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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you have sold or transferred** all your shares in China Hanking Holdings Limited, you should at once hand this circular and the accompanying proxy form to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or the transfer was effected for transmission to the purchaser or transferee.

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**罕王**  
HANKING

**CHINA HANKING HOLDINGS LIMITED**  
**中國罕王控股有限公司**

*(incorporated in the Cayman Islands with limited liability)*

(Stock code: 03788)

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

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



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

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

A letter from the Independent Financial Adviser is set out on pages 27 to 48 of this circular.

A notice convening the EGM of the Company to be held at 22nd Floor Conference Room, Hanking Tower, No. 227 Qingnian Avenue, Shenhe District, Shenyang City, Liaoning Province, PRC on 4 March 2013 at 9:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the EGM is also enclosed. Such form of proxy is also published on the website of The Stock Exchange of Hong Kong Limited ([www.hkexnews.hk](http://www.hkexnews.hk)).

Whether or not you proposed to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instruction printed therein and return it to the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude the Shareholders from attending and voting in person at the EGM or any adjournment thereof if they so wish.

15 February 2013

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The Directors

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10 December 2012

Our Ref.:

Dear Sirs,

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

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

**PURPOSE OF VALUATION AND DEFINITION OF VALUE**

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

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

**PROJECT PROFILE**

**Overview**

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

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

### Ore Reserve

*(based on JORC standard)*

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

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

## VALUATION METHODOLOGY

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

### Discounted Cash Flow Method

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

**Mining Output**

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

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

**Selling Price**

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

*(Source: industry report issued by Hatch Ltd.)*

**Sales Revenue**

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

**Smelting and Ore Processing**

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

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

**Investment Cost***Unit: US\$ million*

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

*(Source: technical report issued by CSA Global Pty Ltd.)***Operating cost***Unit: US\$ per tonne*

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

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

### Smelting Cost

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

### Weighted Average Cost of Capital

The discount rate adopted for the valuation is 19%. In calculating the discount rate, we took the weighted average cost of capital (WACC) of the Company as the basic discount rate. WACC is arrived at, with reference to relevant weightings of each component of the capital structure, using the following formula:

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

where,

Re = Cost of equity

Rd = Cost of debt

We = Weight of equity value in enterprise value

Wd = Weight of debt value in enterprise value

T = Corporate tax rate

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

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

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



## Sensitivity Analysis

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

## OTHER CONSIDERATIONS

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

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

We have relied upon the aforesaid information in forming our opinion on the fair value. However, we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us. We have no reason to doubt the truth and accuracy of the information provided to us by the

Company which is material to the valuation. We have also been advised by the Company that no material facts have been omitted from the information provided. We have also made relevant enquires and obtained further information as considered necessary for the purpose of this valuation.

While we have exercised our professional knowledge and cautions in adopting assumptions and other relevant key factors in our valuation, those factors and assumptions are still vulnerable to the changes of the business, economic environment, competitive uncertainties or any other abrupt alternations of external factors.

The conclusion of the value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Further, while the assumptions and other relevant factors are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company and us.

This report is subject to specific and general assumptions and limiting conditions, which are set out in the attachments.

#### **OPINION OF VALUE**

Based on the research, investigation and valuation approach adopted mentioned above, we have arrived at the following opinion on the fair value of 70% equity interests in Northeastern Lion Limited as at 30 September 2012: RENMINBI THREE HUNDRED AND NINETY MILLION (RMB390,000,000).

For and on behalf of

**Savills Valuation and Professional Services Limited**

**Paul Hung**

*MRICS ASA MAusIMM*

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

#### **SPECIFIC ASSUMPTIONS**

Notwithstanding the incorporation of foreseeable changes in our valuation, a number of specific assumptions have been made in the preparation of the reported assessed figures. The assumptions are:

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

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

### **GENERAL ASSUMPTIONS**

Notwithstanding the incorporation of foreseeable changes in our valuation, a number of general assumptions have been made in the preparation of the reported assessed figures. The assumptions are:

- There will be no major changes in existing political, legal, fiscal or economic conditions in the country or district where the business is in operation or registered;
- There will be no major changes in the current taxation law in the areas in which the Company carries on its business, given that the rate of tax payable remains unchanged and that all applicable laws and regulations will be complied with;
- The inflation, interest and currency exchange rate will not differ materially from those presently prevailing;
- The Company will retain their key management and technical personnel to maintain their ongoing operations;
- There will be no major business disruptions through international crisis, diseases, industrial disputes, industrial accidents or severe weather conditions that will affect the existing business;
- The Company will remain free from claims and litigations against the business or its customers that will have a material impact on value;
- The business is unaffected by any statutory notice and the operation of the business gives, or will give, no rise to a contravention of any statutory requirements;
- The business of the Company is not subject to any unusual or onerous restrictions or encumbrances; and
- The potential bad debt (if any) of the recoverable amount will not materially affect the business operations.

**LIMITING CONDITIONS**

We have to a considerable extent relied on the financial data and other related information provided by the Company. We are not in a position to comment on the lawfulness of the business.

We have been provided with the extracts from the copy of relevant documents relating to the Company's assets. However, we have not searched the original documents to verify the existence of any amendments, which possibly do not appear on the documents available to us. We are not in the position to give advice on the ownership of the Asset, and this issue should be within the scope of work of the Company's legal adviser. During our valuation, we assumed that the Asset can be traded in the market freely, and there's no need to pay additional taxes or other fees.

We have had no reason to doubt the truth and accuracy of the information provided to us by you. We have also been informed by you that no material factors have been omitted from the information supplied.

In accordance with our valuation standards, we state that this report is confidential and is only for the use of the party to whom it is addressed, and no responsibility is accepted to any third party for the reliance of the whole or any part of its contents.

Neither any part of this report and valuation, nor any reference thereto may be included in any documents or statements without our written approval.

**MATTERS CONFIRMED BY THE MANAGEMENT**

Drafts of this report and our calculation have been presented to the management of the Company, which has reviewed and orally confirmed to us that this report and factors included in the calculation are accurate in all material aspects and to the best of their knowledge there is no material matter regarding our engagement that have not been included.

**SUBSEQUENT EVENTS STATEMENT**

This report has taken into account all the factors that, as the Company considered, may affect the valuation on the Valuation Date. No legal responsibility is taken for changes in market conditions and no obligation is assumed to revise this report to reflect events or changes in government policy or financial condition or other conditions, which occur subsequent to the Valuation Date.