FERROWEST LIMITED

ACN 074 009 091

# NOTICE OF GENERAL MEETING

# AND

# EXPLANATORY STATEMENT

Date of Meeting: **30 November 2015**

Time of Meeting: **09:30 (WST)**

Place of Meeting: **Level 1, 914 Hay Street**
Perth, Western Australia

# NOTICE OF GENERAL MEETING
## AND
# EXPLANATORY STATEMENT

FERROWEST
ACN 074 009 091

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| Date of Meeting: | **30 November 2015** |
| Time of Meeting: | **09:30AM (WST)** |
| Place of Meeting: | **Level 1, 914 Hay Street, PERTH, WA** |

Notice is hereby given that a General Meeting of shareholders of Ferrowest Limited ("the Company") will be held on **Monday 30 November 2015** at **09:30AM (WST),** at Level 1, 914 Hay Street, Perth, Western Australia ("the Meeting").

The Explanatory Statement to this Notice provides additional information on matters to be considered at the Meeting. The Explanatory Statement, the Proxy Form and the Detailed Directors' Report all form part of this Notice.

The Directors have determined pursuant to regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the Meeting are those who are registered as Shareholders on 28 November 2015 at 5:00PM (WST). The following agenda items to be considered at the Meeting are discussed in the Explanatory Statement to shareholders included in this Notice.

**SPECIAL BUSINESS**

**To consider and, if thought fit, pass the following as an Ordinary Resolution:**

**RESOLUTION 1 – CHANGE IN THE NATURE AND SCOPE OF THE COMPANY'S ACTIVITIES**

*"That, subject to approval by shareholders of resolutions 3 to 7 inclusive in this Notice, for the purposes of ASX Listing Rule 11.1.2 and for all other purposes, approval is given for a change in the nature and scale of the Company's activities by:*

*(a) ceasing all current and future mineral exploration activities and divesting mineral tenement assets;*

*(b) commencing property and infrastructure development activities overseas and in Australia, including acquiring a 51% interest in the Zigong Guodun Farmers Market project and pursuing its development; and*

*(c) applying to the ASX for re-quotation of the Company's shares, at the appropriate time, when all ASX Listing Rule requirements have been met or are being otherwise addressed,*

*on the terms and conditions as set out in the Explanatory Statement."*

*Voting Exclusion Statement:*
*The Company will disregard any votes cast on this resolution by any person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the resolution is passed, and any associate of them. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.*

**To consider and, if thought fit, pass the following as a Special Resolution:**

**RESOLUTION 2 – CHANGE OF COMPANY NAME**

*"That, subject to approval by shareholders of Resolution 1 and Resolutions 3 to 7 inclusive in this Notice, the Company change its name to: "**Living Cities Development Group Limited**".*

**To consider and, if thought fit, pass the following Resolutions as Ordinary Resolutions:**

**RESOLUTION 3 – CONSOLIDATION OF CAPITAL**

*"That, for the purposes of section 254H of the Corporations Act, Listing Rule 2.1 condition 2, the Constitution and for all other purposes, approval is given for the consolidation of the Company's issued capital on the basis of every 40 Shares being consolidated into 1 Share, with the Record Date for the consolidation being 5 Business Days after the date of the General Meeting at which this Resolution is passed, and where this consolidation results in a fraction of a Share being held by a Shareholder, the Directors be authorised to round that fraction up to the nearest whole Share."*

**RESOLUTION 4 – CAPITAL RAISING PURSUANT TO A PROSPECTUS**

*"That, subject to approval by shareholders of Resolutions 1, 3 and 5 to 7 inclusive in this Notice, for the purposes of Listing Rule 7.1 and all other purposes, approval is given for the Directors to issue up to 15,000,000 Post Consolidation Shares ("Capital Raising Shares") at an issue price of A$0.20 per Share in a public offer, which shall include a priority entitlement offer component for Eligible Shareholders, on the terms and conditions specified in the Explanatory Statement to this Notice, in order to raise up to A$3,000,000."*

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| *Voting Exclusion Statement:*<br>*The Company will disregard any votes cast on this resolution by any person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the resolution is passed and their associates. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.* |

**RESOLUTION 5 – ISSUE OF SHARES TO RETIRE DEBT**

*"That, subject to approval by shareholders of Resolutions 1, 3, 4, 6 and 7 in this Notice, for the purposes of ASX Listing Rule 10.11 and Item 7 of Section 611 of the Corporations Act and for all other purposes, approval is given for:*

*(a) the Company to issue up to 9,750,000 Post Consolidation Shares ("Debt Shares") at an issue price of A$0.20 per Share to Yaopeng International Trade Pty Ltd or its nominee in satisfaction of up to A$1,950,000 in monies owed by the Company to Yaopeng International Trade Pty Ltd; and further*

*(b) that approval is given for the acquisition of a relevant interest in these Post Consolidation Shares by Yaopeng International Trade Pty Ltd or its nominee arising from the issue of the Post Consolidation Shares in excess of the threshold prescribed by Section 606(1)(c) of the Corporations Act,*

*all on the terms and conditions set out in the Explanatory Statement accompanying this Notice of General Meeting and otherwise on the basis set out therein."*

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| *Voting Exclusion Statement:*<br>*The Company will disregard any votes cast on this resolution by Yaopeng, TFA, and their nominees, and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the resolution is passed, and any associate of them. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.* |

**RESOLUTION 6 – PLACEMENT OF SHARES TO YAOPENG INTERNATIONAL TRADE PTY LTD**

*"That, subject to approval by shareholders of Resolutions 1, 3 to 5 inclusive and 7 in this Notice, for the purposes of ASX Listing Rule 10.11 and Item 7 of Section 611 of the Corporations Act and for all other purposes, approval is given for:*

*(a) the Company to issue up to 12,500,000 Post Consolidation Shares at an issue price of $0.20 per Share cash to Yaopeng International Trade Pty Ltd or its nominee to raise up to A$2,500,000; and further*

*(b) that approval is given for the acquisition of a relevant interest in these Post Consolidation Shares by Yaopeng International Trade Pty Ltd or its nominee arising from the issue of the Post Consolidation Shares in excess of the threshold prescribed by Section 606(1)(c) of the Corporations Act,*

*all on the terms and conditions set out in the Explanatory Statement accompanying this Notice of General Meeting and otherwise on the basis set out therein."*

*Voting Exclusion Statement:*
*The Company will disregard any votes cast on this resolution by Yaopeng, TFA, and their nominees, and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the resolution is passed, and any associate of them. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.*

**To consider and, if thought fit, pass the following as an Ordinary Resolution:**

**RESOLUTION 7 – APPROVAL FOR YAOPENG INTERNATIONAL TRADE PTY LTD TO PARTIALLY UNDERWRITE THE CAPITAL RAISING**

*"That, subject to approval by shareholders of Resolutions 1 and 3 to 6 inclusive in this Notice, for the purposes of ASX Listing Rule 10.11 and Item 7 of Section 611 of the Corporations Act and for all other purposes, approval is given for:*

*(a) the Company to issue up to 2,500,000 Post Consolidation Shares at an issue price of A$0.20 per Share to Yaopeng International Trade Pty Ltd or its nominee in compliance with underwriting obligations in the event that there is a shortfall in the application for shares under the Capital Raising; and further*

*(b) that approval is given for the acquisition of a relevant interest in these Post Consolidation Shares by Yaopeng International Trade Pty Ltd or its nominee arising from the issue of the Post Consolidation Shares in excess of the threshold prescribed by Section 606(1)(c) of the Corporations Act,*

*all on the terms and conditions set out in the Explanatory Statement accompanying this Notice of General Meeting and otherwise on the basis set out therein."*

*Voting Exclusion Statement:*
*The Company will disregard any votes cast on this resolution by Yaopeng, TFA, and their nominees, and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the resolution is passed, and any associate of them. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.*

**RESOLUTION 8 – AUTHORITY TO ISSUE ADVISOR SHARES**

*"That, subject to approval by shareholders of Resolutions 1 and 3 to 7 inclusive in this Notice, for the purposes of Listing Rule 7.1 and all other purposes, approval is given for the Directors to issue up to 750,000 Post Consolidation Shares ("Advisor Shares") to Advisors to the Company on the terms and conditions specified in the Explanatory Statement to this Notice."*

*Voting Exclusion Statement:*
*The Company will disregard any votes cast on this resolution by any person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the resolution is passed and their associates. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.*

Proxy and Voting Entitlement Instructions are included on the Proxy Form accompanying this Notice.

Dated at Perth this 21st day of October 2015

By order of the Board of Directors

Brett Manning
Managing Director

# EXPLANATORY STATEMENT

## 1. INTRODUCTION

This Explanatory Statement and the accompanying documents that form the Notice are intended to provide Shareholders with sufficient information to assess the merits of the Resolutions contained in the accompanying Notice of General Meeting for the Company.

The Directors recommend that shareholders read this Explanatory Statement in full before making any decision in relation to the Resolutions before the members.

Collectively, the Resolutions included in the Notice form a proposal ("the Proposal").

If approved by Shareholders, the Proposal will result in a change of control of the Company. Therefore, forming part of this Explanatory Statement is a Detailed Directors' Report ("the Report") providing information on this matter.

*The Report finds the Proposal to be **Fair** and **Reasonable** to Non-Associated Shareholders of the Company.*

The Proposal also includes a change of the main business of the Company to property and infrastructure development. Also forming part of this Explanatory Statement is an Independent Technical Specialist Report ("the ITSR"), at Annexure A to this Explanatory Statement, covering the first proposed new property development project, the Zigong Guodun Farmers Market ("the Project"), which the Company would be pursue if the Proposal is adopted.

The Report and the ISTR have both been prepared for Shareholders to assist them in consideration of the Proposal and the Resolutions contained in the Notice. The Directors recommend that Shareholders also read the Report and ITSR in full before making any decision on relation to the Resolutions before the members.

Shareholders should note that the Directors approved the proposal to put the Resolutions to Shareholders, as outlined in the Notice of General Meeting and to prepare this Explanatory Statement.

## 2. DEFINITIONS USED IN THIS STATEMENT

**A$** means Australian Dollars, the official currency of the Commonwealth of Australia

**Act** or **Corporations Act** means the *Commonwealth Corporations Act 2001* as amended from time to time.

**Advisor** means a party, other than a related party of the Company, that holds an Australian Financial Services License and is engaged by the Company to assist in the Capital Raising.

**Advisor Shares** means Post Consolidation Shares proposed to be issued pursuant to an approval granted under Resolution 8.

**ASIC** means the Australian Securities Commission.

**Associate** means the applicable corresponding meaning given in the Act.

**ASX** means ASX Limited or the financial market operated by ASX Limited, as the context requires.

**Board** means the board of Directors of the Company.

**Capital Raising** means a public offer of Post Consolidation Shares pursuant to the Prospectus, as anticipated in the Proposal, with the proposed Shares to be issued pursuant to an approval granted under Resolution 4.

**Company** means ***Ferrowest Limited (ACN 074 009 091)***.

**Constitution** means the authorised Constitution of the Company, as amended from time to time.

**Convertible Notes** means the convertible notes of the Company issued pursuant to the Short Form Prospectus lodged with ASIC on 29 October 2013.

**CNY** means Chinese Yuan, the official currency of China.

**Debt Shares** means Post Consolidation Shares proposed to be issued pursuant to an approval granted under Resolution 5.

**Detailed Directors' Report** means the report so named which forms part of the Notice.

**Director** means a director of the Company as at the date of the Notice.

**Eligible Shareholder** means, on the relevant record date, the holders of ordinary Post Consolidation Shares as entered in the Company's share register with an address in Australia or New Zealand but specifically excluding any related party of the Company, including but not limited to, TFA and Yaopeng.

**Explanatory Statement** means this explanatory statement to the Notice.

**FIRB** means the Australian Commonwealth Government Foreign Investment Review Board.

**Funding Agreement** means the funding agreement between the Company and TFA dated 30 April 2014.

**Independent Technical Specialist Report** or **ITSR** means the report so named at Annexure A, on subject of the Project, which report forms part of the Notice.

