yunnan Kaijie entered into the Panxin Coking and Panyi Coal Washing Shareholders Agreement, pursuant to which the parties agreed to, among others, the following terms:

(1) Liupanshui Hidili will be entitled to the entire operational management in Panxin Coking and Panyi Coal Washing respectively and Liupanshui Hidili will assume the sole responsibility of Panxin Coking and Panyi Coal Washing to undertake safe operation and to make compensation to external parties.

(2) Liupanshui Hidili is entitled to the entire profit appropriation of Panxin Coking and Panyi Coal Washing after the quarterly payment made by Panxin Coking and Panyi Coal Washing to Yunnan Kaijie of a fixed sum of RMB12 per unit of Principal Products sold by Panxin Coking and Panyi Coal Washing.

Panxian Panshi and Panxian Panying Shareholders Agreement

On 14 July 2008, Liupanshui Hidili, Yunnan Kaijie and Panxian Hong Cai entered into the Panxian Panshi and Panxian Panying Shareholders Agreement, pursuant to which the parties agreed to, among others, the following terms:

(1) Liupanshui Hidili will not be entitled to any operational management and voting rights in Panxian Panshi and Panxian Panying respectively and Liupanshui Hidili will not participate in the daily operation of Panxian Panshi and Panxian Panying respectively.

(2) Liupanshui Hidili is not entitled to any profit appropriation of Panxian Panshi and Panxian Panying.

(3) Yunnan Kaijie, the only party engaged in the daily operation of Panxian Panshi and Panxian Panying, and Panxian Hong Cai, the minority shareholder in Panxian Panshi and Panxian Panying, both agree to procure the provision of railway logistic service of Principal Products with a guaranteed delivery volume of not less than 900,000 tonnes per annum out of the aggregate annual transportation capacity of approximately 2 million tonnes of Panxian Panshi and Panxian Panying to Liupanshui Hidili, Panxin Coking and Panyi Coal Washing for a term of 30 years. The provision of the guaranteed delivery volume is exclusive.

The Company considers that the provision of the guaranteed annual delivery volume of 900,000 tonnes by Panxian Panshi and Panxian Panying is under their annual transportation capacity. Also, pursuant to the Panxian Panshi and Panxian Panying Shareholders Agreement, such guaranteed annual delivery volume of 900,000 tonnes is agreed to be procured by Yunnan Kaijie and Panxian Hong Cai and is exclusive. With reference to the delivery volume in the past years, the Company believes that Panxian Panshi and Panxian Panying are able to secure the guaranteed delivery volume of 900,000 tonnes per annum for 30 years. The Directors (including the independent non-executive Directors) considered that the terms under the Panxian Panshi and Panxian Panying Shareholders Agreement were fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Company considers that the acquisition of 37% equity interest in each of Panxian Panshi and Panxian Panying and the entering into of the Panxian Panshi and Panxian Panying Shareholders Agreement, in substance, represent the acquisition of a consecutive right from Mr. Li for the provision of railway logistic service by Panxian Panshi and Panxian Panying at the guaranteed annual delivery volume of 900,000 tonnes for 30 years. Immediately after the signing of the Panxian Panshi Acquisition Agreement, the Panxian Panying Acquisition Agreement and the Panxian Panshi and Panxian Panying Shareholders Agreement on 14 July 2008, Liupanshui Hidili, Panxian Panshi, Panxian Panying, Panxin Coking and Panyi Coal Washing have entered into the Framework Agreement for the provision of railway logistic service at the guaranteed delivery volume of 900,000 tonnes at RMB30 per tonne for a period starting from 14 July 2008 to 31 December 2010.

INFORMATION OF THE GROUP, THE TARGET MINES AND THE TARGET EQUITY INTERESTS

The Group

The Company was incorporated in the Cayman Islands and registered as an exempted company with limited liability on 1 September 2006 and has been listed on the Stock Exchange since 21 September 2007.

The Group is one of the largest integrated coal enterprises in South West China and is principally engaged in coal mining and processing and sales of clean coal, coke, alloy pig iron and related by-products.

Liupanshui Hidili

Liupanshui Hidili is a limited liability company established in the PRC and is a wholly-owned subsidiary of the Company. Its principal activities are coal mining and investment holding.

Panxian Boguozhen Diemaogou

Panxian Boguozhen Diemaogou is a private entity established in the PRC. Its principal business activity is coal mining and it is the holder of Diemaogou Coal Mine.

Panxian Boguozhen Dongguaao

Panxian Boguozhen Dongguaao is a private entity established in the PRC. Its principal business activity is coal mining and it is the holder of Dongguaao Coal Mine.

Panxian Boguozhen Mengzhe Jichanghe

Panxian Boguozhen Mengzhe Jichanghe is a private entity established in the PRC. Its principal business activity is coal mining and it is the holder of Mengzhe Jichanghe Coal Mine.

Yunnan Kaijie

Yunnan Kaijie is a limited liability company established in the PRC. Its principal business activity is investment holding. Upon completion of the Acquisitions, each of Panxin Coking and Panyi Coal Washing has become a subsidiary of the Company. Given that Yunnan Kaijie holds 30% equity interest in each of Panxin Coking and Panyi Coal Washing, Yunnan Kaijie is a substantial shareholder of each of Panxin Coking and Panyi Coal Washing. Yunnan Kaijie together with its ultimate beneficial owners have become connected persons of the Company upon completion of the Acquisitions.

Panxian Hong Cai

Panxian Hong Cai is a limited liability company established in the PRC. Its principal business activity is investment holding. Panxian Hong Cai and its ultimate beneficial owners are third parties independent of the Company and connected persons of the Company.

The Target Mines

Diemaogou Coal Mine

Diemaogou Coal Mine, having a site area of approximately 1.0478 sq. km., is located in Pan county, Liupanshui, Guizhou province. The mining licence of Diemaogou Coal Mine was granted on 21 November 2004. With reference to the documents and information provided by the Independent Technical Adviser, the estimated coal reserves of the mine were approximately 15.2 million tonnes as at 30 October 2007. As at the Latest Practicable Date, Diemaogou Coal Mine is still under construction and has not yet commenced mining operations.

Mengzhe Jichanghe Coal Mine

Mengzhe Jichanghe Coal Mine, having a site area of approximately 1.0979 sq. km., is located in Pan county, Liupanshui, Guizhou province. The mining licence of Mengzhe Jichanghe Coal Mine was granted on 21 November 2004. With reference to the documents and information provided by the Independent Technical Adviser, the estimated coal reserves of the mine were approximately 35.0 million tonnes as at 10 July 2007. As at the Latest Practicable Date, Mengzhe Jichanghe Coal Mine has commenced mining operations.

Dongguaao Coal Mine

Dongguaao Coal Mine, having a site area of approximately 0.7373 sq. km., is located in Pan county, Liupanshui, Guizhou province. The mining licence of Dongguaao Coal Mine was granted on 26 July 2007. With reference to the documents and information provided by the Independent Technical Adviser, the estimated coal reserves were approximately 25.4 million tonnes as at 31 August 2007. As at the Latest Practicable Date, Dongguaao Coal Mine has commenced mining operations.

