

8 June 2010

To the Independent Board Committee and the Disinterested Shareholders of
China Primary Resources Holdings Limited

Dear Sirs,

**VERY SUBSTANTIAL DISPOSAL
INVOLVING OFF-MARKET REPURCHASE OF PREFERRED SHARES**

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Disinterested Shareholders in connection with the terms of the Agreement (including Share Repurchase), details of which are set out in the section headed "Letter from the Board" in the circular issued by the Company to the Shareholders dated 8 June 2010 (the "**Circular**") of which this letter forms part. Capitalized terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

On 9 April 2010 (after trading hours of the Stock Exchange), Yichang Shoukong, a wholly-owned subsidiary of the Company, entered into the Agreement with Shougang whereby Yichang Shoukong has conditionally agreed to sell and Shougang has conditionally agreed to purchase, the Sale Interest (representing approximately 12.21% equity interest in the registered paid up capital of Xin Shougang) at an aggregate consideration of HK\$314.8 million. The consideration shall be satisfied as to HK\$25.34 million in cash (or RMB22.28 million as agreed between the parties to the Agreement) and as to HK\$289.46 million by way of procuring GORE to transfer to the Company the Repurchase Shares for repurchase and cancellation (subject to the terms and upon fulfillment of the conditions of the Agreement). Upon Completion, the Repurchase Shares will be cancelled by the Company and GORE will cease to hold any securities in the Company.

The Disposal constitutes a very substantial disposal for the Company under the GEM Listing Rules. As the Disposal is conditional on the Share Repurchase, the Disposal is subject to the approval by the Disinterested Shareholders by way of poll at the EGM. As at the Latest Practicable Date, Shougang, its associates and parties acting in concert with it, did not hold any Shares or securities of the Company. Save for the Preferred Shares, GORE, its associates and parties acting in concert with it, did not hold any Shares or securities of the Company as at the Latest Practicable Date. To the best of the knowledge of the Directors having made all enquiries, save for disclosed above, there are no other persons who are interested in the Agreement and held any Shares as at the Latest Practicable Date. Accordingly, Shougang and GORE, their respective associates and parties acting in concert with any of them, will abstain from voting in respect of the resolutions to be proposed at the EGM to approve the Agreement and the transactions contemplated thereunder.

The Share Repurchase also constitutes an off-market share repurchase by the Company under the Repurchase Code. The Company has made an application to the Executive for approval of the Share Repurchase pursuant to Rule 2 of the Repurchase Code. The Executive's approval of the Share Repurchase, if granted, is conditional upon, among others, approval of the Share Repurchase by at least three-fourths of the votes cast on a poll by the Disinterested Shareholders in attendance in person or by proxy at the EGM.

The Independent Board Committee, comprising Mr. Wan Tze Fan Terence, Mr. Liu Weichang and Mr. Chung Chin Keung, all being the independent non-executive Directors, has been formed to advise the Disinterested Shareholders on the terms of the Agreement (including Share Repurchase). We have been appointed as the independent financial adviser to advise the Independent Board Committee and the Disinterested Shareholders in respect of the terms of the Agreement (including Share Repurchase). In our capacity as the independent financial adviser to the Independent Board Committee and the Disinterested Shareholders for the purposes of the GEM Listing Rules, our role is to give you an independent opinion as to whether the terms of the Agreement (including Share Repurchase) are on normal commercial terms, in the ordinary course of business, fair and reasonable and in the interests of the Company and the Disinterested Shareholders as a whole.

BASIS OF OUR OPINION AND RECOMMENDATION

In forming our opinion and recommendation, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, management of the Company and its subsidiaries. We have assumed that all information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true, accurate and complete as at the date of the Circular and that all expectations and intentions of the Directors, management of the Company and its subsidiaries, will be met or carried out as the case may be. We have no reason to doubt the truth, accuracy and completeness of the information, facts, opinions and representations provided to us by the Directors, management of the Company and its subsidiaries. The Directors have confirmed to us that no material facts have been omitted from the information supplied and opinions expressed. We have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular or the reasonableness of the opinions and representations provided to us by the Directors, management of the Company and its subsidiaries.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We have relied on such information and opinions and have not, however, conducted any independent verification of the information provided, nor have we carried out any independent investigation into the business, financial conditions and affairs of the Group or its future prospect.

Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the Transactions, as referred to in Rule 17.92 of the GEM Listing Rules (including the notes thereto).