**Listing Rules** or **LR** means the official listing rules of ASX as amended from time to time.

**Meeting** or **General Meeting** means the meeting convened by the Notice.

**Non-Associated Director** means a Director who is not a related party of Yaopeng, TFA and/or the Proposal.

**Non-Associated Shareholders** means a Shareholder other than Yaopeng, TFA or a related party or associate of those parties.

**Notice** or **Notice of General Meeting** means the notice of meeting accompanying this Explanatory Statement and includes the Report.

**Person** in this Explanatory Statement means a natural person, company, trust or other entity that can validly hold securities in Australia.

**Post Consolidation Share** means a fully paid ordinary share in the capital of the Company **after** implementation of the consolidation of capital contemplated in Resolution 3, if approved by Shareholders.

**Priority Entitlement Offer** means a priority offer to issue up to 7,500,000 of the 15,000,000 Capital Raising Post Consolidation Shares to Eligible Shareholders, under the terms and conditions of the Prospectus.

**Proposal** means the proposal to reconstruct the business of the Company through the approval and implementation of the Resolutions specified in the Notice.

**Project** means the proposed Zigong Guodun Farmers Market property development project.

**Prospectus** means a prospectus to be lodged with ASIC for the offer of: the Capital Raising (including the Priority Entitlement Offer and Shortfall Offer); the Debt Shares; the Yaopeng Placement Shares and the Advisor Shares.

**Record Date** means, in respect of a corporate action by the Company, the date used to determine the Shareholdings of Shareholder's in the Company's Share register for the purposes of calculating the result of the corporate action.

**Report** means the Detailed Directors' Report that forms part of the Notice.

**Resolution** means a shareholder resolution contained in the Notice.

**Share** means an ordinary fully paid share of the Company (prior to or post consolidation as the context requires).

**Shareholder** means a holder of fully paid ordinary Shares in the capital of the Company that is eligible to vote at the General Meeting.

**Shortfall Offer** means the offer of Shortfall Shares under the terms of the Prospectus.

**Shortfall Shares** means in respect of the Capital Raising Shares, Shares not applied for and issued under the Capital Raising (including the Priority Entitlement Offer), which are Shares otherwise available for issue under the terms of the Shortfall Offer.

**SFP** means Sichuan Fuchuang Property Co., Ltd. of Sichuan Province in China.

**Substantial Shareholder** means a Shareholder whose total number of Shares (including all Shares over which they have a relevant interest in accordance with Section 608 and 609 of the Act) is 5% or more of the total number of Shares on issue (i.e. 5% of the voting power).

**Underwriter** means, in relation to the Capital Raising, a party contractually bound to the Company, to subscribe for a prescribed number of Shortfall Shares, subject to certain conditions, in the event that the Shares are not otherwise issued under the Capital Raising.

**TFA** means *TFA International Pty. Ltd. (ACN: 143 155 560)*, including any related party or associates of it.

**Yaopeng** means *Yaopeng International Trade Pty. Ltd. (ACN: 606 057 425)*, including any related party or associates of it.

**Yaopeng Placement Shares** means Post Consolidation Shares proposed to be issued pursuant to an approval granted under Resolution 6.

**Zigong Guodun Farmers Market** means the proposed property development project of that name located in Zigong, Sichuan Province, China.

***An exchange rate of 4.5313 CNY to 1.0000 A$ is used throughout this Notice.***

## 3. THE RECONSTRUCTION PROPOSAL

### *3.1 Background*

All eight of the Resolutions that are to be put to Shareholders at the General Meeting form part of a reconstruction proposal ("the Proposal") that was suggested by the Company's only Substantial Shareholder, TFA International Pty Ltd ("TFA"). TFA currently holds 29.17% of the capital of the Company. TFA has also supported the Company through a series of loans over the last two years which cumulatively amount to a repayment obligation of around A$1.4 million dollars.

Since the Global Financial Crisis in 2008, the Company has found it difficult to progress its mineral projects at the pace it would have planned, due almost entirely to a lack of available funding. While some funds have been raised and works completed, the poor market conditions saw the Company enter the Funding Agreement with TFA in April 2014 in the hope of putting the Company on a better footing to progress its projects on a more sustainable basis. Unfortunately, from the middle of 2014 iron ore prices began to tumble, falling more than 50% by early 2015.

With both of its primary projects in iron ore, the Company, like its junior iron ore peers, faced a sustained bleak outlook for iron ore project development and no opportunity to either raise further capital or to joint venture or otherwise continue to fully pursue it projects.

In December 2014, the Company received an offer to sell the Yogi Mine Project to a third party for $750,000. While this represented a major loss for the Company, it was decided to recommend the sale to Shareholders because the Company was unable to meet the holding costs of the Yogi Mine Project (and would therefore lose the asset over time) and because the Board believed that the iron ore price would remain low, as the major iron ore suppliers sought to secure market share by flooding the iron ore market with supply.

It was also believed that when the iron ore price did increase, it would still be some significant time before a junior explorer, such as the Company, could secure the renewed confidence of investors in order to raise adequate funds to advance the Yogi Mine Project.

Early in 2015, Shareholders agreed to sell the Yogi Mine Project for $750,000. The Company intended to use the proceeds from this sale to retire some of its debts and to secure new mineral projects that were more advanced in nature and more readily able to move toward an early cashflow, thus providing the Company some sustainable funding that would be less dependent on market conditions.

Unfortunately in April 2015, after more than a month of unexpected delays, the buyer of the Yogi Mine Project defaulted on settling the sale.

At that point, the Company had no cash reserves and without the sale proceeds, could not retire debts or secure new mineral project interests. The Board urgently set about exploring for alternatives that would:

- Allow the Company to continue as a going concern;
- Secure time to identify a new buyer for the Yogi Mine Project; and
- Secure a new business model that could allow the Company to regrow Shareholder value.

Finding a suitable alternative proved extremely difficult in the currently depressed resources market (particularly for iron ore related companies). The problem was exacerbated by the debt owed to TFA and some general creditors, including some of the Directors. This debt made the Company less attractive for mergers or other reconstruction proposals and no realistic opportunities could be identified.

### *3.2 The Proposal*

TFA, with significant debt and equity exposure to the position of the Company, again offered to assist. In this regard, TFA was uniquely positioned to offer a reconstruction proposal because it could deal with its debt owed by the Company as part of the proposal and, hopefully together with the sale of the Yogi Mine Project in due course, the debts of the Company could be cleared. This made any proposal by TFA significantly superior to any alternative available to the Board at the time. It provided the opportunity for the reconstruction to set up the Company with no material debt and in a recapitalised condition that would benefit shareholders greatly in comparison to other possible outcomes.

The TFA Proposal is premised on the following key points:

1. TFA would loan further funds to the Company to ensure that it could remain a going concern and to allow time for both the consideration of the reconstruction Proposal and for the sale of the Yogi Mine Project;
2. TFA believed that the Company should change its main business activity from 'mineral exploration' to 'property and infrastructure development'. In TFA's view, this was essential to get away from reliance on an industry that is currently performing poorly and to move toward one where (if properly targeted) good growth potential currently exists and where projects can be brought to profitable stages in much shorter time frames than is typical in the mineral exploration industry. TFA proposes focusing on the development of commercial (retail and office) and high density residential space by initially targeting key development areas in inland China, where there is strong Government support for urbanisation. TFA believes that, with its assistance, the Company can successfully enter into property and infrastructure development in China. In time, with successful projects complete, the Company would aim to also enter property and infrastructure development projects in Australia; and
3. Provided that Shareholders support the change of business, TFA was prepared to support the reconstruction by:
    a. Converting its debt to equity (A$1.95M by completion of the reconstruction) at the same price as Shareholders would be offered under a Capital Raising completed concurrently to re-capitalise the Company (Resolution 5);
    b. Organising a substantial placement of equity (A$2.5M) to help with the re-capitalisation process for the Company (Resolution 6);
    c. Proposing a public Capital Raising of up to A$3M, which would include a Priority Entitlement Offer for existing Eligible Shareholders (Resolution 4); and
    d. If required, organize the partially underwriting (A$500,000) of the proposed Capital Raising in order to increase its chances of a successful outcome (Resolution 7).

To facilitate the reconstruction process under the Proposal, the Company would:

(a) Change the nature and scope of the Company's activities to property and infrastructure development (Resolution 1);

(b) Change the Company's name to "***Living Cities Development Group Limited***" (Resolution 2); and

(c) Consolidate the capital of the Company on a 1 for 40 basis (Resolution 3).

The Directors' agreed to consider the Proposal and determine if it was feasible to put it to Shareholders for consideration. TFA provided further loan funding while this evaluation was carried out and TFA and the Company refined the Proposal, culminating in it being put before Shareholders in this Notice of Meeting.

The Proposal, if approved by Shareholders and successfully implemented, will have a significant impact on the Company, its financial position and its operations. These changes are described here in detail in this Explanatory Statement and Shareholders are encouraged to read it in its entirety. However, the following table provides a simplified overview of the impact of the Proposal on the financial position of the Company and is provided to assist Shareholders in understanding the Proposal. A Consolidated Proforma Statement of Financial Position is provided at Section 3.27.

| SIMPLIFIED EFFECT OF THE PROPOSAL | Assets | Liabilities | Issued Capital | Accumulated Losses |
|---|---|---|---|---|
| **Pre Proposal - 30 June 2015** | **975,000** | **2,530,000** | **19,700,000** | **21,255,000** |
| Resolution 4 Public Raising | 3,000,000 | - | 3,000,000 | - |
| Resolution 5 Share to Retire Debt | - | (1,950,000) | 1,950,000 | - |
| Resolution 6 Yaopeng Placement | 2,500,000 | - | 2,500,000 | - |
| Pay for 51% of Fuchuang Property and Receivable | (2,050,000) | - | - | - |
| - Acquire 51% of Fuchuang Property Shares | 990,000 | - | - | - |
| - Acquire receivable from Fuchuang Properties | 1,060,000 | - | - | - |
| Option fee paid on Fuchuang Property purchase | (60,000) | - | - | 60,000 |
| Funds loaned during Proposal implementation | 505,000 | 505,000 | - | - |
| Operating and Proposal costs expended | (505,000) | - | - | 505,000 |
| Repay existing creditors with cash | (1,085,000) | (1,085,000) | - | - |
| Initial Project development commitments | (550,000) | - | - | - |
| - Money invested in development | 550,000 | - | - | - |
| **Post Proposal** | **5,330,000** | **-** | **27,150,000** | **21,820,000** |

*Table 1: Simplified effect of the Proposal on the finances of the Company on an unconsolidated basis*

Notes: 1. Amounts in Table 1 are rounded to the nearest A$5,000
2. Table 1 is not intended to comply with Accounting Standards and is for information purposes only
3. Table 1 is in Australian dollars.

### *3.3 TFA and Yaopeng*

TFA identified an investor, Yaopeng International Trade Pty Ltd ("Yaopeng") to undertake the further financial investments required under the Proposal. Yaopeng is the Australian subsidiary of Chengdu Yaopeng Electrics and Machinery Trading Co., Ltd of Sichuan Province in China. Yaopeng has agreed to participate in the Proposal and has separately acquired the debt owed by the Company to TFA (meaning this debt is now owed to Yaopeng). Yaopeng has also agreed to take over the provision of loan funding to meet the Company's operating requirements until the restructure is determined, and if approved, implemented. Both the debt acquired from TFA and further funds to be loaned by Yaopeng to the Company during the balance of the reconstruction process, would be converted to equity (Resolution 5) under the Proposal at the same Share price as for Shares under the Capital Raising and Priority Entitlement Offer for existing Eligible Shareholders.

While Yaopeng and TFA share no common shareholder or directors, for the purposes of the Proposal, the Company assumes that they are working in concert and as such treats them as related parties of each other and of the Company. They are therefore referred to collectively in this Explanatory Statement as Yaopeng and treated as a single entity for the purposes of Section 606(1) of the Act. While TFA will not receive any new shares under the Proposal, wherever the voting power of Yaopeng is considered in this Notice, it will be aggregated with the voting power of TFA (currently 29.17%).