The Target Equity Interests

Panxin Coking

Panxin Coking is a limited liability company established in the PRC in January 2004 with registered capital of RMB25 million. The principal activities of Panxin Coking are clean coal processing and coking. Its coal washing plant and coking plant are located in Yunixiang, Pan county, Liupanshui, Guizhou province, the PRC. The coal washing plant with annual production capacity of 600,000 tonnes of clean coal and the coking plant with annual production capacity of 200,000 tonnes of coke commenced operation in August 2005 and December 2005 respectively. For each of the two years ended

31 December 2006 and 2007, the volume of clean coal processed amounted to approximately 479,900 tonnes and 500,200 tonnes respectively. For the same period, the volume of coke processed amounted to approximately 136,400 tonnes and 173,200 tonnes respectively.

The unaudited results and net assets value of Panxin Coking for the two years ended 31 December 2006 and 2007 prepared in accordance with the PRC GAAP are as follows:

	Year ended 31 December 2007 *RMB'000*	**Year ended 31 December 2006** *RMB'000*
Profit/(Loss) before taxation	34,391	51,263
Profit/(Loss) after taxation	23,042	34,346
Net assets	99,887	103,429

With reference to the net assets valuation report as at 30 November 2007, the valuation of the net assets of Panxin Coking amounted to approximately RMB165.2 million (approximately HK$185.6 million). As at 30 November 2007, Panxin Coking's profit available for appropriation amounted to approximately RMB45.3 million (approximately HK$50.9 million) and Mr. Li is allowed to make full appropriation in the form of cash before the completion of the Acquisitions as agreed by Liupanshui Hidili. The Directors consider that the amount of profit available for appropriation represents the returns from operation being retained in the past years by Mr. Li and believe that the full appropriation is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the adjusted valuation of net assets as at 30 November 2007 of Panxin Coking amounted to approximately RMB119.9 million (approximately HK$134.7 million). The consideration of RMB96 million represents a discount of approximately 19.9% as compared with the adjusted valuation assuming 100% equity interest of Panxin Coking is attributable to the Company. The difference between the adjusted valuation as at 30 November 2007 and the unaudited net assets of Panxin Coking as at 31 December 2007 was mainly attributable to the surplus arising from valuation of fixed assets as at 30 November 2007. The surplus arising from valuation of net assets as at 30 November 2007 has not been reflected in the books of Panxin Coking since the net assets valuation report was conducted for the sole purpose of the acquisition of the 70% equity interest in Panxin Coking.

The Company will consolidate 100% of the assets, liabilities and income of Panxin Coking into the Group's financial statements upon completion of the Acquisitions. The payment made to Yunnan Kaijie of a fixed sum of RMB12 per unit of Principal Products sold by Panxin Coking will be recognized as expenses in the income statement of the Group.

Panyi Coal Washing

Panyi Coal Washing is a limited liability company established in the PRC in June 2004 with registered capital of RMB5 million. The principal activity of Panyi Coal Washing is clean coal processing. Its coal washing plant is located in Yunixiang, Pan county, Guizhou province, the PRC. The coal washing plant with annual production capacity of 500,000 tonnes of clean coal commenced operation in 2004. For each of the two years ended 31 December 2006 and 2007, the volume of clean coal processed amounted to approximately 395,200 tonnes and 383,200 tonnes respectively.

The unaudited results and net assets value of Panyi Coal Washing for the two years ended 31 December 2006 and 2007 prepared in accordance with the PRC GAAP are as follows:

	Year ended 31 December 2007	**Year ended 31 December 2006**
	RMB'000	*RMB'000*
Profit/(Loss) before taxation	17,364	22,538
Profit/(Loss) after taxation	11,634	15,101
Net assets	31,535	32,938

With reference to the net assets valuation report as at 30 November 2007, the valuation of the net assets of Panyi Coal Washing amounted to approximately RMB46.3 million (approximately HK$52.0 million). Accordingly, the consideration of RMB31.5 million represents a discount of approximately 32.0% as compared with the valuation assuming 100% equity interest of Panyi Coal Washing is attributable to the Company. The difference between the valuation as at 30 November 2007 and the unaudited net assets of Panyi Coal Washing as at 31 December 2007 was mainly attributable to the surplus arising from valuation of fixed assets as at 30 November 2007. The surplus arising from valuation of net assets as at 30 November 2007 has not been reflected in the books of Panyi Coal Washing since the net assets valuation report was conducted for the sole purpose of the acquisition of the 70% equity interest in Panyi Coal Washing.

The Company will consolidate 100% of the assets, liabilities and income of Panyi Coal Washing into the Group's financial statements upon completion of the Acquisitions. The payment made to Yunnan Kaijie of a fixed sum of RMB12 per unit of Principal Products sold by Panyi Coal Washing will be recognized as expenses in the income statement of the Group.

To the best of the Directors' knowledge, there were no material changes in relation to the net assets value of each of Panxin Coking and Panyi Coal Washing since 30 November 2007 up to 30 June 2008.

Panxian Panshi and Panxian Panying

Panxian Panshi and Panxian Panying are limited liability companies established in the PRC in September 2003 and November 2004 respectively with registered capital of RMB10 million and RMB12 million respectively. The principal activities of each of Panxian Panshi and Panxian Panying are warehouse management and provision of railway logistic service in Boguozhen, Pan county, Guizhou province. The aggregate annual transportation capacity of Panxian Panshi and Panxian Panying amounts to approximately 2 million tonnes, and Panxian Panshi and Panxian Panying occupy a monopolistic position of the local railway logistic service in Boguozhen, Pan county, Guizhou province.

The unaudited results and net assets value of Panxian Panshi for the two years ended 31 December 2006 and 2007 prepared in accordance with the PRC GAAP are as follows:

	Year ended 31 December 2007 *RMB'000*	Year ended 31 December 2006 *RMB'000*
Profit/(Loss) before taxation	20,364	22,993
Profit/(Loss) after taxation	16,684	16,810
Net assets	29,161	27,407

The unaudited results and net assets value of Panxian Panying for the two years ended 31 December 2006 and 2007 prepared in accordance with the PRC GAAP are as follows:

	Year ended 31 December 2007 *RMB'000*	Year ended 31 December 2006 *RMB'000*
Profit/(Loss) before taxation	11,190	(1,175)
Profit/(Loss) after taxation	9,110	(1,175)
Net assets	31,517	17,647

Pursuant to the Panxian Panshi and Panxian Panying Shareholders Agreement, no control is achieved and Liupanshui Hidili is not entitled to govern the financial and operating policies of each of Panxian Panshi and Panxian Panying upon completion of the acquisition of 37% equity interest in each of Panxian Panshi and Panxian Panying. The Company will not consolidate or take equity of the assets, liabilities and income of Panxian Panshi and Panxian Panying into the Group's financial statements after the Acquisitions. The consideration contemplated under the Panxian Panshi Acquisition Agreement and the Panxian Panying Acquisition Agreement will be classified as an intangible asset and subject to amortization on a straight-line basis over a term of 30 years for the provision of railway logistic service of guaranteed annual delivery volume of not less than 900,000 tonnes of Principal Products and the amortization will be charged to the income statement in accordance with International Financial Reporting Standards.