This letter is issued for the information for the Independent Board Committee and the Disinterested Shareholders solely in connection with their consideration of the terms of the Agreement (including Share Repurchase) and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation to the Independent Board Committee and the Disinterested Shareholders in relation to the terms of the Agreement (including Share Repurchase), we have taken into consideration the following principal factors and reasons:

Background of and reasons for the Transactions

On 9 April 2010 (after trading hours of the Stock Exchange), Yichang Shoukong, a wholly-owned subsidiary of the Company, entered into the Agreement with Shougang whereby Yichang Shoukong has conditionally agreed to sell and Shougang has conditionally agreed to purchase, the Sale Interest at an aggregate consideration of HK\$314.8 million. Upon Completion, the Repurchase Shares will be cancelled by the Company and GORE will cease to hold any securities in the Company.

The Group

As referred to the Letter from the Board, the Group is currently principally engaged in (i) manufacture and sale of polyethylene pipes (“**PE Pipes**”) and fibre glass reinforced plastic pipes (“**FRP Pipes**”); (ii) sale of composite materials; and (iii) mining business that operates primarily in the markets of the independent sovereign state of Mongolia and the PRC which is operated through its available-for-sale investments.

Set out below is a summary of the audited consolidated financial results of the Group for the two years ended 31 December 2008 and 2009, as extracted from the Company’s annual report 2009 (the “**AR 2009**”):

Consolidated Income Statement

	For the year	
	ended 31 December	
	2009	2008
	HK\$'000	HK\$'000
Turnover	38,712	72,770
Loss attributable to equity holders of the Company	864,145	1,243,920

Consolidated Statement of Financial Position

	As at 31 December	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets	886,049	1,678,232
Total liabilities	477,866	495,128
Net assets attributable to equity holders of the Company	374,926	1,144,763
Cash and cash equivalents	76,071	99,361

As set out in the AR 2009, we noted that the Group's turnover for the year ended 31 December 2009 was amounted to approximately HK\$38,712,000, representing a decrease of approximately 46.8% as compared to year 2008. With reference to the AR 2009, the decrease in turnover was mainly due to the decrease in sale of composite materials which contributed for over 73% of the Group's total turnover in the previous year. Such a decrease was resulted from the unfavourable economic conditions and also the shifting of the Group's resources to manufacture and sales of PE and FRP Pipes. During the year ended 31 December 2009, the Group also recorded loss attributable to equity holders of the Company of approximately HK\$864,145,000. As at 31 December 2009, the Group recorded total assets, total liabilities and net assets attributable to equity holders of the Company of approximately HK\$886,049,000 (2008: approximately HK\$1,678,232,000), HK\$477,866,000 (2008: approximately HK\$495,128,000) and HK\$374,926,000 (2008: approximately HK\$1,144,763,000) respectively. In addition, as at 31 December 2009, the Group's cash and cash equivalents was amounted to approximately HK\$76,071,000 (2008: approximately HK\$99,361,000). In addition, we also noted that the Group recorded nil segment revenue from mining operations and the said segment has been reporting losses of approximately HK\$243,485,000 and HK\$8,275,000 for the two financial years ended 31 December 2008 and 2009, representing approximately 52.9% and 99.2% of the Group's aggregate consolidated segment losses respectively.

Xin Shougang Group

Xin Shougang is a company incorporated in the PRC with limited liability on 18 October 2005. It is principally engaged in the mine resources development, asset management and provision of investment management consultancy services in Yichang City, Hubei Province, the PRC. As at the Latest Practicable Date, Xin Shougang was owned as to 80.82% by Shougang, 12.21% by Yichang Shoukong and 6.97% by GORE Mining Technology. Upon Completion, the Company will cease to have any interest in the registered paid up capital of Xin Shougang.