As a result of Yaopeng's support for the reconstruction Proposal in both debt conversion (Resolution 5) and equity placements (Resolutions 6 and 7), its voting power in the Company would increase from the 29.17% held by TFA pre-Proposal to a combined Yaopeng/TFA minimum of 54.8% post-Proposal. It could also increase up to as much as 61.6% in circumstances that:

(a) require Yaopeng to meet the entire partial underwriting commitment (pursuant to Resolution 7) due to an unsubscribed shortfall in the Capital Raising; and

(b) only the minimum subscription level for the Capital Raising (planned to be A$2.85M) is achieved.

In either case, Yaopeng would have a controlling interest in the Company if Shareholders support the reconstruction Proposal and it is successfully implemented. The Directors of the Company, who do not have an association with Yaopeng, have prepared the Detailed Directors' Report that forms part of the Notice. The Report addresses whether the Proposal is fair and reasonable to the Non-Associated Shareholders of the Company.

### *3.4 Timetable for the Issue of new Post Consolidation Shares*

The new Post Consolidation Shares to be issued under resolutions 4 to 8 inclusive, will all be issued on the same date, coincident with securing legal ownership of the first new development Project interest under the new business plan. This will occur soon after the successful completion of the Capital Raising and satisfaction of all conditions required for the issue of Shares under the Prospectus, including but not limited to, the requirements for re-quotation of the Company's Shares on the ASX. If the conditions are not met, then no Shares will be issued and the Proposal will not be implemented.

All Post Consolidation Shares to be issued under Resolutions 4 to 8, will be issued under offers contained in, and subject to the terms of, the Prospectus.

Set out in the table below is the anticipated timing for completion of the Proposal if it is adopted by Shareholders at the General Meeting. These dates are indicative only and remain subject at all times to all regulatory requirements. These dates may be varied by the Directors without notice.

| Event | Date |
|---|---|
| Notice of Meeting sent to Shareholders | 26 October 2015 |
| General Meeting of Shareholders | 30 November 2015 |
| Capital Consolidation | 7 December 2015 |
| Record Date for Priority Entitlement Offer | 7 December 2015 |
| Lodgment of the Prospectus with ASIC | 8 December 2015 |
| Prospectus Offer Opens | 15 December 2015 |
| Prospectus Offer Closes | 21 January 2016 |
| Secure legal ownership of 51% of the SFP shares | 27 January 2016 |
| Issue of Post Consolidation Shares | 27 January 2016 |
| Commencement of trading of Shares on ASX<br>(Subject to satisfaction of all conditions for re-compliance with Chapters 1 and 2 of the ASX Listing Rules) | To be determined* |

** Determined by ASX – May be any date after 27 January 2016*

Provided that the main issue of new Post Consolidation Shares has been completed, the Directors reserve the right to place any Shortfall Shares in accordance with the terms of the Prospectus and Listing Rules up to 3 months after the close of the Public Offer or such other later date that the ASX may approve within 12 months of the date of the Prospectus.

**Important Information**

It should be noted that for this Proposal to be successful, the Company will have to complete the proposed Capital Raising successfully and also re-comply with Chapters 1 and 2 of the ASX Listing Rules in order for the Shares of the Company to be re-quoted on the ASX.

If the Proposal to change the business of the Company is accepted by Shareholders (represented by the Resolutions in this Notice), the Company's Shares will have to remain suspended unless and until the Proposal is successfully completed and the Company qualifies for re-quotation of its Shares.

If the Company adopts the Proposal but then fails to successfully complete the Proposal's implementation, such that it cannot meet the ASX requirements for re-quotation, then:

- the Company's Shares would not be re-quoted;
- the proposed Share issues under the Proposal would not proceed; and
- the funds raised from the Capital Raising would be returned to Shareholders and investors.

Risks associated with the implementation of the Proposal are discussed in Section 3.28.1

### 3.5 *Property Development Strategy*

Shareholders had previously approved the acquisition of an approximate 20% stake in a property development in Hubei Province in China but the acquisition had not completed at the time the Proposal was put to the Company because requirements necessary for the Chinese government approvals were still pending. However, under the Proposal, this acquisition would not proceed. This is because the purpose of that acquisition, at the time it was originally approved, was to generate a small sustaining cashflow to augment mineral exploration funding. However it is not an investment that is suitable as the Company's main business undertaking because it is a small non-controlling stake in a large, long term project.

The preferred initial property development projects for the Company to undertake, if the Proposal is adopted, are likely to have the following characteristics:

- Projects of a scale that the Company can secure a controlling interest, as a minimum;
- Relatively short construction timeframes of around 18 months;
- Projects that meet community needs in apartments, retail space, office space and/or infrastructure;
- Inland projects in China where urbanisation is more strongly supported by the Government; and
- Projects in areas where there is already existing demand and Government development planning.

The longer term plan would be to move into property development in Australia once the Company has established a successful track record in China.

Other changes to the Company would also occur under the Proposal, including the new name proposed in the Notice and changes to the composition of the Board. The latter is in order to better match the Directors skills to those required to meet the Company's new business objectives if the Proposal is adopted.

### 3.6 *Zigong Guodun Farmers Market*

As a first project under the new business in property and infrastructure development, the Company has identified a property development project in the City of Zigong in Sichuan Province in China called the ***Zigong Guodun Farmers Market*** ("the Project"). The Project envisages the construction of a proposed 5 storey commercial property (shopping centre) on a 9,057m$^2$ site in an area already undergoing urbanisation.

The Company has secured an option to purchase a 51% interest in the private company which owns the Project, subject to Shareholder approval and successful implementation of the Proposal, and the business model is to develop the Project and sell the commercial floor space for a profit as the construction is completed. The sale proceeds would then be applied to acquiring the next project for development and the process repeated, with the aim of growing the extent and scale of the property development business over time.

The Company expects to be able to repatriate profits from China as required once the Chinese Government taxes are paid and the processes for foreign owned companies moving funds in and out of China are clearly defined. The Company will be obtaining an independent Chinese solicitor's report for the Prospectus which will look specifically at the repatriation of profits from China and the ownership of the 51% of shares in the private company which the Company will be acquiring in order to secure a controlling interest in the Project. The Company is currently satisfied with its own investigations of these matters to date and is not aware of any issues. Similar investigations have been completed and reported in the ITSR at Annex A of this Explanatory Statement. However, Shareholders should be aware that there exists a risk that the independent Chinese solicitor's report in the Prospectus may identify issues about which the Company is currently unaware and which could negatively impact the future prospects of the Company and its proposed new business.

There are two new cities in the vicinity of the Project, being Yantan New District in which the Project is located and the adjacent Nanhu District. The population of Yantan New District is currently around 30,000 people with around 3Km$^2$ out of an eventual 5Km$^2$ developed to date[1]. A population of 57,000 is expected to be living in Yantan New District in the next three years[2]. The Project is also located 7.9Km from Wuxing Avenue, the old commercial centre of Zigong City and 5Km from the current city centre.

The centre of Nanhu District is 2.7Km from the Project. Nanhu District is planned to be the new centre of Zigong City and covers an 8.2Km$^2$ area. The planned population is around 75,000 in the next three years but may already be well on the way to achieving this target with 24,600 dwellings (units) already occupied[3].

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[1] Official website of the Yantan and Longhu New City Government

[2] Yantan New District Government Information Brochure

[3] Housing Administration Bureau of Zigong

The Yantan New District has 'high-end' residential developments nearby to the Project, creating a good market for potential buyers of the commercial space in the development.

There are five main approvals required from Government for developments like the Project in China.

These are:

1. Record Notice of Enterprise Investment Project (a project registration and establishment approval);
2. Project Schematic Design Approval (detailed design approval);
3. Land Use Planning Permit;
4. Construction Engineering Planning Permit; and
5. Construction Permit.

The first of these approvals is already completed. The second approval is a development approval. This is the most complex approval and is applied for after the detailed design is complete. This looks at all the environmental and regulatory matters and like in Australia, these approvals can take varying amounts of time to secure. SFP will start on the detailed design work leading to an application for the Project Schematic Design Approval as soon as the implementation of the Proposal is complete.

There are currently no known impediments that should unnecessarily delay or prevent the approval for the Project being achieved. The Project site is already cleared, zoned and serviced with infrastructure. The scope and nature of the Project is already approved. It is not unusual for applications for the second and forth approvals listed above to require amendment and re-submission in much the same way as local council building approvals in Australia can sometimes require more than one iteration of lodgement before approval is received. As with construction in Australia, there are other minor approvals for different aspects of the Project but they will be handled in the normal course of business.

However, if one of these approvals is delayed or rejected for any reason, this could negatively impact the prospects of the Project and the Company. Please refer to Section 3.28.2 of this Explanatory Statement for more detail on some of the relevant business risks associated with the Project and the new business plan.

Construction of the Project is expected to take around 18 months to complete. The construction of nearby multi-storey apartment buildings is already well advanced and they will start to be occupied next year (2016). Infrastructure to the surrounding area is in place and there are nearby education, health care and recreational facilities.

The foot print of the shopping centre itself will be approximately 3,600$m^2$. The first, third and fourth floors will be commercial space totalling about 7,900$m^2$. The second floor will be a 4,100$m^2$ farmer's market area. The fifth floor will have 218$m^2$ of office space. This project meets the criteria laid down by the Company above.

The Company has commissioned China United Asset Appraisal Group (Australia) to provide an Independent Technical Specialist Report ("ITSR") on the Zigong Guodun Farmers Market project and this ITSR forms part of the Notice at Annexure A to this Explanatory Statement. Shareholders are encouraged to read the ITSR in full.

### *3.7 Acquisition of the Project Interest*

The Project is wholly owned by the private Chinese company Sichuan Fuchuang Property Co., Ltd. ("SFP"). SFP holds the 40 year 'Land Use Right' to the Project site (which expires 3 June 2053) and various initial Government approvals for the Project. No detailed design or site construction works have commenced at this stage. As discussed above, further Government approvals will be needed after the detailed design phase and before construction can begin.

The Company has entered into option agreements ("the Options") with the two current shareholders of SFP to acquire a total 51% share interest in SFP. These Options are conditional only on shareholder approval of the Proposal and its successful implementation, including re-compliance with the ASX Listing Rule requirements for the re-quotation of the Company's Shares on the ASX. The acquisition will buy out one of the shareholders of SFP completely and leave the other, an individual called Mr. Jingda Song, with 49%.

TFA assisted the Company to locate the Project but neither of the current shareholders of SFP, Mr. Huiming Feng or Mr. Jindra Song, or SFP itself are related parties of either TFA or Yaopeng. The negotiation and agreement of the Option has been a normal arms-length commercial transaction between the Company and the two shareholders of SFP.

The total acquisition price for the 51% interest in SFP is 9.28 million CNY (A$2,047,977*). The contractual arrangements for the Option are detailed in Section 3.10.4C of this Explanatory Statement.

***[* Note: An exchange rate of 4.5313 CNY to 1.0000 A$ is used throughout this Notice.]***

The Company will secure the unconditional legal ownership of the 51% share interest in SFP coincident with the issue of the Post Consolidation Shares upon successful completion of the Proposal.

The business objectives of the Company following the successful completion of the Proposal would be for SFP to commence development of the Project. Initially, this will involve detailed design works, establishing construction contracts with professional local contractors and securing the remaining Government approvals necessary for construction to commence. The total capital cost of the Project is expected to be in the order of A$20M but an exact estimate will only be available after the detailed design phase is completed.

The business model is that SFP would sell most or all of the retail space constructed, from which it will derive profits for its shareholders, including the Company.

### *3.8 About SFP*

The following background information on SFP is based on the unaudited 30 June 2015 management accounts of SFP (See Section 14.4 of the ITSR for the unaudited Statement of Financial Position). The 30 June 2015 accounts of SFP will have been audited by an external auditor before the Prospectus is finalised.

The primary asset of SFP is the land (a 40 year land use right in China) for the Project, together with the associated Government approvals and preliminary Project conceptual work completed to date. The carrying value of the land in the SFP accounts is A$6,359,056. This represents a 3.6%pa increase in value since the purchase of the land use right from the Chinese Government in 2011.