AGGREGATION OF TRANSACTIONS

As disclosed in the Company's announcement dated 31 December 2007 regarding the acquisition of mining rights in Guizhou province, the PRC, Liupanshui Hidili entered into three Mining Rights Acquisition Agreements with Panxian Boguozhen Diemaogou, Panxian Boguozhen Dongguaao and Panxian Boguozhen Mengzhe Jichanghe on 29 December 2007 in respect of the acquisitions of the mining rights and assets related to the mining structures of each of Diemaogou Coal Mine, Dongguaao Coal Mine and Mengzhe Jichanghe Coal Mine in Guizhou province, the PRC with considerations of RMB70.0 million (approximately HK$74.5 million), RMB100.0 million (approximately HK$106.4 million) and RMB185.0 million (approximately HK$196.8 million) respectively. The total consideration of the Previous Acquisitions of RMB355.0 million (approximately HK$377.7 million) was paid in cash.

Accordingly, the aggregated consideration of the Previous Acquisitions and the Acquisitions amounts to RMB596.5 million (approximately HK$649.0 million) by aggregating the total consideration of the Previous Acquisitions of RMB355.0 million (approximately HK$377.7 million) and the total consideration of RMB241.5 million (approximately HK$271.3 million) for the Target Equity Interests.

The ultimate beneficial owner of each of Panxian Boguozhen Diemaogou, Panxian Boguozhen Dongguaao and Panxian Boguozhen Mengzhe Jichanghe is Mr. Li. Accordingly, the aggregation rule under Rule 14.22 of the Listing Rules applies to the Acquisitions and the Previous Acquisitions. Save for the consideration ratio which is below 5%, each of the other relevant percentage ratios of the Acquisitions (in aggregate with the Previous Acquisitions) is more than 5% but less than 25%. The aggregated acquisitions therefore constitute a discloseable transaction for the Company, which is subject to the reporting, publication of announcement and circular requirements but is exempt from the shareholders' approval requirement under Chapter 14 of the Listing Rules.

REASONS FOR THE PREVIOUS ACQUISITIONS AND THE ACQUISITIONS

The Group has grown primarily through acquisition of coal mines and coal processing facilities in Panzhihua, Sichuan province since 2004. Through such process, the Company's management has built up broad experience and demonstrated its ability in identifying suitable targets, complying with related State and local regulations and effectively integrating newly acquired mines and facilities into its existing operations.

Guizhou province ranks third in terms of coking coal resources in the PRC. Guizhou province is the main power exporting province in South West China and Liupanshui is centrally located in relation to the major steel manufacturers in Sichuan, Yunnan, Guangdong and Hunan provinces and Guangxi Zhuang autonomous region and Chongqing municipality, with railway networks connecting it to those areas. Despite the abundant coal reserves and the well-established railway transportation infrastructure in Liupanshui, the majority of coal mines in Liupanshui are undeveloped raw coal mines owned by local individuals and rural townships that lack the necessary funds, skills and customers to develop their resources. The Directors believe that the Previous Acquisitions represent opportunities for the Group to acquire additional coking coal mines at attractive prices in Liupanshui. The Directors believe that with the extensive research on undeveloped raw coal mines in South West China conducted by the Group and the accumulated extensive knowledge of the Company's management in developing raw coal mines in South West China, the Group is positioned to identify and acquire suitable targets and run its operations in a cost efficient manner. The Directors also believe that the Previous Acquisitions will speed up the Group's development in Guizhou province and help to consolidate the Group's position as one of the largest integrated coal enterprises in South West China.

In line with the rapid growth in coal resources of the Group through acquisition of coal mines in Liupanshui, the Directors believe that it would be in the Group's interests to establish the Group's processing facilities in Guizhou province in a timely and cost-effective manner through the acquisition of Panyi Coal Washing and Panxin Coking which have existing coal washing plants and coking plants in the areas adjacent to the newly acquired coal mines. Also, the acquisition of Panxian Panshi and Panxian Panying, the monopolistic railway logistic service providers adjacent to the Company's coal washing plants and coking plant, will help to secure delivery of Principal Products to the customers in a cost-effective manner.

In conclusion, the Directors consider that the Acquisitions will help to expedite the Group's development and growth in Guizhou province since the Acquisitions consist of integrated upstream coal mining and washing facilities as well as downstream coke refining facilities and logistic service.

FINANCIAL EFFECT OF THE PREVIOUS ACQUISITIONS AND THE ACQUISITIONS

Upon completion of the acquisition of the Target Mines, the total consideration has been incorporated in the consolidated balance sheet of the Company under the item of "property, plant and equipment".

Upon completion of the acquisition of the 70% equity interest in each of Panxin Coking and Panyi Coal Washing, 100% of the assets and liabilities of Panxin Coking and Panyi Coal Washing will be consolidated in the accounts of the Company.

Upon completion of the acquisition of the 37% equity interest in each of Panxian Panshi and Panxian Panying, the total consideration has been incorporated in the consolidated balance sheet of the Company under the item of "intangible assets".

Accordingly, the overall financial effect of the Previous Acquisitions and the Acquisitions has resulted in an increase in net assets and non-current assets of the Company. Since the aggregate considerations of the Previous Acquisitions and the Acquisitions have been satisfied by the net proceeds from the initial public offering of the Company in September 2007, representing a decrease in current assets of the Company, the Directors believe the Previous Acquisitions and the Acquisitions do not have any immediate effect on the assets and liabilities of the Company. The Previous Acquisitions and the Acquisitions are not expected to have any significant impact on the earnings of the Company in the short term, but are expected to improve the profitability of the Company in the long run.

THE LISTING RULES IMPLICATION OF THE PREVIOUS ACQUISITIONS AND THE ACQUISITIONS

The Acquisitions, when aggregated with the Previous Acquisitions, constitute a discloseable transaction for the Company under the Listing Rules, which is subject to the disclosure requirements under the Listing Rules.

THE CONTINUING CONNECTED TRANSACTIONS

The Framework Agreement

On 14 July 2008, Liupanshui Hidili entered into the Framework Agreement with Panxian Panshi, Panxian Panying, Panxin Coking and Panyi Coal Washing, pursuant to which, among others, Panxian Panshi and Panxian Panying will provide Liupanshui Hidili, Panxin Coking and Panyi Coal Washing with railway logistic services of its Principal Products in Boguozhen, Pan county, Guizhou province.

Pursuant to the Framework Agreement, Panxian Panshi and Panxian Panying will jointly provide railway logistic service to the Group with a guaranteed delivery volume of Principal Products of not less than 900,000 tonnes per annum at RMB30 per tonne. The provision of the guaranteed delivery volume by Panxian Panshi and Panxian Panying is exclusive. The provision of the railway logistic service to the Group is on a priority basis.

General pricing principles

As Panxian Panshi and Panxian Panying occupy a monopolistic position of the local railway logistic service in Boguozhen, no relevant market price can be obtained. The pricing basis of the railway logistic service under the Framework Agreement is determined with reference to the pricing offered to other customers by Panxian Panshi and Panxian Panying and the current pricing adopted under the agreement made between the former shareholders of Panxian Panshi, Panxian Panying, Panxin Coking and Panyi Coal Washing, an agreed price consisting of the reasonable cost incurred and a reasonable profit margin.