Set out below is a summary of the unaudited combined financial information of the Xin Shougang Group for the two financial years ended 31 December 2008 and 2009 as prepared under HKFRS:

	For the year ended	
	31 December	
	2009	2008
	<i>RMB million</i>	<i>RMB million</i>
	(unaudited)	(unaudited)
Loss before taxation	2,061	4,588
Loss after taxation	2,061	4,588
	As at 31 December	
	2009	2008
	<i>RMB million</i>	<i>RMB million</i>
	(unaudited)	(unaudited)
Net assets	2,459	4,415
Total assets	2,590	4,613

As illustrated in the above table, we noted that the Xin Shougang Group has been operating at losses for the past two financial years ended 31 December 2008 and 2009. Based on the unaudited accounts of the Xin Shougang Group prepared according to HKFRS, the net assets value of the Xin Shougang Group as at 31 December 2009 was approximately RMB2,459,000,000.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, we are given to understand that the Xin Shougang Group has not yet commenced mining of any Mining Sites since completion of the Acquisition. As further stated in the Letter from the Board, as at the Latest Practicable Date, the principal assets of Xin Shougang were the exclusive rights to invest in, develop and to apply for the mining rights for the Mining Sites with mainly iron minerals located at Yichang City, Hubei Province, the PRC and the entire interest in Chang Yang Mining which is engaged in mining business. However, due to the delay in development of the certain mining sites by the Xin Shougang Group, Xin Shougang has been formally informed by the Yichang City Government that the mining rights for the mining sites with mineral resources other than iron, which include silver vanadium and manganese at or near Yichang City, Hubei Province, the PRC, would not be granted to Xin Shougang.

Iron and steel industry

According to the statistics published by the China Steel and Iron Association, we noted that the 2009 average consolidate price index for domestic steel products in China was approximately 103.12, indicating a drop of approximately 24.5%, among which (i) the annual average price index for long products was 107.11 with recorded decrease of approximately 23.4% when compared to previous year; and (ii) the annual average price index for steel plates was approximately 103.05 with recorded decrease of approximately 23.4% when compared to previous year. We also noted volatility in the steel prices in

2009 with the largest difference recorded in consolidated price index for domestic steel products in China was 59.49 (representing a significant decrease of approximately 36.8% as compared to previous year). Also, we noted that from the statistics available from the World Steel Association, we noted that the crude steel production in 2009 dropped by approximately 8.2% as compared with previous year. Further to our discussion with the Directors, we are given to understand that the global economy is still in the process of recovery and the prospects of the iron and steel industry is subject to many uncertainties. It is expected that the continuous disequilibrium between the demand and supply in the world iron and steel market and the mounting pressure upon steel production costs may result in fluctuating prices for iron and steel and increase uncertainties for the Group to operate and further develop in Xin Shougang.

Reasons for the entering into of the Agreement

As stated in the Letter from the Board and as per our discussion with the Directors, the Directors advised us, to which we concur, that the reasons for the entering into of the Agreement is that it will result in the following benefits to the Group:

- (i) the Group's financial position may continue to be undermined by the impairment on the Sale Interest and the weak financial performance of the Xin Shougang Group for the past two financial years;
- (ii) the Group have no significant influence on the business development and operation of the Xin Shougang Group since Acquisition and its interest in the Xin Shougang Group may be further diluted without new capital contribution by the Group;
- (iii) the Directors consider that the Disposal will be a prudent and commercially sound decision which enables the Company to minimize further damages that the Sale Interest may cause to the Group; and
- (iv) the Disposal would strengthen the working capital of the Group given the immediate cash inflow in the amount of HK\$25.3 million to be received upon Completion which recoup the Group's initial acquisition costs in Xin Shougang (i.e. HK\$18 million cash and 2,802,235,294 Repurchase Shares) and receive additional HK7.3 million cash.

Having considered that (i) the prospects and development for the Xin Shougang Group are uncertain in the near future given the volatility of commodity prices and the economic environment; (ii) the Xin Shougang Group has not yet commenced mining of any Mining Sites since completion of the Acquisition and is still at the preliminary stage of development; and (iii) Xin Shougang has been formally informed by the Yichang City Government that the mining rights for the Mining Sites with mineral resources other than iron, which include silver vanadium and manganese at or near Yichang City, Hubei Province, the PRC, will not be granted to Xin Shougang, we concur with the Directors that it may not be justifiable for the Group to continue to retain its interest in Xin Shougang.

In addition, we noted that the Group recorded cash and cash equivalents of approximately HK\$76,071,000 as at 31 December 2009. Given that the Company intends to apply the net proceeds from of approximately HK\$22.3 million to be received as part of the cash portion of the Consideration from the Disposal for general working capital purposes, we consider that the Disposal is in line with the business strategy of the Group and is conducted in the ordinary and usual course of business of the Group.