The land is security with Harbin Bank Co., Ltd in China for a 12,000,000 CNY (A$2,648,247) loan borrowed by SFP. This loan is a 12 month rolling facility which needs to be renewed on 8 December 2015. The Company's inquiries suggest that this loan is likely to be renewed for a further 12 months and SFP plans to increase the loan to 18,000,000 CNY (A$3,972,370) to assist with funding early stage development. This increased loan amount is expected to reflect 50% of the land value for borrowing purposes, consistent with the bank's lending criteria. While not considered a likely outcome, if the loan could not be renewed for any reason, then it would have to be otherwise refinanced. If it was not possible to refinance this loan for any reason, there would be a risk that SFP might lose the land and, as a consequence, the Project. This risk should be considered in the context of the risks associated with the implementation of the Proposal, which are further detailed in 3.28.1 of this Explanatory Statement.

The 12,000,000 CNY loan is interest bearing at 7.2% per annum. This rate may change when the loan is renewed in December 2015 but would, in all probability, reduce if it changes at all in the current low interest rate market.

The loan is an interest only loan and it is SFP's current intention to repay the loan from the proceeds of the sale of the completed Project commercial (retail) space at a later date.

SFP also has unsecured, interest free loans owed to its two shareholders of A$1,990,825 in total. Following successful implementation of the Proposal that debt to the shareholders would be:

(a) Owed to Ferrowest Limited: 4,800,000 CNY (A$1,059,299); and
(b) Owed to Jingda Song: 4,221,025 CNY ($931,526).

### *3.9 Planning for Construction Financing*

It is not possible to provide definitive guidance on the construction financing at this time. Upon successful completion of the Proposal, the Company has committed to provide 2,300,000 CNY (A$507,580) to SFP by way of a further unsecured loan, which will be matched by SFP's other shareholder. This combined A$1M will be used by SFP to undertake the following initial development activities:

- A$587,000 on detailed design and final planning approvals;
- A$287,000 on construction site services and foundation works;
- A$84,000 in financing fees; and
- A$42,000 on administration and establishing initial sales capacity.

It is then anticipated that the bank loan increase discussed above in Section 3.8 will provide a further 6,000,000 CNY (A$1,324,000).

The final construction financing component planned by SFP, with the exact amount determined following the detailed design, will be further loan funding of approximately 13,000,000 CNY (A$2,870,000) that will be secured by the other shareholder in SFP. These further funds will likely be in the form of an interest bearing loan at the prevailing interest rate for the type of loan that can be secured. These three sources of funding will total around A$4.7M toward development of the Project.

In Zigong, construction must be completed to 'sea level' (i.e. foundations and basement facilities) before the pre-sale of commercial (retail) space in the Project can commence. Once sea level is reached, all planned commercial space planned to be constructed for the Project may be placed up for sale. Initial payments are deposits but full payments are also usually received before construction is complete. This makes revenue from sales a strong source of funds to meet ongoing construction requirements.

With around a quarter of the construction costs funded as described above, it is usual in China for the sales funding to be able to meet the remainder of the construction costs. However, accurate construction cost estimates and sales cashflow projections can only be prepared after detailed design is complete.

Should construction costs exceed current planning estimates or sales not proceed at the expected rates or for the expected prices, more funding would be required to continue the planned pace of construction. These possible outcomes represent risks to the success of the proposed new business plan and should be considered in the context of the overall risks associated with the new business plan as further detailed at Section 3.28.2 of this Explanatory Statement.

While the Company's initial inquiries into the availability of the further debt requirements discussed above suggest the funding can obtained as currently planned, the Company will secure written undertakings in respect to the amounts, pre-conditions and terms of any debt required to achieve its business objectives prior to finalising the Prospectus.

### *3.10 Operational Management of the Project*

The Company will have a controlling interest in SFP and the business model that it will adopt for SFP is for the construction of the Project to be fully contracted to experienced professional local contractors. SFP would employ a qualified local Chinese Project Manager with experience of similar construction in China to represent SFP on site and in contract negotiations and construction performance monitoring, as well as in liaison with Chinese regulatory authorities. A small SFP office will also be established to support the Project Manager and for other administrative matters. The construction budget includes allowances for this management oversite of the Project and for the establishment of sales facilities and a sales team that would market the sale of the commercial spaces.

Once the Proposal has been implemented and the Company secures unconditional ownership of 51% of SFP, it will work with the minority shareholder in SFP to search for, identify and recruit a suitable Chinese Project Manager. No person has been considered for this position and no further information is available in this regard.

The Company has a subsidiary already established in Chengdu, China called Panaust (Chengdu) International Trade Co., Ltd. ("Panaust"). Panaust will be the vehicle for the Company's activities in China if the Proposal is approved. Pan Aust will hold the shares in SFP. Panaust is not expected to employ any staff in China at this time.

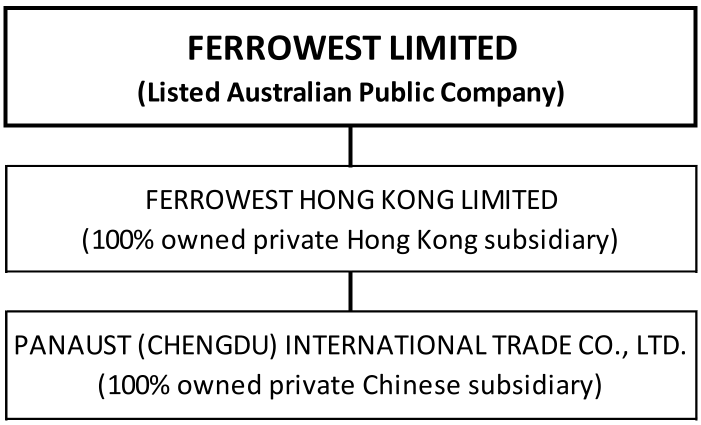



*Diagram 1: Existing Company Structure*

If the Project proceeds as planned, the Company would commence the search for a suitable second project for development in year two following implementation of the Proposal.

It should be noted that the Project is at an early stage and therefore the information currently available remains subject to the detailed design phase and any subsequent Government approvals that may be required. Shareholders should consider the Project risks, some of the more important of which are set out Section 3.28.2 of this Explanatory Statement.

### *3.11 Use of Funds*

The following tables set out the proposed use of the funds raised through the implementation of the Proposal.

| **FULL SUBSCRIPTION** | | **Year 1** | | **Year 2** |
|---|---|---|---|---|
| **Total Funds Raised** | **$** | **5,500,000** | | |
| Utilised as follows: | | | | |
| Acquisition of 51% of SFP Interest* | $ | 2,110,000 | $ | - |
| Pre-construction Design and Approvals | $ | 550,000 | $ | - |
| Admin / Operation of the Company | $ | 670,000 | $ | 670,000 |
| Identification of New Projects | $ | - | $ | 100,000 |
| Repayment of Other Creditors | $ | 1,085,000 | $ | - |
| Expenses associated with the Reconstruction | $ | - | $ | - |
| **Total Funds Utilised** | **$** | **4,415,000** | **$** | **770,000** |
| Balance at the End of the Year | $ | 1,085,000 | $ | 315,000 |

*Table 2: Proposed Use of Funds – Full Subscription*

| **MINIMUM SUBSCRIPTION** | | **Year 1** | | **Year 2** |
|---|---|---|---|---|
| **Total Funds Raised** | **$** | **5,350,000** | | |
| Utilised as follows: | | | | |
| Acquisition of 51% of SFP Interest* | $ | 2,110,000 | $ | - |
| Pre-construction Design and Approvals | $ | 550,000 | $ | - |
| Admin / Operation of the Company | $ | 670,000 | $ | 670,000 |
| Identification of New Projects | $ | - | $ | 100,000 |
| Repayment of Other Creditors | $ | 1,085,000 | $ | - |
| Expenses associated with the Reconstruction | $ | - | $ | - |
| **Total Funds Utilised** | **$** | **4,415,000** | **$** | **770,000** |
| Balance at the End of the Year | $ | 935,000 | $ | 165,000 |

*Table 3: Proposed Use of Funds – Minimum Subscription*

The tables above state the Director's current intention as at the date of this Notice. Shareholders should note that the allocation of funds set out above may change depending on a number of factors such as markets, regulatory changes, operational results, refinement of planning and in response to available business information. Therefore the Board reserves the right to alter the application of the funds in the interests of the prudent management of the Company.

It should be noted that expenses associated with the Proposal are not included in the Use of Funds tables above. This is because Yaopeng is providing the loan funding for the reconstruction which will be converted to equity in accordance with Resolution 5. None of the cash funds raised are expected to be applied to the reconstruction costs. The expenses of the reconstruction are specified in Section 3.25.

While the Directors are satisfied that upon completion of the Capital Raising and associated offers under the proposed Prospectus, the Company would have sufficient working capital to meet its stated objectives as outlined in Sections 3.5 to 3.7 inclusive, shareholders should be aware that there are risks associated with all business operations as outlined in this Explanatory Statement, including but not limited to, section 3.28.2. Should the Company expend its cash reserves faster than anticipated or be unable to access funding sources as planned, this could slow implementation of the business plan, which may ultimately negatively affect the value of the Company's Shares.

The Directors of the Company would consider further equity funding where it is appropriate in the normal course of business to meet the Company's needs but there are no current plans or anticipated need at the date of this Notice.

### *3.12 Certain Resolutions are Contingent on Other Resolutions*

Approval of certain of the Resolutions is conditional on the approval of other Resolutions in the Notice. These interdependencies are to ensure that if Shareholders choose for the Company to undertake the Proposal, that all necessary requirements are approved.

The following table summarises the interdependency of the Resolutions.

| **TABLE 4** | **Other Resolutions which must be passed [X]** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **For approval of the following Resolutions:** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** |
| Resolution 1 – Change of Business | | | X | X | X | X | X | |
| Resolution 2 – Change of Name | X | | X | X | X | X | X | |
| Resolution 3 – Consolidation | | | | | | | | |
| Resolution 4 – Capital Raising | X | | X | | X | X | X | |
| Resolution 5 – Retiring Debt | X | | X | X | | X | X | |
| Resolution 6 – Share Placement | X | | X | X | X | | X | |
| Resolution 7 – Partial Underwriting | X | | X | X | X | X | | |
| Resolution 8 – Advisor Shares | X | | X | X | X | X | X | |

If Shareholders do support the Proposal by passing the Resolutions in the Notice, this does not guarantee its success. The Capital Raising must be successful, the Company must meet the Chapter 1 and 2 criteria of the ASX Listing Rules necessary for the re-quotation of its shares and the Company's implementation of its new business plan must be successful in order for Shareholders to receive the full benefit of the Proposal.

However, should the Shareholders choose to reject the Proposal, the prospects of the Company will remain significantly uncertain.

The Proposal and its impacts on the business of the Company are dealt with in more detail below.

The impact of not approving the Resolutions is also detailed below.

### *3.13 Corporations Act Requirements for Related Party Transactions.*

Section 228(1) of the Corporations Act states that: *'An entity that controls a public company is a related party of that public company'*. Whilst Yaopeng is not a related party of the Company at this time (because Yaopeng does not exercise any control over the operations of the Company, Section 228(6) of the Corporations Act states that:

> *"An entity is a related party of a public company at a particular time if the entity believes…that it is likely to become a related party of the public company…at any time in the future."*

A consequence of the Shareholders approving the Proposal, through approval of the Resolutions in the Notice, is that Yaopeng would secure a controlling interest in the Company upon the successful implementation of the Proposal and become a related party of the Company in the future. Therefore, Yaopeng is deemed to be a related party of the Company unless the Proposal is rejected.

Yaopeng is not a related party of the Company except as a consequence of making the Proposal and exerted no influence over the Company's decision to put the Proposal to Shareholders. Mr. Robert Sun, a Director of the Company and the General Manager of TFA, played no part in and was not present for any Board deliberations or decisions in respect to putting the Proposal to Shareholders.

Section 208 of the Act requires the Company to seek shareholder approval to give a benefit to a related party unless the transaction is exempted under one of the exceptions specified in Sections 210 to 216 of the Act.

Section 210 of the Corporations Act states that member approval is not required in accordance with the requirements of Section 208 where the transaction is an arm's length transaction on reasonable commercial terms or terms that are less favourable for the related party. It is normal practice that where a party secures control over a listed public company as the result of a transaction, the party would normally pay a premium for control. It follows then that for a transaction such as the Proposal to be an arm's length transaction Yaopeng should pay a premium for control.