Term and Termination

The initial term of the Framework Agreement commences from 14 July 2008 to 31 December 2010.

The charges for the railway logistic service provided by both Panxian Panshi and Panxian Panying under the Framework Agreement are as follows:

i. RMB30 per tonne will be charged to all of the guaranteed delivery volume of 900,000 tonnes of Principal Products;

ii. RMB30 per tonne and an additional charge of RMB10 per tonne will be charged to each tonne of Principal Products that exceeds the guaranteed delivery volume; and

iii. a reduction of RMB10 per tonne will be returned to Liupanshui Hidili, Panxin Coking and Panyi Coal Washing when the delivery volume falls below 900,000 tonnes for the reasons caused by Panxian Panshi and Panxian Panying.

The payment for the railway logistic service will be made by Liupanshui Hidili, Panxin Coking and Panyi Coal Washing to Panxian Panshi and Panxian Panying on a monthly basis. However, the additional charge and the reduction as set out in (ii) and (iii) above will be settled on an annual basis and payment will be made in the first quarter of the next financial year.

The Framework Agreement is subject to renewal by Liupanshui Hidili, Panxin Coking, Panyi Coal Washing, Panxian Panshi and Panxian Panying upon completion of the initial term ending 31 December 2010. The Company will comply with the relevant disclosure requirements pursuant to Chapter 14A of the Listing Rules upon such renewal.

Conditions precedent

As the entering into of the Framework Agreement and the transactions contemplated under the Framework Agreement constitute continuing connected transactions of the Company, the conditions precedent of the Framework Agreement include:

i. the Shareholders' approval; and

ii. any other matter for the purpose of complying with the requirements of connected transactions under the Listing Rules.

Other terms

In the event that the total amount of the Continuing Connected Transactions contemplated under the Framework Agreement is foreseen to exceed the annual cap, the Company will notify the Stock Exchange and convene a Shareholders' meeting to seek the approval by the Independent Shareholders in this regard and disclose such information to the public. In the event that any of the caps is exceeded, the Company shall re-comply with Rules 14A.35(3) and (4) of the Listing Rules pursuant to Rule 14A.36(1) of the Listing Rules.

Annual Caps

The proposed annual caps for the years ending 31 December 2008, 2009 and 2010 are calculated by reference to the volume of Principal Products available for delivery by both Panxin Coking and Panyi Coal Washing with reference to their production volumes under full capacity of 1,100,000 tonnes of clean coal and 200,000 tonnes of coke. Under the full capacity of Panxin Coking and Panyi Coal Washing, 1,300,000 tonnes of Principal Products can be produced and available for sales each year. Given that the Framework Agreement is expected to be effective from July 2008, the Company believes that the maximum volume of Principal Products to be delivered by Panxian Panshi and Panxian Panying will amount to 900,000 tonnes for the period from July to December 2008. In the year ending 31 December 2009 and 2010, the Company expects a utilization rate of around 90% in coal washing production and a utilization rate of 100% in coke production, resulting in a maximum volume of Principal Products to be delivered by Panxian Panshi and Panxian Panying of 1,200,000 tonnes. For the years ending 31 December 2008, 2009 and 2010, the Group expects to have 900,000 tonnes, 1,200,000 tonnes and 1,200,000 tonnes of Principal Products respectively for delivery by both Panxian Panshi and Panxian Panying. The annual caps for each of the years ending 31 December 2008, 2009 and 2010 are RMB27,000,000 (arising from 900,000 tonnes at RMB30 per tonne), RMB39,000,000 (arising from 900,000 tonnes at RMB30 per tonne and 300,000 tonnes at RMB40 per tonne) and RMB39,000,000 (arising from 900,000 tonnes at RMB30 per tonne and 300,000 tonnes at RMB40 per tonne) respectively, the aggregate of which amounts to RMB105,000,000.

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

It is the Group's ongoing strategy to develop an integrated coking business in Guizhou province. Following the expansion by way of acquisition of coal mines, coal washing plants and coking plant, strategic cooperation through acquiring equity interests in warehouse operating companies and logistic service providers will benefit and secure the Group's transportation capacity for delivery of its Principal Products to its customers. The Directors consider that the terms of the Framework Agreement and the annual caps are on normal commercial terms and in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES OF THE CONTINUING CONNECTED TRANSACTIONS

Upon completion of the Acquisitions, each of Panxin Coking and Panyi Coal Washing has become a subsidiary of the Company. Given that Yunnan Kaijie holds 30% equity interest in each of Panxin Coking and Panyi Coal Washing, Yunnan Kaijie is a substantial shareholder of each of Panxin Coking and Panyi Coal Washing and has become a connected person of the Company upon completion of the Acquisitions. Since Yunnan Kaijie also holds 57% equity interest in Panxian Panshi and 51% equity interest in Panxian Panying, each of Panxian Panshi and Panxian Panying is an associate of Yunnan Kaijie upon completion of the Acquisitions. The transactions contemplated under the Framework Agreement will therefore constitute continuing connected transactions of the Company and are therefore subject to the requirements under Chapter 14A of the Listing Rules.

As the applicable percentage ratios will exceed 2.5% on an annual aggregate basis and the aggregate annual cap of the Continuing Connected Transactions is more than HK$10 million, the Continuing Connected Transactions contemplated under the Framework Agreement are subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules, the Independent Shareholders' approval requirements under Rules 14A.48 to 14A.54 of the Listing Rules at the Company's general meeting and the annual review requirements by the independent non-executive Directors and the auditors of the Company under Rules 14A.37 to 14A.41 of the Listing Rules. As no Shareholder has material interests in the Continuing Connected Transactions, no Shareholder is required to abstain from voting on the proposed resolution in respect of the Continuing Connected Transactions.

The Independent Board Committee, comprising the independent non-executive Directors, has been established to advise the Independent Shareholders as to whether the Framework Agreement was entered into after arm's length negotiations, on normal commercial terms and in the ordinary and usual course of business of the Group and whether the terms of the Continuing Connected Transactions were fair and reasonable, and were in the interests of the Company and the Shareholders as a whole. Taifook has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in this respect.

On 7 July 2008, a written shareholder's approval has been obtained from Sanlian Investment Holding Limited which then held 1,150,000,000 Shares (representing approximately 55.8% of the then issued share capital of the Company) for the entering into of the Framework Agreement and the Continuing Connected Transactions. The interest of Sanlian Investment Holding Limited in the Company was decreased to 1,085,620,000 Shares (representing approximately 52.7% of the existing issued share capital of the Company) on 18 July 2008. Such 52.7% shareholding interest represents the deemed shareholding interest of Mr. Xian Yang, the Chairman of the Board, who has no interest in such transactions (other than in the capacity as a Shareholder). Pursuant to Rule 14A.43 of the Listing Rules, the Company has made an application to the Stock Exchange applying for a waiver from the requirement to hold a Shareholders' meeting to approve the Framework Agreement and the Continuing Connected Transactions, on the basis that Sanlian Investment Holding Limited is not required to abstain from voting if a Shareholders' meeting is convened to approve the Continuing Connected Transactions, and that written approval of the entering into of the Framework Agreement and the Continuing Connected Transactions has already been obtained from Sanlian Investment Holding Limited, which holds more than 50% in nominal value of the Shares giving the right to attend and vote at the Shareholders' meeting to approve the Continuing Connected Transactions. Waiver from the Stock Exchange has been obtained on 18 July 2008.