In this regard, we concur with the Directors that the Transactions are reasonable moves for the Group to concentrate its resources and grasp business opportunities to further develop and expand its existing business as and when they arise. Accordingly, we are of the view that the Transactions are in the interests of the Company and the Disinterested Shareholders as a whole.

Principal terms of the Agreement

The consideration for the Sale Interest, being HK\$314,800,000 (the “**Consideration**”), shall be payable by Shougang (i) as to HK\$25,340,000 (or RMB22,280,000 as agreed between the parties to the Agreement) in cash; and (ii) as to HK\$289,460,000 by Shougang procuring GORE to transfer to the Company the Repurchase Shares for repurchase and cancellation subject to the terms and upon fulfillment of the conditions of the Agreement.

Basis of the Consideration

As stated in the Letter from the Board, the Consideration was determined based on normal commercial terms after arm’s length negotiations between the Group and Shougang and with reference to (i) the form of consideration paid by the Group when the Group first acquired the then 22.28% interest in Xin Shougang in 2007; (ii) the carrying value of the Sale Interest of approximately HK\$314.8 million (which was valued by Greater China, an independent qualified valuer engaged by the Company) as at 31 December 2009; (iii) the past performance of the Xin Shougang Group in the preceding years; and (iv) the latest development of the Xin Shougang Group. In this regard, we have reviewed the Acquisition Agreement, the valuation report relating to the valuation of the Sale Interest and the unaudited accounts of the Xin Shougang Group for the two financial years ended 31 December 2008 and 2009. Also, we have discussed with the Directors regarding the latest development of the Xin Shougang Group.

With reference to the Acquisition Agreement, Yichang Shoukong has conditionally agreed to acquire from GORE Mining Technology, a wholly-owned subsidiary of GORE, its then 22.28% interest in the registered paid up capital of Xin Shougang for an aggregate consideration of approximately HK\$971 million and such consideration was settled by way of cash and the issue of Preferred Shares. As such, we are of the view that both considerations are settled by ways of cash and Preferred Shares.

Further to our review on the unaudited accounts of the Xin Shougang Group for the two financial years ended 31 December 2008 and 2009, we noted that the Xin Shougang Group was operating at losses for the two financial years ended 31 December 2008 and 2009 with significant drop of approximately 55.1% to HK\$2,061 million for the year ended 31 December 2009.

In addition, as stated in the Letter from the Board, we noted that the global economic downturn and the fluctuations in the commodity market during 2008 and 2009 resulted in significant impairment loss in the carrying value of Xin Shougang and had adversely affected and ultimately delayed the progress of the mining operations of Xin Shougang. Meanwhile, injection of additional capital into Xin Shougang by Shougang in April 2009 with its aim to provide working capital to Xin Shougang given the delay in operation of the mining business further diluted the Group's interest in Xin Shougang from approximately 22.28% to 12.21% and the Group's interest has been accounted for as an available-for-sale investment since after. As advised by the Directors, we are given to understand that there has not been much development in the Xin Shougang Group except for the recent construction of a processing plant in Yichang and the Xin Shougang Group has not commenced mining of any Mining Sites since completion of the Acquisition. Due to the delay in development of the certain mining sites by the Xin Shougang Group, Xin Shougang has been formally informed by the Yichang City Government that the mining rights for the Mining Sites with mineral resources other than iron, which include silver vanadium and manganese at or near Yichang City, Hubei Province, the PRC, will not be granted to Xin Shougang.

In view of the aforesaid and the Consideration is the same as the carrying value of the Sale Interest as at 31 December 2009, we are of the view that the Consideration is fair and reasonable so far as the Company and the Disinterested Shareholders are concerned.

Payment of the Consideration

Pursuant to the Agreement, the aggregate Consideration of HK\$314,800,000 shall be satisfied by Shougang as follows:

- (a) as to HK\$25,340,000 (or RMB22,280,000 as agreed between the parties to the Agreement) (the "Deposit") has been paid in cash within 30 days from the date of the Agreement; and
- (b) as to HK\$289,460,000 by Shougang procuring GORE to transfer to the Company the Repurchase Shares for cancellation at a price of approximately HK\$0.1033 per Repurchase Share at Completion.