Under the terms of the Proposal, Yaopeng is paying the same share price for equity (A$0.20 per Share) as Shareholders and the public are for new equity under the Capital Raising but this price is at a premium to existing Shares, based on the closing price of the Company's Shares on 31 March 2015 when they last traded.

The price on 31 March 2015 was A$0.003/Share. Adjusting for the Share consolidation under the Proposal, pursuant to Resolution 3, a Post Consolidation value equivalent for existing Shares would be $A0.12 per Share. The price Yaopeng is paying at A$0.20 per Share for control is a 66% premium over the closing price of the Company's Shares on 31 March 2015.

The Board notes the additional matters that support the view that the Proposal is an arms-length transaction:

(a) The terms of the issue of the proposed Post Consolidation Shares to Yaopeng are at normal market rates and on the same terms as proposed for other Shareholders of the Company and the public;

(b) The Proposal is equal to, or superior to, any proposal that the Company might reasonably expect to receive in the circumstances;

(c) Yaopeng has loaned a substantial amount of funds to the Company so that it could continue as a going concern while the Proposal was prepared ready to put to Shareholders. These loans are unsecured and if the Shareholders reject the Proposal or the Proposal is unsuccessful for any other reason, the likelihood of Yaopeng recovering these loans is uncertain. This is a significant risk which Yaopeng bears, that other Shareholders do not; and

(d) The Detailed Directors' Report has found the Proposal to be both Fair and Reasonable to Non-Associated Shareholders.

It is the view of the Board that the Proposal is an 'arms-length' transaction for the purposes of Section 210 of the Act and therefore does not require Shareholder approval under Section 208.

***3.14 Corporations Act Requirements for Acquisition of Relevant Interests in Voting Shares***

Pursuant to Section 606(1) of the Act, a person must not acquire a relevant interest in issued voting shares in a listed company if the person acquiring the interest does so through a transaction in relation to securities entered into by or on behalf of the person and because of the transaction, that person's or someone else's voting power increases from 20% or below to more than 20% or from a starting point that is above 20% and below 90%.

The voting power of a person in a body corporate is determined in accordance with Section 610 of the Act. The calculation of a person's voting power in a company involves determining the voting shares in the company in which the person and the person's associates have a relevant interest.

A person (**second person**) will be an "associate" of the other person (**first person**) if:

(a) the first person is a body corporate and the second person is:

  (i) a body corporate the first person controls;

  (ii) a body corporate that controls the first person; or

  (iii) a body corporate that is controlled by an entity that controls the first person; or

(b) the second person has entered or proposed to enter in a relevant agreement with the first person for the purpose of controlling or influencing the composition of the Company's board or the conduct of the Company's affairs; or

(c) the second person is a person with whom the first person is acting or proposed to act, in concert in relation to the Company's affairs; or

(d) the first person is a body corporate and the second person is:

  (i) a director or secretary of the body; or

  (ii) a related body corporate; or

  (iii) a director or secretary of a related body corporate.

An entity controls another entity if it has the capacity to determine the outcome of decisions about that other entity's financial and operating policies.

No Associates of Yaopeng currently have a relevant interest in any securities of the Company, other than in relation to the 65,573,643 Shares currently held by TFA.

Pursuant to Section 608(1) of the Corporations Act, a person has a "relevant interest" in securities if they:

(a) are the holder of the securities;

(b) have the power to exercise, or control the exercise of, a right to vote attached to the securities; or

(c) have power to dispose of, or control the exercise of a power to dispose of, the securities.

It does not matter how remote the relevant interest is or how it arises. If two or more people can jointly exercise one of these powers, each of them is taken to have that power.

If all of the Resolutions in the Notice are passed, then upon completion of the implementation of the Proposal, Yaopeng (including any Associates and specifically TFA) will have acquired a relevant interest in the issued voting Shares of the Company in excess of the current TFA holding of 29.17%, with an increase to between 54.8% and 61.6%. This acquisition is in excess of the threshold increase prescribed by Section 606(1)(c)(ii) of the Act.

There are various exceptions to the prohibition in section 606, including under section 611 item 7 of the Act. Item 7 of Section 611 provides an exception to the prohibition in Section 606(1), whereby a person may acquire a relevant interest in a company's voting shares with the approval of the shareholders of that company.

Accordingly, the Company seeks Shareholder approval under Item 7 of Section 611 of the Corporations Act for the issue of the Post Consolidation Shares to Yaopeng, as well as the acquisition of a relevant interest in the issued voting shares of the Company by Yaopeng, in excess of the threshold increase prescribed by Section 606(1)(c)(ii) of the Act by virtue of the issue of the Post Consolidation Shares.

### *3.15 Specific Information for Item 7 of Section 611 of the Act and ASIC Regulatory Guide 74*

The following information is required to be provided to Shareholders under the Act and in accordance with ASIC Regulatory Guide 74 for the purposes of obtaining approval pursuant to Item 7 of Section 611 of the Act.

#### *3.15.1 The identity of the acquirer and their associates and any person who will have a relevant interest in the Shares to be acquired*

Yaopeng is a collective term used in this Explanatory Statement to describe Yaopeng and TFA and its associates. Yaopeng has a relevant interest in the Shares of the Company. Specifically, the acquirers under the relevant Resolutions are:

Resolution 5 The acquirer is Yaopeng International Trade Pty. Ltd.

Resolution 6 The acquirer is Yaopeng International Trade Pty. Ltd.

Resolution 7 The acquirer is Yaopeng International Trade Pty. Ltd.

#### *3.15.2 Full particulars (including the number and percentage) of the Shares to which Yaopeng is or will be entitled immediately before and after the issue of Shares the subject of Resolutions 5 to 7 inclusive, the maximum extent of the increase in the Yaopeng's voting power and Yaopeng's voting power in the Company (including their associates) as a result of the issue of Shares the subject of Resolutions 5 to 7.*

At the date of this Notice, Yaopeng International Trade Pty. Ltd. does not have any associates, other than TFA, who independently hold Shares. The maximum extent of the increase in the voting power of Yaopeng that would result from the acquisition and the voting power Yaopeng would have as a result of the Proposal is as set out below.

As at the date of this Explanatory Statement:

- Yaopeng holds no Shares in the Company; and
- TFA has a relevant interest in 65,573,643 Shares in the Company.

Following consolidation as proposed by Resolution 3 of this Notice, TFA would have 1,639,341 Post Consolidation Shares. The tables below are prepared on a Post Consolidation Shares basis.

Table 5 below shows the **minimum increase** in voting power of Yaopeng if the Proposal is successfully implemented with full subscription of the Capital Raising and no requirement for Yaopeng to subscribe for any Post Consolidation Shares in respect of any underwriting obligations (as proposed under Resolution 7).

**TABLE 5**

| **Event**<br>**(Full Subscription and No Yaopeng Underwriting)** | **Yaopeng (Including TFA)** |
|---|---|
| No. of Shares (% of voting power) held as at the date of the Notice of General Meeting (prepared on a Post Consolidation basis)<br>(Total Post Consolidation Shares = ~ 5,620,495) | 1,639,341<br>(**29.17%**) |
| **Assuming only the Post Consolidation Shares that are the subject of Resolution 4 to Resolution 6 inclusive and Resolution 8 contemplated by the Notice are issued, and no other Shares are issued and no convertible securities are converted** | |
| No. of Shares (% of voting power) held by Yaopeng after issue of Shares pursuant to Resolutions 4A to 6 inclusive<br>*TFA - Post Consolidation Holding: 1,639,341*<br>*Yaopeng - Resolution 5: 9,750,000*<br>*Yaopeng - Resolution 6: 12,500,000*<br>(Total Post Consolidation Shares = ~ 43,620,495) | 23,889,341<br>(**54.8%**) |
| The **increase** in the number of Shares (% of voting power) held by Yaopeng after issue of Shares pursuant to Resolutions 4 to 6 and 8 | Increase in voting power of:<br>54.8% - 29.17% = **25.63%** |

Table 6 below shows the **maximum increase** in voting power of Yaopeng if the Proposal is successfully implemented with only minimum subscription of the Capital Raising (14.25M Post Consolidation Shares) and a requirement for Yaopeng to subscribe for the maximum number of Post Consolidation Shares under its partial underwriting obligations (as proposed under Resolution 7).

**TABLE 6**

| **Event**<br>**(Minimum Subscription and Yaopeng Maximum Underwriting)** | **Yaopeng (Including TFA)** |
|---|---|
| No. of Shares (% of voting power) held by Yaopeng after issue of Shares pursuant to Resolutions 4A to 7 inclusive<br>*TFA - Post Consolidation Holding: 1,639,341*<br>*Yaopeng - Resolution 5: 9,750,000*<br>*Yaopeng - Resolution 6: 12,500,000*<br>*Yaopeng - Resolution 7: 2,500,000*<br>(Total Post Consolidation Shares = ~ 42,870,495) | 26,389,341<br>(**61.6%**) |
| The **increase** in the number of Shares (% of voting power) held by Yaopeng after issue of Shares pursuant to Resolutions 4A to 7 | Increase in voting power of:<br>61.6% - 29.17% = **32.43%** |

***3.15.3 The identity, associations (Yaopeng and any of its associates) and qualifications of any person who it is intended will become a Director if Shareholders approve the issue of Shares the subject of Resolutions 5 to 7.***

If Shareholders approve the Proposal, it is the intent of the current Board to make some changes to the composition of the Board membership in order to better align the skill set of Board members with the proposed new business of the Company. These changes would occur after Shareholder approval of the Proposal but before the issue of the Prospectus.

The proposed changes as at the date of this Notice would be:

(a) Messrs. Hughes, Wyatt and Johnston would resign from the current Board;

(b) A new director with property and infrastructure development experience would be appointed;

(c) Mr Manning, the current Managing Director would be appointed Executive Chairman; and

(d) Mr Sun, who is also the General Manager of TFA, would be appointed Managing Director.

Yaopeng has stated that if it controls the Company after successful implementation of the Proposal, it would be satisfied with the Board changes as proposed above and would encourage the Board to look for the opportunity to identify additional Board members to augment the skills of the Board in property and infrastructure development over time. Yaopeng has also stated that it has no such additional appointments to propose at this time.

If the Proposal is approved by Shareholders, the Company plans to maintain a minimum of three directors at all times during the implementation of the Proposal, consistent with the requirements for a listed public company.

The Company intends to conduct a formal search for a new director with property and infrastructure development experience if Shareholders approve the Proposal. Neither the Company, nor the Investors have considered any candidate for this proposed future director appointment at the date of this Notice. Therefore it is not possible to provide any further information in this regard.

If Shareholders approve the Proposal, the Board will identify an appropriate candidate and appoint that individual pursuant to clause 11.4 of the Company's Constitution, which permits the Board to appoint additional directors. Also pursuant to clause 11.4, the newly elected director would serve until the next General Meeting of the Company and would then be eligible for re-election by Shareholders of the Company.

Any new director appointed by the Board who has not been re-elected by Shareholders by the time the proposed re-quotation application is assessed by ASX will require ASX approval under the 'good fame and character' provisions of the Listing Rules.

Mr Sun, who is a current director of the Company, is General Manager of TFA and an appointed nominee of TFA. Mr. Sun does not currently hold a relevant interest in any securities of the Company, except pursuant to Section 608(1), to the extent that he may act as an agent of TFA from time to time in respect of its relevant interest in Shares of the Company in his capacity as General Manager of TFA.

In accordance with the provisions of section 191 and 195 of the Corporations Act, Mr Sun as a representative of TFA on matters pertaining to TFA:

(a) is not present while any such matters are being considered at any Board meetings; and

(b) does not vote on any such matters.

Mr Sun does not have any capacity to control the financial or operational decisions of the Company for the purposes of section 50AA of the Act.