RIGHT TO DEMAND A POLL BY SHAREHOLDERS

Pursuant to Article 66 of the Articles, at any general meeting a resolution put to the vote of a meeting shall be decided on a show of hands unless voting by way of a poll (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) is demanded. A poll may be demanded:

(a) by the chairman of such meeting; or

(b) by at least three Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or

(c) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or

(d) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right; or

(e) if required by the Listing Rules, by any Director or Directors who, individually or collectively, hold proxies in respect of Shares representing five per cent. (5%) or more of the total voting rights at such meeting.

INDEPENDENT BOARD COMMITTEE

Your attention is drawn to the letter from the Independent Board Committee set out on page 26 of this circular and the letter of advice from Taifook to the Independent Board Committee and the Independent Shareholders in relation to the Framework Agreement and the transactions contemplated thereunder and the principal factors and reasons considered by it in concluding its advice, which is set out on pages 27 to 34 of this circular.

RECOMMENDATION

The Board, including the Independent Board Committee, considers that the terms of the Framework Agreement and the transactions contemplated thereunder are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

ADDITIONAL INFORMATION

Your attention is drawn to the further information set out in the Appendix to this circular.

Yours faithfully,
For and on behalf of the Board
Xian Yang
Chairman

Hidili Industry International Development Limited

恒鼎實業國際發展有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1393)

22 August 2008

To the Independent Shareholders

Dear Sirs or Madams,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 22 August 2008 issued by the Company to the Shareholders (the "Circular") of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter, unless the context otherwise requires.

We have been appointed by the Board as the members of the Independent Board Committee to advise the Independent Shareholders on whether the terms of the Framework Agreement are fair and reasonable so far as the Independent Shareholders are concerned and whether the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole. Taifook has been appointed as the independent financial adviser to advise us and the Independent Shareholders in this respect.

Having considered the terms of the Framework Agreement and taken into account the advice of Taifook, we are of the view that the terms of the Framework Agreement are fair and reasonable so far as the Independent Shareholders are concerned and the Continuing Connected Transactions are on normal commercial terms and in the ordinary and usual course of business of the Company, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Yours faithfully,
The Independent Board Committee
Chan Chi Hing   Wang Zhiguo   Huang Rongsheng
Independent non-executive Directors

The following is the letter of advice from Taifook Capital Limited to the Independent Board Committee and the Independent Shareholders for the purpose of incorporation into this circular.

taifook
TAIFOOK CAPITAL LIMITED

25th Floor
New World Tower
16–18 Queen's Road Central
Hong Kong

22 August 2008

To the Independent Board Committee and the Independent Shareholders
Hidili Industry International Development Limited
Room 1103, 11th Floor
Ka Wah Bank Centre
232 Des Voeux Road Central
Hong Kong

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders with respect to the transactions contemplated under the Framework Agreement and the proposed annual caps (the "**Annual Caps**") of the Continuing Connected Transactions for the three years ending on 31 December 2010 as stipulated therein, details of which are set out in the letter from the Board (the "**Letter**") contained in the circular of the Company dated 22 August 2008 (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same respective meanings as defined in the Circular unless the context otherwise requires.

As referred to in the Letter, on 14 July 2008, Liupanshui Hidili, a wholly-owned subsidiary of the Company, entered into (i) the Panxin Coking Acquisition Agreement with Mr. Li for the acquisition of 70% equity interest in Panxin Coking; (ii) the Panyi Coal Washing Acquisition Agreement with Mr. Li for the acquisition of 70% equity interest in Panyi Coal Washing; (iii) the Panxian Panshi Acquisition Agreement with Mr. Kong for the acquisition of 37% equity interest in Panxian Panshi; and (iv) the Panxian Panying Acquisition Agreement with Panxian Boguozhen Mengzhe Jichanghe for the acquisition of 37% equity interest in Panxian Panying. Further, on 14 July 2008, Liupanshui Hidili entered into (i) the Panxin Coking and Panyi Coal Washing Shareholders Agreement with Yunnan Kaijie in relation to the shareholders' rights to the operation and management of Panxin Coking and Panyi Coal Washing; and (ii) the Panxian Panshi and Panxian Panying Shareholders Agreement with Yunnan Kaijie and Panxian Hong Cai in relation to the shareholders' rights to the operation and management of Panxian Panshi and Panxian Panying. On the same day, Liupanshui Hidili entered into the Framework Agreement with Panxian Panshi, Panxian Panying, Panxin Coking and Panyi Coal Washing for the provision of railway logistic services by Panxian Panshi and Panxian Panying to Liupanshui Hidili, Panxin Coking and Panyi Coal Washing for the Principal Products in Boguozhen, Pan County, Guizhou Province, the PRC.

Upon completion of the Acquisitions, Panxin Coking and Panyi Coal Washing will become 70% indirectly owned subsidiaries of the Company. Yunnan Kaijie, which holds 30% equity interest in each of Panxin Coking and Panyi Coal Washing and is their substantial shareholder, will become a connected person of the Company upon completion of the Acquisitions. Panxian Panshi and Panxian Panying, held as to 57% and 51% respectively by Yunnan Kaijie, are associates of Yunnan Kaijie and will therefore also become connected persons of the Company. Hence, the transactions contemplated under the Framework Agreement will constitute continuing connected transactions of the Company under the Listing Rules.

In respect of the Annual Caps, certain of the applicable percentage ratios pursuant to the Listing Rules are expected to exceed 2.5% on an annual basis and each of the Annual Caps is more than HK$10 million, and the Continuing Connected Transactions are therefore subject to the requirements of reporting, announcement and Independent Shareholders' approval under Chapter 14A of the Listing Rules. As at the Latest Practicable Date, to the best of the Directors' knowledge after reasonable enquiry, Yunnan Kaijie and its associates were not interested in any Shares. Accordingly, no Shareholders had material interests in the Continuing Connected Transactions which were required to abstain from voting if a general meeting of the Company were to be convened for the approval of the Framework Agreement and the Continuing Connected Transactions. On 7 July 2008, a written shareholder's approval was obtained from Sanlian Investment Holding Limited which then held 1,150,000,000 Shares (representing approximately 55.8% of the then issued share capital of the Company) for the entering into of the Framework Agreement and the Continuing Connected Transactions. Such shareholding interest, which subsequently decreased to 1,085,620,000 Shares (representing 52.7% of the existing issued share capital of the Company) as at the Latest Practicable Date, represents the deemed shareholding interest of Mr. Xian Yang, the Chairman of the Board. Pursuant to Rule 14A.43 of the Listing Rules, the Stock Exchange has granted the Company a waiver that the written approval from Sanlian Investment Holding Limited in lieu of holding a physical Shareholders' meeting is acceptable for approval of the Framework Agreement and the Continuing Connected Transactions.