The Repurchase Shares

As at the Latest Practicable Date, the Company has an aggregate of 2,802,235,294 Preferred Shares in issue which are beneficially held by GORE. Upon full conversion of the Repurchase Shares at the prevailing conversion rate, a total of 359,396,454 Conversion Shares will be issued, representing approximately 29.2% of the issued share capital of the Company as at the Latest Practicable Date and approximately 22.6% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares. Upon Completion, the Repurchase Shares will be transferred to the Company for cancellation at the consideration of HK\$289,460,000, representing a price of approximately HK\$0.1033 per Repurchase Share or a price of approximately HK\$0.8054 per Conversion Share.

The Repurchase Price

The price of approximately HK\$0.8054 per Conversion Share represents:

- (i) a premium of approximately 576.8% over the closing price of HK\$0.119 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- (ii) a premium of approximately 304.7% over the closing price of HK\$0.199 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a premium of approximately 316.9% over the average of the closing prices of HK\$0.1932 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to and including the Last Trading Day;
- (iv) a premium of approximately 320.4% over the average of the closing prices of HK\$0.1916 per Share as quoted on the Stock Exchange for the last ten consecutive trading days immediately prior to and including the Last Trading Day; and
- (v) a premium of approximately 164.2% over the audited net assets value per Share attributable to Shareholders as at 31 December 2009 of approximately HK\$0.3049 (based on the audited net assets attributable to the equity holders of the Company of approximately HK\$374,926,000 as set out in the AR 2009 for the year ended 31 December 2009 and 1,229,603,280 Shares then in issue).

The Repurchase Price was determined between Yichang Shoukong and Shougang after arm's length negotiations with reference to (i) the removal of the possible dilution effect on the Shareholders from conversion of the Repurchase Shares into Conversion Shares; (ii) the reduction of the financial liability component and deferred tax liabilities in relation to the Repurchase Shares by an amount of approximately HK\$50,992,000 and HK\$148,792,000 as at 31 December 2009 respectively from the accounts of the Company as a result of the cancellation; and (iii) the carrying value of the equity component of the Repurchase Shares of approximately HK\$753,639,000 as at 31 December 2009.

Analysis on the Repurchase Price

We noted that a total of 359,396,454 Conversion Shares will be issued upon full conversion of the Repurchase Shares at the prevailing conversion rate and it represents approximately 29.2% of the issued share capital of the Company as at the Latest Practicable Date and approximately 22.6% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares. Accordingly, the shareholding interests of the other public Shareholders would be diluted from approximately 64.5% as at the Latest Practicable Date to approximately 50.0% upon full conversion of the Repurchase Shares, representing a potential maximum dilution of approximately 14.5%. Accordingly, such potential dilution may harm the shareholding interests of the existing public Shareholders.

In addition, we also reviewed the AR 2009 and noted that the Repurchase Shares are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. As set out in AR 2009, the carrying values of the liability component and equity component of Repurchase Shares were approximately HK\$50,992,000 and HK\$753,639,000 as at 31 December 2009 respectively. As stated in the Letter from the Board, the Company will measure the Repurchase Shares at the prevailing fair share on the date of Completion based on the indicative valuation to be performed by professional valuers and allocate the fair value into financial liability component at fair value and equity component at the residual value and state these components through profit or loss and retained earnings respectively.

As advised by the Directors, for illustration purposes only, the gain on the Share Repurchase of HK\$4,288,000 as at 9 April 2010 was calculated based on the difference between the carrying value of the financial liability component of the Repurchase Share of HK\$50,992,000 and the fair value of the financial liability component of HK\$46,704,000 on the date of Completion. The estimated difference of HK\$685,366,000 between the carrying value and fair value of the equity component of the Repurchase Shares and the release of deferred tax liabilities attributable to the Repurchase Shares of HK\$148,792,000 will be recorded as transfers to the Group's accumulated losses. In this regard, we are given to understand that the cancellation of Repurchase Shares would result in decrease in the financial liability component and the deferred liabilities of approximately HK\$50,992,000 and HK\$148,792,000 as at 31 December 2009 respectively from the accounts of the Company.