### *3.15.4 Details of other relevant agreements.*

3.15.4A Share Subscription Agreement

Yaopeng International Trade Pty Ltd has entered into a Share Subscription Agreement with the Company. The basic terms of the Share Subscription Agreement are:

1. If Shareholders approve the Proposal, Yaopeng agrees that coincident with the successful completion of the Capital Raising it will:
    a. Subscribe for up to 9,750,000 Post Consolidation Shares at an issue price of A$0.20 each in satisfaction of up to A$1,950,000 owed by the Company to Yaopeng;
    b. Subscribe for 12,500,000 Post Consolidation Shares at an issue price of A$0.20 each to the total value of A$2,500,000 cash; and
    c. Meet any Underwriting obligation up to a maximum of 2,500,000 Post Consolidation Shares at an issue price of A$0.20 each for up to A$500,000 cash;
2. Yaopeng may instruct the Company to issue the Post Consolidation Shares to a nominee;
3. The Share Subscription Agreement is conditional on relevant Shareholder approvals and compliance with ASIC, ASX and FIRB requirements;

4. Yaopeng will enter an underwriting agreement with the Company in respect of the underwriting obligation at 1c above on normal commercial arm's length terms prior to the issue of the Prospectus. The terms of the underwriting agreement will contain the normal reliefs from underwriting obligations that are typical in the industry and will be on no better terms than any other underwriting agreements between the Company and any other Underwriter to the Capital Raising; and

5. The obligations to subscribe for Post Consolidation Shares is conditional on the Capital Raising meeting its minimum subscription requirements and any other requirements necessary for the issue of Post Consolidation Shares under the terms of the Prospectus.

3.15.4B Loan Agreements

1. The Company has existing Loan Agreements with Yaopeng (including previous loan agreements with TFA that have been sold to Yaopeng) on normal arms-length commercial terms in order to fund:

    a. The Proposal;

    b. The ongoing operations of the Company while the Proposal is considered and implemented (if approved),

2. The loan funding is unsecured and interest is chargeable at 7.8% per annum; and

3. If the Proposal is rejected, the loan funds need to be repaid by various dates within six months.

3.15.4C Option to Purchase Agreements ("the Option Agreements")

As a component of the Proposal, the Company has identified its first proposed property development project as the Zigong Guodun Farmers Market. The Project is wholly owned by a private Chinese company, Sichuan Fuchuang Property Co., Ltd. ("SFP").

The Company has entered into two "Option to Purchase Agreements" (collectively referred to here as the "Option Agreements") with the two shareholders of SFP ("the Vendors") on a conditional 'call and put' basis to acquire in total 51% of the shares in SFP and, as a result, a controlling interest in the Project.

This call and put options are only conditional on shareholder approval of the Proposal and the successful implementation of the Proposal (being signified by the satisfaction of the conditions for the issue of Post Consolidation Shares under the terms of the Priority Entitlement Prospectus prior to re-quotation of the Company's shares on the ASX).

The ownership of SFP before and after the Proposal is shown in Table 7 below.

| SFP Shareholding Prior to the Acquisition | | | SFP Shareholding After Implementation of the Proposal | |
|---|---|---|---|---|
| Shareholder | % Shares Held | | Shareholder | % Shares Held |
| Huiming Feng | 45.5% | | Huiming Feng | 0.0% |
| Jingda Song | 54.5% | | Jingda Song | 49.0% |
| Ferrowest Limited | 0.0% | | Ferrowest Limited | 51.0% |
| Total | 100% | | Total | 100.0% |

*Table 7: SFP Shareholding*

Under the terms of the Option Agreements, the Company will acquire a total of 51% of the shares in SFP for 9,280,000 CNY (A$2,047,977) in cash. In addition to the 51% of the shares in SFP, the Company will also secure a 4,800,000 CNY (A$1,059,299) receivable from SFP (a debt SFP will owe the Company) as part of the total assets purchased for the consideration specified here. The receivable is unsecured and not interest bearing and would only be repaid on successful construction and sale of the Project.

The two original shareholders of SFP are not related parties of Yaopeng (including TFA) or the Company.

Under the terms of the Option Agreements, the Company will pay an option fee upon exercise of the option that will be calculated at the equivalent of 7.2% per annum pro rata on the purchase price of A$2.05M for the time from execution of the option agreements on 16 October 2015 until exercise of the option upon satisfaction of the conditions specified above. Depending on the time taken to complete implementation of the Proposal, the total option fees may be in the order of up to A$60,000.

There is a cash penalty of 20% of the consideration that applies to each party to the Option Agreements. In the event that a party fails to perform their responsibilities under the contract on time, the cash penalty must be paid. In the case of the Company, this would occur if the purchase price is not paid on the settlement date. The settlement date will be the date upon which the conditions have been met and the Post Consolidation Shares are to be issued pursuant to the terms of the Prospectus. The Vendors must deliver the signed share transfer documents on the settlement date and work with the Company (if necessary) to facilitate registration of the share transfers with the regulatory authorities within 5 days of settlement.

The option period under the Option Agreements is 150 days, thereafter the option lapses if the conditions have not been met. The option also lapses in the event that the Company is placed under external administration for any reason.

During the option period, the Vendors are prohibited from certain actions in respect of SFP, such as issuing new shares, and must seek the Company's approval before entering into any material transactions involving SFP.

#### ***3.15.5 A statement of Yaopeng's intentions regarding the future of the Company if Shareholders agree to the issue of Shares pursuant to Resolutions 5 to 7.***

Yaopeng's intentions regarding the future of the Company should it be in a position of control following the successful implementation of the Proposal is set out in Section 3.17 below.

### ***3.16 Prospective Financial Information***

The Corporations Act and the ASX Listing Rules require the Company to present all material information that Shareholders might reasonably require to make an informed decision on the Proposal.

Such material information may include the expected future financial performance of the Company. This type of forward looking information is known as prospective financial information.

There are significant uncertainties associated with forecasting the implementation of the new business plan in respect of timing, expenses and revenues. As a consequence, the Company's future financial performance cannot be reliably estimated. After considering ASIC Regulatory Guide 170, the Directors do not believe that they have a reasonable basis to reliably forecast future earnings and therefore financial forecasts are not included in this Explanatory Statement.

The ITSR provides information about the Zigong Guodun Farmers Market project that should provide Shareholders with the general scope and potential of future operations of that Project should the Proposal be adopted.

The early stage of the proposed Zigong Guodun Farmers Market Project (the proposed new business of the Company) in its development cycle means that there is not a reasonable basis for the Company to use the currently available information to support estimates of the future financial performance of the Company under the proposed business plan.

### ***3.17 Effective Change of Control***

If approved by shareholders and successfully implemented, the Proposal would see Yaopeng secure at least 54.8% of the voting Shares in the Company (and potentially up to 61.6% if Yaopeng is required to meet underwriting shortfall obligations), provided no other Shares are issued in the meantime.

***This would mean an effective change of control of the Company, placing Yaopeng in a position to control the future business activities of the Company.***

As such, Yaopeng is required to set out its plans for the Company in the Notice, including its plans for the Company's personnel, its main business activities and the disposition of its assets, in the event that it secures a controlling interest in the Company.

**Yaopeng's Statement of Intentions**

Yaopeng has informed the Company that on the facts and circumstances presently known to it, its current stated intentions, if it secures a controlling interest in the Company, are to support the Board in its implementation of the changes to the business of the Company outlined in the Proposal (as given effect by approval under Resolution 1) and otherwise has no current intention to:

(a) inject further capital into the Company, other than as contemplated by Resolutions 4 to 7;

(b) become involved in decisions regarding the future employment of the Company's present employees and contemplates that those persons will continue in the ordinary course of business as determined by the Company's management;

(c) transfer any property between the Company and Yaopeng or any person associated with Yaopeng (including TFA);

(d) redeploy the fixed assets of the Company, except as stated in Resolution 1 of the Notice; or

(e) to change the Company's existing financial or dividend policies.

Yaopeng does believe that the dividend policy may be able to be altered around the end of the second year of the implementation of the new business plan in order to enable dividends to be paid into the future but would see this change as a matter for the Board, once the Company's initial financial performance is better understood. Yaopeng would support such a change if the new business of the Company proceeds as currently planned.

Yaopeng has advised that it supports the Board's view that if Shareholders of the Company support the change in the business of the Company to property and infrastructure development, it would also be appropriate to make changes to the Board membership to introduce members with property and infrastructure development experience and for some of the current members with mineral project experience to step down. Yaopeng has not identified any candidates to put forward as a potential Director at this time but supports the Board's plan to conduct a formal search if Shareholders approve the Proposal.

Yaopeng has advised that it would work with the Board of the Company in this regard to achieve the best possible solution but has no specific requirements of its own at this time other than that Mr Sun, the General Manager of TFA, should remain as a director of the Company.

It is Yaopeng's preferred view to maintain a majority of independent Directors on the Board of the Company if that is practicable given other management requirements but it believes a relatively small Board is more important in the current economic circumstances, at least until the Company can re-establish itself under the new business model. Yaopeng would support Board changes being made in the lead up to release of the Prospectus so that Shareholders could properly consider the prospects of the restructured company and it management before taking any further investment decisions.

Yaopeng believes that because the initial project investments would be in China, Mr. Sun should be appointed as Managing Director of the Company and that the Company's present Managing Director, Mr. Brett Manning, should be appointed as Executive Chairman. Yaopeng is aware that having an executive Chairman is not recommended under the ASX Corporate Governance Guidelines but feels that it is more important that Mr. Manning hold both an executive position and a position of prominence in the Company during this period of transition to a new business model.

While these changes would be preferred by Yaopeng, Yaopeng has confidence in the current Board to determine the appropriate Board and management structure to take the restructured Company into the recapitalisation phase of the Proposal.

Yaopeng advises that it understands that the restructure of the Company and its business might reasonably involve some personnel changes but Yaopeng sees these changes (if any) as a matter for the operational management of the Company at the time.

Yaopeng has indicated that the intentions disclosed here are based on the facts and information regarding the Company and the general business environment that are known to Yaopeng as at the date of this Explanatory Statement. The above statements therefore reflect current intentions only as at the date of this Explanatory Statement and Yaopeng's intentions may change as new information becomes available or circumstances change or with the passage of time.

Any decisions that Yaopeng may make on its course of action going forward will be made in light of material facts and circumstances at the relevant times and after Yaopeng receives appropriate legal and financial advice on such matters, where required, including in relation to any requirement for Shareholder approvals.

### *3.18 Effect on Capital Structure*

The following tables set out a summary of the capital structure of the Company prior to and following the implementation of the Proposal with the minimum and the maximum possible Share interests of Yaopeng.

**Current Capital**

| **Capital Structure** | **Non Yaopeng Holders** | **Yaopeng (including TFA)** | **Total** |
|---|---|---|---|
| Current at the date of this Notice | 159,246,165 | 65,573,643 | 224,819,808 |

*Table 8: Share structure of the Company before the Proposal*

**After Implementation of the Proposal (Full Subscription but No Yaopeng Underwriting Required)**

| Proforma Capital Structure | Non Yaopeng Holders | Yaopeng (including TFA) | Total |
|---|---|---|---|
| Post Consolidation (Resolution 3) | 3,981,154 | 1,639,341 | 5,620,495 |
| Placement to Yaopeng (Resolution 6) | - | 12,500,000 | 12,500,000 |
| Capital Raising (Resolution 4) | 15,000,000 | - | 15,000,000 |
| Conversion of Yaopeng Debt (Resolution 5) | - | 9,750,000 | 9,750,000 |
| Advisor Shares (Resolution 8) | 750,000 | - | 750,000 |
| **Total Post Consolidation Shares** | **19,731,154** | **23,889,341** | **43,620,495** |

*Table 9: Share structure of the Company after the Proposal (Full subscription – no Yaopeng underwriting)*

**After Implementation of the Proposal (Minimum Subscription and Full Yaopeng Underwriting)**

| Proforma Capital Structure | Non Yaopeng Holders | Yaopeng (including TFA) | Total |
|---|---|---|---|
| Post Consolidation (Resolution 3) | 3,981,154 | 1,639,341 | 5,620,495 |
| Placement to Yaopeng (Resolution 6) | - | 12,500,000 | 12,500,000 |
| Capital Raising (Resolution 4) | 11,750,000 | - | 11,750,000 |
| Conversion of Yaopeng Debt (Resolution 5) | - | 9,750,000 | 9,750,000 |
| Partial Underwriting (Resolution 7) | - | 2,500,000 | 2,500,000 |
| Advisor Shares (Resolution 8) | 750,000 | - | 750,000 |
| **Total Post Consolidation Shares** | **16,481,154** | **26,389,341** | **42,870,495** |

*Table 10: Share structure of the Company after the Proposal (Minimum subscription and full Yaopeng partial underwriting)*

*Note: Tables 8, 9 and 10 are prepared on the assumption that no other shares are issued in the interim.*

Therefore, post implementation of the Proposal in full, Yaopeng would hold between 54.8% and 61.6% of the ordinary Shares of the Company that are on issue at that time.