The Independent Board Committee comprising all independent non-executive Directors, namely Mr. Chan Chi Hing, Mr. Wang Zhiguo and Mr. Huang Rongsheng, has been established to advise the Independent Shareholders in respect of the entering into of the Framework Agreement and the Continuing Connected Transactions. In our capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to provide the Independent Board Committee and the Independent Shareholders with an independent opinion and recommendation as to whether the entering into of the Framework Agreement and the Continuing Connected Transactions are on normal commercial terms and in the ordinary and usual course of business of the Group, and whether the terms of the Framework Agreement and the Continuing Connected Transactions (including the Annual Caps) are fair and reasonable and in the interests of the Group and the Independent Shareholders as a whole.

BASIS OF OUR OPINION

In formulating our recommendation, we have relied on the information, financial information and facts supplied to us and representations expressed by the Directors and/or management of the Group and have assumed that all such information, financial information and facts and any representations made to us, or referred to in the Circular, in all material aspects, are true, accurate and complete as at the time they were made and as at the date of the Circular, has been properly extracted from the relevant underlying accounting records (in the case of financial information) and made after due and careful inquiry by the Directors and/or the management of the Group. The Directors and/or the management of the Group have confirmed that, having made all reasonable enquiries and to the best of their knowledge and belief, all relevant information has been supplied to us and that no material facts have been omitted from the information supplied and representations expressed to us. We have also relied on certain information available to the public and have assumed such information to be accurate and reliable. We have no reason to doubt the completeness, truth or accuracy of the information and facts provided and we are not aware of any facts or circumstances which would render such information provided and representations made to us untrue, inaccurate or misleading.

Our review and analyses were based upon, among others, the information provided by the Group including the Framework Agreement, the annual report of the Company for the year ended 31 December 2007 (the "**2007 Annual Report**") and the Circular.

In addition to the information provided by the Group, we have also reviewed the statistics and other information published by the National Bureau of Statistics of China (中華人民共和國國家統計局).

We have also discussed with the Directors and/or the management of the Group with respect to the terms of and reasons for the entering into of the Framework Agreement and the Continuing Connected Transactions (including the Annual Caps), and considered that we have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information nor have we conducted any form of in-depth investigation into the businesses, affairs, financial position or prospects of the Group, Panxin Coking, Panyi Coal Washing, Panxian Panshi, Panxian Panying and the parties involved in the Acquisitions.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the entering into of the Framework Agreement and the Continuing Connected Transactions (including the Annual Caps), we have considered the following principal factors:

1. Reasons for and benefits of the entering into of the Framework Agreement and the Continuing Connected Transactions

The Company is an investment holding company and through its principal subsidiaries, principally engages in coal mining, as well as processing and sale of coke, clean coal, alloy pig iron and related by-products.

Coke, produced from coking coal, is the major raw material for the production of iron and steel. As set out in the 2007 Annual Report, Guizhou Province, the PRC ranks third in terms of coking coal resources while Liupanshui City, one of the cities in Guizhou Province, the PRC, is centrally located to the major steel manufacturers in Sichuan Province, Yunnan Province, Guangdong Province and Hunan Province, Guangxi Zhuang autonomous region and Chongqing municipality of the PRC, with railway networks connecting to these areas. Hence, the Company has selected Pan County, located in Liupanshui City, as the strategic region for its coking coal business development in the medium term and has established a team of more than 300 experienced and competent professionals from different parts of the PRC to foster its business development in Guizhou Province, the PRC. During 2007, the Group had acquired 14 coal mines in Liupanshui City. As set out in the 2007 Annual Report, the Company had a total of approximately 360 million tonnes of coal reserves (based on the estimation under the PRC coal reserves standard) as at 31 December 2007. It was also stated in the 2007 Annual Report that the rail transportation had a critical and strategic implication for the Group's sale of products in Guizhou Province and the Company would consider vertical integration by acquiring and/or investing in a logistic company with rail transportation capacity to facilitate the delivery of the Group's products in bulk by rail in the future.

As set out in the Letter, the principal activities of each of Panxian Panshi and Panxian Panying are the operation of warehouse management and provision of railway logistic services in Bogouzhen, Pan County, Guizhou Province, the PRC. As advised by the Directors, following the acquisitions of coal mines, coal washing plants and coking plant, the entering into of the Framework Agreement will secure the stable supply of railway logistic service in Boguozhen, Pan County, Guizhou Province, the PRC for delivery of the Principal Products to the Group's customers and allow flexibility for business expansion of the Group.

Furthermore, Panxian Panshi and Panxian Panying have been providing railway logistic services to Panxin Coking and Panyi Coal Washing since the establishment of Panxin Coking and Panyi Coal Washing in 2004 respectively. To the best of the Directors' knowledge, information and belief having made reasonable enquiry, there is no railway logistic service provider of comparable size other than Panxian Panshi and Panxian Panying in Boguozhen, Pan County, Guizhou Province, the PRC. Having regard to the above, the Directors believe that it is beneficial and more cost effective for Panxin Coking and Panyi Coal Washing to continue using the railway logistic services provided by Panxian Panshi and Panxian Panying.

Based on the above, we are of the view that the entering into of the Framework Agreement by the Group is in line with the Group's business development strategy and the Continuing Connected Transactions are in the ordinary and usual course of business of the Group.

2. Principal terms of the Continuing Connected Transactions under the Framework Agreement

Scope of services

Pursuant to the Framework Agreement with an initial term commencing from 14 July 2008 to 31 December 2010, Panxian Panshi and Panxian Panying will jointly provide railway logistic services to the Group for its Principal Products in Boguozhen, Pan County, Guizhou Province, the PRC with a guaranteed delivery volume of not less than 900,000 tonnes per annum on exclusive basis. As advised by the Directors, the provision of railway logistic services by Panxian Panshi and Panxian Panying is on priority basis to fulfill the requested orders from Liupanshui Hidili, Panxin Coking and Panyi Coal Washing.

General pricing principles and payment terms

Pursuant to the Framework Agreement, the charges of the railway logistic services provided by Panxian Panshi and Panxian Panying are set out as below:

(i) RMB30 per tonne for the guaranteed annual delivery volume up to 900,000 tonnes of the Principal Products;

(ii) RMB30 per tonne and an additional charge of RMB10 per tonne for each tonne of the Principal Products that exceeds the guaranteed annual delivery volume of 900,000 tonnes; and

(iii) if the actual annual delivery volume is less than the guaranteed annual delivery volume of 900,000 tonnes and which is caused by Panxian Panshi and Panxian Panying, Liupanshui Hidili, Panxin Coking and Panyi Coal Washing will receive compensation of RMB10 per tonne of such shortfall delivery volume.

The payment for the railway logistic services should be made by Liupanshui Hidili, Panxin Coking and Panyi Coal Washing to Panxian Panshi and Panxian Panying on a monthly basis while the additional charge and compensation as set out in (ii) and (iii) above should be settled among the parties to the Framework Agreement on an annual basis with payment to be made in the first quarter of next financial year.