In accessing the fairness and reasonableness of the Repurchase Price, we have also reviewed the historical liquidity of the Shares for the six months prior and including up to the Last Trading Day (the "Review Period"). Set out below is the historical liquidity of the Shares during the Review Period:

	Average daily trading volume for the month/period <i>No. of Shares</i>	Percentage of the average daily trading volume to the number of the issued Shares as at the Latest Practicable Date <i>Approximate %</i>
2009		
9 October to 30 October	1,365,252	0.11
November	1,382,438	0.11
December	2,039,042	0.17
2010		
January	2,955,785	0.24
February	669,137	0.05
March	1,581,623	0.13
April (up to the Last Trading Day)	1,863,375	0.15

Source: website of the Stock Exchange (www.hkex.com.hk)

As illustrated in the above table, we noted that the liquidity of the Shares was extremely thin during the Review Period. During the Review Period, the percentage of the average daily trading volume to the number of the issued Shares as at the Latest Practicable Date ranged from approximately 0.05% to 0.24%. Assuming that upon full conversion of the Repurchase Shares, we understand that, given the extremely thin liquidity of the Shares, it may be difficult for the Company to repurchase a large number of Shares through on-market repurchases as Share Repurchase.

We noted that the Repurchase Price represents premium over (i) the Latest Practicable Date; (ii) the closing price on the Last Trading Day; (iii) the average closing price for the last five consecutive days prior to and including the Last Trading Day; (iv) the average closing price for the last ten consecutive days prior to and including the Last Trading Day; and (v) the audited net assets value per Share attributable to Shareholders as at 31 December 2009. However, having considered that (i) the Repurchase Price was determined after arm's length negotiations between parties to the Agreement; (ii) the removal of the potential dilution effect on the Shareholders resulted from conversion of the Repurchase Shares so as to protect the interests of the Group's existing Shareholders; (iii) the difficulty for the Company to repurchase the Shares (upon full conversion of the Repurchase Shares) through on-market repurchase given the thin liquidity of the Shares during the Review Period; (iv) the Share Repurchase is used as settlement for part of the Consideration which will avoid further depletion of the Company's existing cash resources and preserve cash availability and flexibility for the future operations of the Company; (v) the cancellation of Repurchase Shares would result in improvement in the gearing level of the Group; and (vi) in the event that the Company failed to dispose the Xin Shougang, the Company's financial position may continue to be undermined by the impairment on the Sale Interest and the weak financial performance of the Xin Shougang for the past two financial years ended 31 December 2009, we consider that, on balance, the Repurchase Price is fair and reasonable so far as the Company and the Disinterested Shareholders are concerned and is in the interests of the Company and the Disinterested Shareholders as a whole.

Refund of deposit

In any event that the non-fulfillment of any of the conditions precedent is due to the fault of Shougang, Yichang Shoukong shall be entitled to forfeit the Deposit as compensation. On the other hand, if any event that the non-fulfillment of any of the conditions precedent is due to the reasons other than the fault of Shougang, Yichang Shoukong shall within five Business Days refund the Deposit (without interest) to Shougang as full and final settlement of all claims in connection with the Agreement whatsoever.

Other terms of the Agreement

We have also reviewed the other terms of the Agreement and are not aware of any terms which are uncommon.

In view of the foregoing analysis, we consider that the principal terms of the Agreement and the Share Repurchase are on normal commercial terms and are fair and reasonable and in the interests of the Company and Disinterested Shareholders as a whole.

Effects on the shareholding structure of the Company

The table below sets out the shareholding structure of the Company as at the Latest Practicable Date; and, for illustrative purpose, assuming no further Shares will be issued or repurchased by the Company after the Latest Practicable Date and up to the date of the EGM, the potential dilution effect on the shareholdings of the Shareholders (i) upon full conversion of the Repurchase Shares; and (ii) upon cancellation of the Repurchase Shares:

Shareholders	As at the Latest Practicable Date		Upon full conversion of the Repurchase Shares		Upon cancellation of the Repurchase Shares	
	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %
Future Advance (Note 1)	287,619,446	23.4	287,619,446	18.1	287,619,446	23.4
Mr. Yu Hongzhi (Note 1)	11,400,000	0.9	11,400,000	0.7	11,400,000	0.9
Ms. Ma Zheng (Note 2)	8,100,000	0.7	8,100,000	0.5	8,100,000	0.7
Super Grand Investments Limited (Note 3)	129,436,878	10.5	129,436,878	8.1	129,436,878	10.5
GORE (Note 4)	-	-	359,396,454	22.6	-	-
Other public Shareholders	793,046,956	64.5	793,046,956	50.0	793,046,956	64.5
Total	1,229,603,280	100.0	1,588,999,734	100.0	1,229,603,280	100.0

Notes:

- (1) Future Advance is a limited liability company incorporated in the British Virgin Islands. Future Advance is beneficially owned as to 37.5% by China Zong Heng Holdings Limited (which is in turn 100% beneficially owned by Mr. Yu Hongzhi), 12.5% by Ms. Ma Zheng who is the sole director of Future Advance, 27% by Zhong Nan Mining Group Limited (which is in turn 100% beneficially owned by Mr. Zhang Lei), 13% by Mr. Wu Yong Jin and the remaining 10% by Ms. Ma Yi.
- (2) Ms. Ma Zheng is the sole director of Future Advance and an executive Director.
- (3) Super Grand Investments Limited is a wholly-owned subsidiary of APAC Resources Limited, the issued shares of which are listed on the main board of the Stock Exchange.
- (4) As at the Latest Practicable Date, GORE, a company incorporated in the British Virgin Islands with limited liability, held the 2,802,235,294 Preferred Shares which entitles GORE to convert into 359,396,454 Shares at the conversion price of HK\$2.651 per Share. The Preferred Shares in issue carry conversion right to convert into Shares at the prevailing conversion rate of 1:0.1282 (after adjustment from the initial conversion rate of 1:1 to 1:1.2825 on 16 July 2009 and the further adjustment to 1:0.1282 on 20 August 2009). Details of the prevailing conversion rate and conversion price of the Repurchase Shares are set out in the announcement of the Company dated 20 August 2009.

- (5) The above shareholding is prepared assuming no conversion of the Convertible Bonds and no exercise of the Share Options. As at the Latest Practicable Date, there were 73,601,600 outstanding Share Options entitling the holders thereof to subscribe for a total of 73,601,600 new Shares and the Convertible Bonds entitling the holders to convert into 184,733,481 new Shares.

As illustrated in the table above, the shareholding interests of the other public Shareholders would be diluted from approximately 64.5% as at the Latest Practicable Date to approximately 50.0% upon full conversion of the Repurchase Shares, representing a potential maximum dilution of approximately 14.5%. However, in the event that the Repurchase Shares were cancelled by the Company upon Completion, such potential dilution on the Shareholders would be removed. Accordingly, GORE will cease to hold any securities in the Company. In this regard, we are of the view that the removal of the potential dilution effects on the shareholding structure of the Company upon the cancellation of the Repurchase Shares is favourable to the Company.

Possible financial effects of the Transactions

(i) Gain/Loss on the Transactions

As stated in the Letter from the Board, for illustration purposes only, the gain on the Share Repurchase of HK\$4,288,000 as at 9 April 2010 was calculated based on the difference between the carrying value of the financial liability component of the Repurchase Share of HK\$50,992,000 and the fair value of the financial liability component of HK\$46,704,000 as at the date of Completion.

In addition, for illustrative purposes only, the loss on Disposal of HK\$25,157,000 was arrived based on (i) the aggregate of the cash consideration of HK\$25,340,000 and the fair value of the Repurchase Shares of HK\$114,977,000 as at 9 April 2010 (as if this was the date of Completion), less the carrying value of the Sale Interest of HK\$314,800,000; and (ii) the release of the Group's exchange reserve related to the Xin Shougang Group of HK\$152,326,000, less estimated expenses incurred for the Disposal of HK\$3,000,000. Accordingly, the Group is expected to record an aggregate net loss of HK\$20,689,000 on the Share Repurchase and Disposal. However, the final gain or loss arising from the Share Repurchase and Disposal will, nevertheless, depend on, the valuation to be performed by professional valuers of the Repurchase Shares on the date of Completion.

In view of the continuous loss making results and uncertain prospects of the Xin Shougang Group in the near future, it is expected that the remaining Group can avoid potential future losses by disposing Xin Shougang.

(ii) Net assets value

According to the AR 2009, the Group recorded audited total assets and total liabilities of approximately HK\$886,049,000 and HK\$477,866,000 respectively as at 31 December 2009. In addition, the Group recorded net assets of approximately HK\$408,183,000 as at 31 December 2009.

Based on the Pro Forma Financial Information, assuming that the Transactions had been taken place as at the relevant balance sheet dates, the unaudited pro forma consolidated total assets and total liabilities of the Group will decrease by approximately 33.0% to approximately HK\$593,589,000 and by approximately 41.8% to approximately HK\$278,082,000 respectively.