The Company has not raised any equity funding during the 3 months prior to the date of this Notice.

The Directors advise that if the Proposal is approved and successfully implemented, there will not be a need to raise any further equity capital in the 3 months following the issue of Post Consolidation Shares under the terms of the Prospectus.

### *3.19 Convertible Notes*

The Company currently has 1,078 convertible notes on issue with a face value of A$500 each.

These convertible notes are due for redemption on 28 November 2015, before the consolidation of capital proposed under Resolution 3 of the Notice. It is highly unlikely that any noteholder will opt for conversion prior to the redemption date because the minimum conversion price per share is significantly higher that the value of a share (based on the last closing price of the Company's shares) and so the Company is proceeding on the assumption that these convertible notes will be redeemed prior to implementation of the Proposal.

880 of the convertible notes were held by TFA (A$440,000 in face value) but have been sold to Yaopeng to facilitate the Proposal. These 880 Convertible Notes will be redeemed by the Company and converted to equity as part of the conversion of Yaopeng debt to equity. The remaining 198 Convertible Notes with a face value of A$99,000 will be repaid. The Convertible Notes have a 10% coupon rate.

### *3.20 Detailed Directors' Report*

The Directors who are not associates of Yaopeng ("the Non-Associated Directors") have prepared a Detailed Director's Report to consider whether the Proposal is Fair and Reasonable to shareholders not associated with Yaopeng (Non-Associated Shareholders).

**In the opinion of the Non-Associated Directors, for the reasons set out in the Report, the Proposal is considered to be Fair and Reasonable to the Non-Associated Shareholders of the Company.**

The finding of the Report does not bind shareholders but is intended to provide independent guidance in relation to the Proposal.

Shareholders are encouraged to carefully read the Report to understand its scope, the methodology of the valuations made, the sources of information and the assumptions made.

The Non-Associated Directors have consented to the use of the Report and opinion in the form and context in which it appears.

### *3.21 Directors' Recommendations*

All of the Non-Associated Directors unanimously support the Proposal at the date of this Notice of General Meeting. The Non-Associated Directors advise that it is their view that no superior or comparable alternative is available at the date of this Notice. It is also your Directors' collective view that any alternative proposal (if such an alternate was even available in the current market) would have resulted in a far less favourable outcome for Shareholders as a whole.

Mr. Robert Sun, a director of the Company and General Manager of TFA, is a related party with respect to the Company by virtue of Section 228 of the Corporations Act. Mr. Sun has therefore declined to provide a recommendation on the Proposal or the Resolutions presented in the Notice.

### *3.22 Effect of Passing the Resolutions Contained in this Notice*

If shareholders pass the Resolutions contained in this Notice and the Proposal is successfully implemented, it will have the following affects:

1. The business of the Company will be "Property and Infrastructure Development";
2. The name of the Company will change to "**Living Cities Development Group Limited**";
3. There will be some changes to the composition of the Board of Directors of the Company;
4. The total number of shares will be around 20% of the number currently on issue and their nominal value will be 20 cents each;
5. The Company will be recapitalised with;
    a. A$3.0M of debt retired;
    b. Ownership of 51% of the Zigong Guodun Farmers Market Project (including land use right) through the acquisition of a 51% interest in SFP for approximately A$2.05M;
    c. Ownership of an approximate A$1.06M receivable from SFP;
    d. Funded initial developments commitments for the Project of A$550,000; and
    e. Approximately A$1.8M of cash remaining (on a full subscription basis after expenses, the acquisition of the SFP interest and initial development commitments);
6. Yaopeng will secure a controlling interest in the Company and may exercise that control as it deems appropriate in respect to the operation of the Company (Refer Section 3.17 regarding Yaopeng's current intentions if it secures control);
7. The collective percentage of the Company held by existing shareholders, other than Yaopeng, will reduce from 70.83% to approximately 45.2% upon completion of the Proposal (possibly 38.4% if Shareholders do not take advantage of the Priority Rights Issue to participate in the recapitalisation); and
8. The Company's Shares will be re-quoted on the ASX.

### *3.23 Effect of Not Passing Resolutions Contained in this Notice*

If shareholders **DO NOT** pass the resolutions in this Notice, it will have the following affects:

1. The Company's business would remain mineral exploration and the Company's name and Board composition would be unchanged.
2. The Company will not receive any further loan funding from Yaopeng and will urgently need to secure an alternate source of funding as the company does not have any material amount of cash reserves;
3. The Company will remain liable for around A$2.7M in debt with its attendant interest obligations;
4. TFA's shareholding in the Company will remain at 29.17% and Yaopeng will not receive any Shares;
5. Existing shareholders will not suffer any dilution in their shareholdings;
6. The Company's Shares would remain in suspension for the time being; and
7. The Company would urgently need to source other forms of funding to sustain operations and repay the debt. If this funding could not be obtained on reasonable terms and in a very short time frame, it could call into question the Company's capacity to continue as a going concern.

### *3.24 Listing Rule 10.13.3 Waiver Application*

Listing Rule 10.13.3 relevantly provides that securities issued to 'persons in a position of influence' (such as a related party) pursuant to a shareholder approval must be issued no later than 1 month after the date of the meeting at which that approval is granted.

Under the Proposal, Shares will be issued to Yaopeng, a related party of the Company, under Resolutions 5 to 7 inclusive.

The Company has applied for a waiver from Listing Rule 10.13.3 to the extent necessary to allow the Shares issued under Resolutions 5 to 7 inclusive to be issued at the same time as the other Shares pursuant to the Prospectus.

At the date of this Notice, this proposed waiver is being considered by ASX but has not been granted.

### *3.25 The Proposals Transaction Costs*

The following costs have been incurred or will be incurred as a result of consideration and implementation of the Proposal. Costs that will not be incurred if the Proposal is rejected are as marked in the column "Contingent on approval". All costs are estimates only.

**Table 11**

| Item | Amount | Contingent on Approval? |
|---|---|---|
| Preparation of this Notice of Meeting | A$60,000 | No |
| Operational funding up to the meeting date | A$266,000 | No |
| Prospectus preparation costs | A$68,200 | Yes |
| Operational funding during implementation | A$146,800 | Yes |
| Capital raising and re-quotation Costs | A$105,000 | Yes |

Approximately A$505,000 of the costs specified in Table 11 have been incurred or will be incurred after 30 June 2015, which is the starting point for the consolidated Proforma Statement of Financial Position in section 3.27 and also the transaction summary shown in Table 1.

### *3.26 ASX and ASIC*

Neither ASX nor ASIC take any responsibility for the contents of this Notice.

The fact that ASX may approve re-quotation of the Company's Shares on the ASX upon completion of the Proposal is not to be taken in any way as an indication of the merits of the Company.

### *3.27 Proforma Statement of Financial Position*

Table 12 below shows the Proforma Statement of Financial Position as if the Proposal were successfully implemented on 30 June 2015. The Audited 30 June 2015 Consolidated Statement of Financial Position has been adjusted Proforma to reflect the Proposal transaction and the consolidation of the controlling interest of 51% of SFP. This Proforma Statement of Financial Position should be read in conjunction with the notes below and the notes pertaining to the Audited 30 June 2015 Annual Report of the Company.

**Table 12**

**Consolidated Proforma Statement of Financial Position**

| | Notes | Consolidated Audited 30-Jun-15 $ | Movement $ | Consolidated Proforma 30-Jun-15 $ |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current Assets** | | | | |
| Cash and cash equivalents | 1 | 48,369 | 2,311,220 | 2,359,588 |
| Other assets | | 402 | 2,717 | 3,118.99 |
| **Total Current Assets** | | 48,771 | 2,313,936 | 2,362,707 |
| **Non-Current Assets** | | | | |
| Other assets | | 33,828 | 229,978 | 263,806 |
| Property, plant and equipment | | 16,016 | - | 16,016 |
| Asset held for sale | 2 | 750,000 | - | 750,000 |
| Land - Guodun Farmers Market Site | | - | 6,359,056 | 6,359,056 |
| Deferred exploration expenditure | | 127,866 | - | 127,866 |
| **Total Non-Current Assets** | | 927,710 | 6,589,033 | 7,516,744 |
| **Total Assets** | | 976,481 | 8,902,970 | 9,879,451 |
| **Liabilities** | | | | |
| **Current Liabilities** | | | | |
| Trade and other payables | | 998,357 | (981,123) | 17,234 |
| Borrowings | | 1,531,735 | (1,531,735) | - |
| **Total Current Liabilities** | | 2,530,092 | (2,512,858) | 17,234 |
| **Non-Current Liabilities** | | | | |
| Borrowings | 3 | - | 3,579,773 | 3,579,773 |
| **Total Non-Current Liabilities** | | - | 3,579,773 | 3,579,773 |
| **Total Liabilities** | | 2,530,092 | 1,066,915 | 3,597,007 |
| **Net Assets** | | (1,553,611) | 7,836,055 | 6,282,444 |
| **Equity** | | | | |
| Issued capital | | 19,700,333 | 7,450,000 | 27,150,333 |
| Non Controlling Interests | 4 | - | 949,907 | 949,907 |
| Accumulated losses | | (21,253,944) | (563,853) | (21,817,796) |
| **Total Equity** | | (1,553,611) | 7,836,055 | 6,282,444 |

*Notes:*

1. *The Cash and Cash Equivalents includes A$550,000 in commitments to be loaned to SFP to commence initial development activities on the Project.*
2. *The Yogi Mine Project remains available for sale at the current asking price as previously approved by Shareholders.*
3. *This item includes the full value of a bank loan held by SFP for $2,648,246.64 and a loan SFP owes to the minority shareholder of SFP of $931,526.37 fully provided upon consolidation.*
4. *This is the 49% minority interest in SFP held by SFP's other shareholder.*

### *3.28 Risk Factors*

### *3.28.1 Risks Specific to the Implementation of the Proposal*

If the Shareholders vote in favour of adopting the Proposal by approving the Resolutions in the Notice, there will remain material risks associated with the implementation of the Proposal. Should the Company be unable to successfully implement the Proposal for any reason, the result may be the permanent failure of the Proposal and, as a result, significant doubt as to whether the Company would be able to continue as a going concern. Some of the key risks associated with the implementation of the Proposal are set out below. The list is not exhaustive:

Capital Raising Risk

The Company must raise A$2.35M from the Shareholders and the public (excluding the Yaopeng partial underwriting pursuant to Resolution 7) in order to meet the expected Minimum Subscription requirements of the Capital Raising. There is no certainty that this can be achieved and if the minimum subscription is not met, the implementation of the Proposal will fail.

Shareholder Spread Risk

One of the requirements for the re-quotation of the Company's Shares on the ASX is that following the Capital Raising, the Company believes it will require a minimum of 350 Shareholders with a parcel of Shares with a nominal value of at least A$2,000 to meet ASX Listing Rule requirements. This can be a difficult criterion to achieve in practice and may delay the implementation of the Proposal or ultimately cause it to fail if it cannot be met.

Regulatory Compliance Risk

The Company must prepare and lodge a Prospectus with ASIC and ASX for the Capital Raising and the other associated offers, which Prospectus will also be the compliance document in respect of the ASX re-quotation requirements for the Company's Shares. Other documentation, including a quotation application, must also be lodged with ASX. Should the Company be unable to complete the re-quotation requirements for any reason, the Proposal could be delayed or may fail entirely.

Yaopeng Support Risk

The Proposal is reliant on Yaopeng providing significant funding. If Yaopeng withdraws the Proposal or fails to provide the funding as required, the Proposal would fail.

Creditor Risk

The implementation of the Proposal is reliant on the continued cooperation of certain parties owed money by the Company that have agreed to wait for payment until completion the Proposal and/or the sale of the Yogi Mine Project. Should those parties require payment prior to the completion of the reconstruction process, the Proposal may fail.