As advised by the Directors, the unit service fee per tonne of the Principal Products handled by Panxian Panshi and Panxian Panying for the Group under the Framework Agreement is determined with reference to the price of RMB30 per tonne adopted under the agreement made between the former shareholders of Panxian Panshi, Panxian Panying, Panxin Coking and Panyi Coal Washing in 2007 and the prices offered to customers other than Panxin Coking and Panyi Coal Washing by Panxian Panshi and Panxian Panying.

As advised by the Directors, there is no railway logistic service provider of comparable size other than Panxian Panshi and Panxian Panying in Boguozhen, the northern part of Pan County, Guizhou Province, the PRC and thus there is no relevant market reference available in that region. Based on the sample contracts provided by the Company, the unit service fee charged by Panxian Panshi and Panxian Panying to customers other than Panxin Coking and Panyi Coal Washing and the unit service fee charged by other railway logistic service providers operating in the southern part of Pan County, Guizhou Province, the PRC are RMB55 per tonne or above (the "**Reference Unit Prices**") of clean coal or coke. As such, the unit service fee charged under the Framework Agreement (being RMB30 per tonne for the guaranteed annual delivery volume of 900,000 tonnes of the Principal Products and RMB40 per tonne for each tonne of the Principal Products that exceeds the guaranteed annual delivery volume of 900,000 tonnes) is lower than the Reference Unit Prices. Furthermore, the unit service fee charged under the Framework Agreement, after taking into account the amortization cost of the total consideration under the Panxian Panshi

Acquisition Agreement and the Panxian Panying Acquisition Agreement as set out in the Letter per tonne of annual guaranteed delivery volume of the Principal Products of approximately RMB4.2, is still lower than the Reference Unit Prices.

On the other hand, if the actual annual delivery volume is less than the guaranteed annual delivery volume of 900,000 tonnes and which is caused by Panxian Panshi and Panxian Panying, Liupanshui Hidili, Panxin Coking and Panyi Coal Washing will receive compensation of RMB10 per tonne of such shortfall delivery volume from Panxian Panshi and Panxian Panying, which is beneficial to the Group.

Based on the above, we consider that the principal terms of the Framework Agreement are on normal commercial terms, fair and reasonable and in the interest of the Group and the Independent Shareholders as a whole.

3. Annual Caps

Set out below are the proposed Annual Caps for the three years ending 31 December 2008, 2009 and 2010:

	For the year ending 31 December		
	2008	**2009**	**2010**
	(RMB'million)		
Proposed Annual Caps	27	39	39

As advised by the Company, the proposed Annual Caps for the three years ending 31 December 2008, 2009 and 2010 are calculated with reference to the expected volume of the Principal Products available for sale by both Panxin Coking and Panyi Coal Washing in accordance with their annual production capacities and the unit service fee to be charged under the Framework Agreement as detailed in the paragraph headed "General pricing principles and payment terms" above. Set out below are the annual production capacity of the Principal Products of Panxin Coking and Panyi Coal Washing, the expected volume of the Principal Products to be handled by both Panxian Panshi and Panxian Panying for the three years ending 31 December 2008, 2009 and 2010 and the historical volume of the Principal Products handled by both Panxian Panshi and Panxian Panying for the three years ended 31 December 2005, 2006 and 2007:

	(thousand tonnes)
Production capacity of the Principal Products of Panxin Coking and Panyi Coal Washing	
Clean coal	1,100
Coke	200
Total	1,300

	For the year ending 31 December		
	2008	2009	2010
	(thousand tonnes)		
Expected volume of the Principal Products to be handled by both Panxian Panshi and Panxian Panying under the Framework Agreement	900	1,200	1,200

	For the year ended 31 December		
	2005	2006	2007
	(thousand tonnes)		
Historical volume of the Principal Products handled by both Panxian Panshi and Panxian Panying	303	795	834

As advised by the Directors, given that coal production and processing plants normally cease operation during the period of Chinese New Year and it is a common practice for the plants to move forward the production schedule to the last quarter of the preceding year, the Company expects that the production volume of the Principal Products of the second half of each year is greater than that of the first half of each year. Based on the volume of the Principal Products produced by Panxin Coking and Panyi Coal Washing for the first half of 2008, the Company expects that the volume of the Principal Products to be delivered by Panxian Panshi and Panxian Panying for the period from July to December 2008 will not be more than 900,000 tonnes after taking into account the annual production capacity of the Principal Products of Panxin Coking and Panyi Coal Washing. For the years ending 31 December 2009 and 2010, the Company expects that coal washing plants will operate in about 90% capacity and the coking plant will operate in full capacity and hence the Annual Caps would be around 1.2 million tonnes of the Principal Products.

As advised by the Directors, coke, produced from coking coal, is the major raw material for the production of iron and steel. The Directors expect that there is increasing demand from steel manufacturing companies in the PRC and hence the Group intends to increase the annual production volume of the Principal Products to cater for the increasing demand after taking control of the operation of Panxin Coking and Panyi Coal Washing by Liupanshui Hidili upon completion of the Acquisitions.

In accordance with the statistical data published on the website of the National Bureau of Statistics of China, the production of crude steel in the PRC increased from approximately 109 million tonnes in 1997 to approximately 490 million tonnes in 2007, representing a compound annual growth rate of approximately 16.2%, which signified the continual increasing demand for crude steel in the PRC in the past. Besides, taking into account the aggregate annual service capacity of Panxian Panshi and Panxian Panying, the Directors consider that Panxian Panshi and Panxian Panying are able to handle the Annual Caps of the Principal Products for the three years ending 31 December 2008, 2009 and 2010.

Having discussed with the management of the Group and considered (i) the historical continuous increasing demand for crude steel in the PRC; (ii) the current production capacity of Panxin Coking and Panyi Coal Washing; (iii) the expected production volume of the Principal Products set by the management of the Group; (iv) the unit service fee to be charged under the Framework Agreement; and (v) the service capacity of Panxian Panshi and Panxian Panying, we are of the view that the Annual Caps for the three years ending 31 December 2008, 2009 and 2010 are fair and reasonable.

RECOMMENDATION

Having considered the terms of, reasons for and the benefits of the entering into of the Framework Agreement and the bases and assumptions adopted in arriving at the Annual Caps, we are of the view that the terms of the Framework Agreement and the Continuing Connected Transactions (including the Annual Caps) contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, the Continuing Connected Transactions are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Group and the Shareholders as a whole. Accordingly, we would recommend the Independent Shareholders, and advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to approve the Framework Agreement and the Continuing Connected Transactions (including the Annual Caps) contemplated thereunder as if a general meeting of the Company were to be convened for such purpose.