In addition, with reference to the Pro Forma Financial Information, assuming that the Transactions had been taken place as at the relevant balance sheet dates, the unaudited pro forma consolidated net assets of the Group will decrease by approximately 22.7% to approximately HK\$315,507,000. Accordingly, the net assets value per Share will decrease from approximately HK\$0.33 (based on 1,229,603,280 issued ordinary shares as at 31 December 2009) to approximately HK\$0.26 (based on 1,229,603,280 issued ordinary shares as at the Latest Practicable Date) upon Completion.

Taking into account that (i) the reduction of net assets value per Share upon Completion and full conversion of the Repurchase Shares would be minimal; (ii) the fact that the Disposal will alleviate the Group's heavy capital commitment that would otherwise be required for Xin Shougang in the midst of volatility of commodity prices and the economic environment; and (iii) the potential benefits from the Transactions illustrated in the above, we consider that the overall impact on the consolidated net assets of the Group and the net assets value per Share from the Share Repurchase and Disposal to be favourable to the Company and the Disinterested Shareholders as a whole, notwithstanding the decrease in consolidated net assets of the Group upon Completion.

(iii) Working capital

According to the AR 2009, the Group recorded net current liabilities amounted to approximately HK\$54,067,000 as at 31 December 2009.

Based on the Pro Forma Financial Information, assuming that the Transactions had been taken place as at the relevant balance sheet dates, it is expected that the Group's working capital would be improved by approximately HK\$22,340,000, being the net proceeds from the Disposal.

(iv) Loss per Share

According to the AR 2009, for the year ended 31 December 2009, the Group recorded loss attributable to equity holders of the Company and loss per Share of approximately HK\$864,145,000 and HK\$0.865 respectively (based on 999,403,579 weighted average number of ordinary shares for the purposes of calculating basic loss per shares for the year ended 31 December 2009).

Based on the Pro Forma Financial Information, assuming that the Transactions had been taken place as at the relevant balance sheet dates, the Group's loss per Share for the year ended 31 December 2009 would be improved from approximately HK\$0.865 to approximately HK\$0.065 (based on 999,403,579 weighted average number of ordinary shares for the purpose of calculating basic loss per share for the year ended 31 December 2009).

(v) *Cash flow*

Based on the Pro Forma Financial Information, assuming that the Transactions had been taken place as at the relevant balance sheet dates, the cashflow of the Group is expected to be increased by the amount of approximately HK\$22.3 million which are intended to be used as for general working capital of the remaining Group. Accordingly, the Transactions will allow the Group to prevent further injection of working capital in Xin Shougang and concentrate its resources to continue the operation of its existing core business.

In view of the above, we consider that the Transactions, on balance, will have positive financial effects to the Group. Therefore, we consider that the Transactions are in the interests of the Company and the Disinterested Shareholders as a whole.

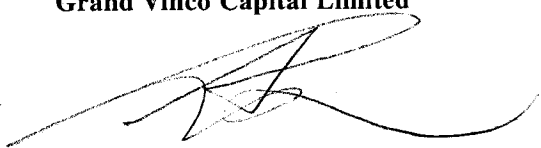
Our Views

Having taken into consideration that (i) the Consideration and the Repurchase Prices were arrived after arm's length negotiation between the Group and Xin Shougang as mentioned in the above; (ii) the Disposal is merely a disposal of the remaining interest as available-for-sale investments in Xin Shougang and helps the Group to remove the uncertainties resulted from the weak financial performance of the Xin Shougang Group; (iii) the potential benefits from the Transactions as illustrated in the above; (iv) the cancellation of the Repurchase Shares helps to remove the possible dilution effects on the shareholding of the existing public Shareholders; and (v) the potential favourable financial effects on working capital, loss per Share and cashflow to the Group, we thus concur with the Directors that the Transactions are in the interests of the Company and Disinterested Shareholders as a whole.

CONCLUSION

Having taken the above principal factors and reasons, we are of the view that (i) the terms of the Agreement (including Share Repurchase) are on normal commercial terms and are fair and reasonable so far as the Disinterested Shareholders are concerned; and (ii) the Transactions (including Share Repurchase) are in the interests of the Company and Disinterested Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Disinterested Shareholders, and the Disinterested Shareholders, to vote in favour of the resolutions to be proposed at the EGM approving the Agreement (including Share Repurchase).

Yours faithfully,
For and on behalf of
Grand Vinco Capital Limited



Alister Chung
Managing Director