Yours faithfully,
For and on behalf of
Taifook Capital Limited
Derek C.O. Chan **Terry Chu**
Managing Director *Director*

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Director collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES

At the Latest Practicable Date, the Directors and chief executive of the Company had the following interests and/or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which are 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 and short positions which they have taken or deemed to have under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") in the Listing Rules, to be notified to the Company and the Stock Exchange:

Name	Name of the entity	Number of issued ordinary shares held	Nature of interest	Approximate percentage of the issued share capital of the Company/ percentage of shareholding
Mr. Xian Yang ("Mr. Xian") *(Notes 1 and 2)*	The Company	1,085,620,000	Interest of controlled corporation	52.7%
Mr. Xian	Sanlian Investment Holding Limited ("Sanlian Investment")	1,000	Beneficial owner	100%
Mr. Wang Rong ("Mr. Wang") *(Note 3)*	The Company	15,380,000	Interest of controlled corporation	0.7%
Mr. Sun Jiankun ("Mr. Sun") *(Note 4)*	The Company	15,380,000	Interest of controlled corporation	0.7%

Notes:

1. The 1,085,620,000 Shares are held by Sanlian Investment, the entire issued share capital of which is held by Mr. Xian. Accordingly, Mr. Xian is deemed to be interested in 1,085,620,000 Shares held by Sanlian Investment by virtue of the SFO. Mr. Xian is also a director of Sanlian Investment.

2. On 18 July 2008, Sanlian Investment transferred 64,380,000 shares to several directors and senior management of the Company. The transfer has resulted in the decrease of Sanlian Investment's shareholding of the Company from 1,150,000,000, or 55.8%, to 1,085,620,000, or 52.7%. However, Sanlian Investment still holds more than 50% in nominal value of the securities and is not required to abstain from voting. Before the transfer, written shareholders' approval in lieu of holding a general meeting of the Company to approve the Framework Agreement and the Continuing Connected Transactions has been obtained from Sanlian Investment on 7 July 2008.

3. The corporate interests are held by Pavlova Investment Limited, which is beneficially owned by Mr. Wang, an executive Director.

4. The corporate interests are held by Able Accord Enterprises Limited, which is beneficially owned by Mr. Sun, an executive Director.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which 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 and short positions which they have taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code in the Listing Rules, to be notified to the Company and the Stock Exchange.

Saved as disclosed, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

3. SUBSTANTIAL SHAREHOLDERS

At the Latest Practicable Date, so far as is known to the Directors and chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company or associated corporations which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name	**Name of the member of the Group**	**Number of issued ordinary shares held/ Amount of registered capital held**	**Nature of interest**	**Approximate percentage of the issued share capital of the Company/ Percentage of shareholding/ equity holding**
Sanlian Investment *(Note 1)*	The Company	1,085,620,000	Beneficial owner	52.7%
Mr. Xian *(Note 1)*	The Company	1,085,620,000	Interest of controlled corporation	52.7%
Ms. Qiao Qian *(Note 2)*	The Company	1,085,620,000	Interest of spouse	52.7%
Mr. Yu Zhengyong *(Notes 3 and 4)*	盤縣次凹子工貿有限公司 (Panxian Ciaozi Industry and Trading Company Limited*) ("Ciaozi")	RMB1,000,000	Beneficial owner	20%

Name	Name of the member of the Group	Number of issued ordinary shares held/ Amount of registered capital held	Nature of interest	Approximate percentage of the issued share capital of the Company/ Percentage of shareholding/ equity holding
Mr. Tan Wenxing *(Note 3)*	盤縣黔榮實業有限公司 (Panxian Qian Rong Industry Company Limited*)	RMB4,900,000	Beneficial owner	49%
北京金字天正智能控制股份有限公司 (Beijing Jin Zi Tian Zheng Intelligent Control Joint Stock Limited*)	攀枝花恒鼎金字天正信息工程有限公司 (Panzhihua Hidili Jin Zi Tian Zheng Information System Company Limited*)	RMB2,450,000	Beneficial owner	49%
Mr. Liu Changsheng *(Notes 3 and 5)*	盤縣天成煤業有限公司 (Panxian Tin Cheng Mining Company Limited*) ("Tin Cheng")	RMB750,000	Beneficial owner	15%

Notes:

1. The entire issued share capital of Sanlian Investment is owned by Mr. Xian. Mr. Xian is deemed to be interested in 1,085,620,000 Shares held by Sanlian Investment by virtue of the SFO.

2. Ms. Qiao Qian is the spouse of Mr. Xian. By virtue of the SFO, Ms. Qiao Qian is also deemed, as spouse, to be interested in all the Shares in which Mr. Xian is deemed to be interested.

3. Mr. Yu Zhengyong, Mr. Tan Wenxing and Mr. Liu Changsheng are independent third parties of the Company, save for their interest disclosed above.

4. At the Latest Practicable Date, Mr. Yu Zhengyong had paid up the registered capital of Ciaozi to the extent of RMB600,000.

5. At the Latest Practicable Date, Mr. Liu Changsheng had paid up the registered capital of Tin Cheng to the extent of RMB300,000.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors and chief executive of the Company, the Company has not been notified by any person (other than the Directors or the chief executive of the Company) who had/would have interest or short position in the shares or underlying shares of the Company or its associated corporations which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

4. DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company for a fixed term of three years commencing on 1 September 2007. Each of the independent non-executive Directors has been appointed by the Company for a fixed term of two years commencing on 1 September 2007. Mr. Xian Yang, the Chairman of the Board, has entered into a deed of service agreement with Hidili Investment Holding Limited on 5 September 2006 for an initial term of three years commencing on 5 September 2006.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into any service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

5. COMPETING INTERESTS

None of the Directors and their respective associates have any interest in a business, which competes or is likely to compete with the businesses of the Group.

6. INTEREST IN ASSETS

As at the Latest Practicable Date, none of the Directors or the Independent Financial Adviser had any interest, direct or indirect, in any asset which has been since 31 December 2007, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors is materially interested in any contract or arrangement entered into by any member of the Group subsisting at the date of this circular which is significant in relation to the business of the Group.

7. EXPERT

The Independent Financial Adviser is a corporation licensed under the SFO to carry out type 6 (advising on corporate finance) regulated activity. The Independent Financial Adviser 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 in the form and context in which it appears.

At the Latest Practicable Date, the Independent Financial Adviser had no shareholding in any member of the Group nor any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

8. MATERIAL ADVERSE CHANGES

The Directors are not aware of any material adverse changes in the financial or trading position of the Group since 31 December 2007, being the date to which the latest published audited financial statements of the Group were made up.

9. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or claim of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

10. MISCELLANEOUS

(a) The company secretary and the qualified accountant of the Company is Mr. Chan Bing Chung. He is a member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. Prior to joining the Company, he had approximately 12 years of working experience with local and international audit firms and was mainly responsible for financial auditing, internal control reporting and compliance advisory.

(b) The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principle place of business of the Company in Hong Kong is located at Room 1103, 11th Floor, Ka Wah Bank Centre, 232 Des Voeux Road Central, Hong Kong.

(c) The share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(d) In the event of inconsistency, the English language of this circular shall prevail over the Chinese language.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on any weekday (except public holidays) at Room 1103, 11th Floor, Ka Wah Bank Centre, 232 Des Voeux Road Central, Hong Kong for the period of 14 days from the date of this circular:

(a) this circular;

(b) the Articles;

(c) the letter from the Independent Board Committee, the text of which is set out on page 26 of this circular;

(d) the letter from Taifook, the text of which is set out on pages 27 to 34 of this circular;

(e) the written consent of Taifook referred to under the section headed "Expert" in this Appendix; and

(f) the Framework Agreement.