SFP Share Transfer Risk

At settlement, concurrent with the issue of Post Consolidation Shares under the terms of the Prospectus, the Company will receive signed share transfer documentation in favour of the Company's 100% owned Chinese subsidiary Panaust for the 51% of the shares in SFP for registration with the Chinese Government authorities. Should this transfer not be registered successfully for any reason, the acquisition of the Project would fail, which may in turn have a significant negative impact on the prospects of the Company.

### *3.28.2 Future Business Risks*

The Company proposes the future pursuit of a property development project as described in this Explanatory Statement and the ITSR. There are risks associated with any business venture and these types of risks will also apply to the Company after the Proposal is successfully completed. Some of the key risks associated with the implementation of the Project are set out below. The list is not exhaustive:

Customer Demand Risk

The profitability of the Project relies on potential retailers purchasing commercial space in the Project. There is no guarantee that the customers will purchase space at the pace and for the price anticipated in the Project planning. The decision of customers to buy can also be impacted by a myriad of external economic factors. These factors can impact the level of customer interest, the timing of sales and the sale prices. Failure to secure the projected rate of sales and/or the anticipated prices will negatively impact both cash flow for the development of the Project and overall profitability of the Company.

Capital Funding Requirements

The development of the Project is dependent on loan funding to SFP in order to meet construction cost requirements. While it appears that the amount of capital needed will be available in the required timeframe and on appropriate terms, this is not certain at this stage and is likely to be dependent on conditions such as detailed design, which are yet to be completed. In the event that such capital is not available, other possibly less favorable arrangements will need to be implemented which may negatively impact the amount and timing of the future profitability of the Company.

Foreign Jurisdiction Risk

The Company's operations will be subject to laws in China, as well as Australia. Changes to the law in either jurisdiction could materially impact the business of the Company. Any company that operates in a jurisdiction outside the one in which it is registered, may be subject to additional restrictions placed on foreign companies operating in those jurisdictions. Business relations between Australia and China could also impact the ability of the Company to do business in China. Compliance with taxation requirements across jurisdictions will be more complex and may therefore incur additional management costs.

Repatriating Profits

Repatriating profits from China is controlled by the Chinese Government. While there is not expected to be any issues with transferring profits once all appropriate taxes are paid to the Chinese Government, the rules around the repatriation of money from China could be altered at any time in a manner that could negatively impact the business of the Company.

Regulatory Approvals

Construction of the Project cannot commence until further Chinese Government approvals are secured. There is no guarantee that all required approvals will be granted, to allow the Company and/or SFP to develop the Project in the planned manner. Approvals that are secured in the future may still be delayed or have attaching terms that negatively impact the future profitability of the Project and/or the Company.

Land Use Right Risks

SFP hold a Land Use Right for the land upon which the Project is to be built. The Chinese Government may amend the rights associated with land generally in China or specifically in relation to foreign control and/or ownership. The Company is not aware of any such plan but any changes could be detrimental to the Company and its participation in the Project.

Future Profitability

The Directors are confident that the planning projections for the Project support the potential for a profitable business model but the Company has no history in this business space on which to draw further reassurance. There can be no certainty at this stage about the ability of the Company to secure and sustain profits into the future. If the Project is not profitable, the Company does not have any other source of income to sustain its operations.

Construction Risk

The Company's initial business will be in developing the Project. The Company will ensure that SFP engages reputable and experienced contractors to perform the design and construction of the Project, however, should there be construction quality issues, this could impact the profitability of the Project by causing delay, requiring rectification works or deterring potential sales of the commercial space. While SFP will use fixed price contracts for much of its construction activities, any underestimation of construction costs or indirect cost overruns will also negatively impact profitability.

Contract Risk

The Company enters into contracts in the normal course of its business and this will also apply after the successful implementation of the Proposal. Should the Company be unable to perform any of its contractual obligations under these contracts, the future business of the Company could be negatively impacted. Likewise, should third parties to these contracts fail to perform their contractual obligations, this could also negatively impact the future business of the Company.

Exchange Rate Risks

As an Australian company, the Company must account for its operations in Australian dollars but operations within China must occur in Chinese Yuan. This will expose the Company to exchange rate movement risks in respect of its Chinese operations.

Future Property and Infrastructure Developments

If the Project is successful, the Company will need to seek out further future property or infrastructure development opportunities. If no such suitable opportunities can be identified in a reasonable time frame, this could negatively impact the ability of the Company to sustain profitable operations.

Share Market Risks

There are always risks associated with investing in stock markets. The Shares of the Company will remain 'speculative' for some time into the future until the Company's new business has grown and matured into a sustained business model.

**4. RESOLUTION 1**

Resolution 1 seeks Shareholder approval under Listing Rule 11.1.2 to change the nature and scale of the Company's activities. The intention of this Resolution is to make a permanent and complete change from the business of "**mineral exploration**" to the business of "**property and infrastructure development**". This is a critical element of the Proposal and is dependent on the passage of each of the other Resolutions presented to Shareholders except Resolution 2 (Change of Company name).

The substance of the decision in relation to this Resolution and the Proposal in general, largely relates the prospective standing of the Company in the circumstances following either the:

(a) approval of the Proposal (considering the risks of successfully implementing the Proposal); when compared to,

(b) rejection of the Proposal (considering the risks that the Company will be able to find secure and implement an alternative business strategy from its current position).

The Detailed Directors' Report provides further information for Shareholders to consider in making their decision whether to support this Resolution. In particular, Sections 9.3, 9.4 and 9.5 of the Report discuss the future prospects of the Company if the Proposal is not accepted and some of the advantages and disadvantages of the Proposal. Section 3.23 above of this Explanatory Statement also details of the effects on the Company if the Resolutions are not passed.

Section 3.6 of this Explanatory Statement and the ITSR at Annex A provide information on the Project, the first proposed property development in which the Company has secured a conditional option to acquire a 51% controlling interest, subject to Shareholders support of the Proposal. The development of the Project will form the main initial business of the Company post-Proposal.

The Company's Shares are currently in Voluntary Suspension on the ASX. Shareholders should note that if Resolution 1 is passed (together with each of the co-dependent Resolutions in the Notice) it will mean that the Company will have to re-comply with the Listing Rule requirements of Chapters 1 and 2 before the Shares of the Company can be re-quoted on the ASX and the trading of its Shares would remain in suspension in the meantime. There are a number of detailed requirements that must be met in order for ASX to re-quote the Company's Shares, including but not limited to:

(a) A full prospectus must be prepared and lodged with ASIC;

(b) The Capital Raising must reach minimum subscription;

(c) Compliance with the minimum shareholder spread conditions;

(d) Suitable structure and operations of the restructured Company;

(e) The Company must satisfy the assets test (sufficient assets and working capital);

(f) ASX must be satisfied that any new Director who is not appointed by Shareholders is of good fame and character; and

(g) A range of other corporate and administrative requirements must be met.

If Shareholders approve the Proposal but the Company is unable to meet the requirements of the ASX, then the Company could be removed from the Official List of the ASX entirely, if it is unable to rectify the situation in a timely fashion.

## 5. RESOLUTION 2

Resolution 2 seeks Shareholder approval to change the name of the Company to:

**Living Cities Development Group Limited**

The name has been chosen to reflect the type of developments that the Company intends to pursue, being those that provide homes and infrastructure to support the lifestyle of modern urban communities.

Section 157 of the Act requires that the approval to change the name of a company be put to shareholders as a Special Resolution. A Special Resolution is one that must be passed by at least 75% of the votes cast by members entitled to vote on the Resolution.

## 6. RESOLUTION 3

Resolution 3 seeks Shareholder approval to consolidate the capital of the Company on the basis of 1 Post Consolidation Share for every 40 Shares held prior to the consolidation.

On a consolidation, each Shareholder will still hold the same proportion of the Company after the consolidation that was held before the consolidation. The only difference is that the Shareholder will hold less Shares of a higher value each.

The consolidation is included in the Proposal to better position the Company for the future by reducing the total number of Shares on issue and raising the price per Share. This is utilised when the new Post Consolidation Shares are issued to Shareholders and Yaopeng, both at 20 cents per Share, which is the nominal starting value of the Company's Shares after the Proposal is implemented.

This Resolution 3 is not contingent on the passage of any other Resolution in the Notice.

Section 254H of the Act provides the right for a company convert the number of its Shares to a smaller number with the approval of shareholders at a General Meeting.

Listing Rule 2.1 Condition2 states that the issue price or sale price for all securities must be at least 20 cents at initial quotation. This requirement will apply to the re-quotation of the Company's Shares.

If passed, the consolidation will take place on the fifth Business Day following approval of Resolution 3 at the General Meeting. All of the Share issues proposed in the Notice under the terms of the Proposal will then be completed at 20 cents per Share. All Shareholding percentages and voting power in this Notice (including the Report) are on a post-consolidation basis unless otherwise specified.

In the event of Shareholders having a fraction of a Share upon consolidation, the Directors are authorised to round the Shareholder's holding up to the nearest whole number of Shares.

The Company has no options currently on issue.

The Company will have no convertible notes on issue by the date of the consolidation.

## 7. RESOLUTION 4

Resolution 4 seeks the approval of Shareholders to issue up to 15,000,000 Post Consolidation Shares at A$0.20 each to raise up to $3,000,000 pursuant to a Capital Raising by way of a full prospectus.

The Capital Raising will consist of a Priority Offer and a General Offer under the terms of the Prospectus.

**The Priority Entitlement Offer**

The Company will offer up to 7,500,000 Post Consolidation Shares (of the 15,000,000 Post Consolidation Shares being offered under the Capital Raising) in priority to existing Eligible Shareholders holding Shares of the Company on the Record Date, which date shall be five business days after the Meeting to approve Resolution 4 ("the Priority Entitlement Offer").

Eligible Shareholders will be entitled to apply for Shares under the Priority Offer, provided they meet the minimum subscriptions requirements of 10,000 Post Consolidation Shares. The balance of the Shares available under the Capital Raising and any Entitlement Offer Share not subscribed for, will form the pool of Shares for the General Offer. Shares offered under the Priority Offer and the General Offer will be subject to the terms and conditions of the Prospectus.

All related parties of the Company, including Yaopeng and TFA are excluded from participating in the Capital Raising. The Directors have also determined that it will not be viable to make the offer under the Prospectus to Shareholders and other investors whose registered address is located in jurisdictions outside Australia and New Zealand due to the small number of potential applicants and the resulting prohibitive cost of complying with the laws in those jurisdictions.

As a consequence of these exclusions, the Capital Raising is neither a pro rata issue, nor a rights issue for the purposes of the Act and the Listing Rules. Therefore Resolution 4 seeks Shareholder approval of the Capital Raising for the purposes of Listing Rule 7.1.

Listing Rule 7.1 relevantly prohibits the Company from issuing more than 15% of new shares in the capital of the Company in any 12 month period without the approval of shareholders. There are exceptions to LR 7.1 but these are not applicable in this instance.

Resolution 4 is conditional on the approval all other Resolutions in the Notice except Resolution 2 and Resolution 8.

Listing Rule 7.3 sets out the Notice requirements for approval by Shareholders in accordance with LR 7.1 and these are as follows:

(a) Maximum Number of Shares to be issued:

15,000,000 Post Consolidation Shares

(b) The date on which the Shares will be issued:

The Shares will be issued progressively, no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any waiver or modification of the ASX Listing Rules).

(c) The issue price of the securities:

20 cents per new Post Consolidation Share

(d) The names of the persons to whom the securities will be issued:

The Shares will be issued pursuant to the Prospectus and allocated at the discretion of the Company. No related party of the Company will participate in the Capital Raising.

(e) The terms of the Securities:

The Shares will be fully paid ordinary Post Consolidation Shares of the Company and will rank equally in all respects with the Company's existing Post Consolidation Shares on issue.

(f) The intended use of the funds raised:

The Company will apply the funds raised to the implementation of its first property development project and for working capital purposes as detailed in Section 3.11.

(g) Voting Exclusion Statement:

A voting exclusion statement is included in the Notice.

## 8. RESOLUTIONS 5, 6 AND 7

**Resolution 5** seeks the approval of Shareholders to issue Shares to Yaopeng International Trade Pty Ltd or its nominee to retire up to A$1,950,000 owed by the Company to Yaopeng. This component of the Proposal is aimed at clearing the significant debt of the Company. This debt to equity conversion offer is at the same issue price as the Capital Raising to Shareholders and the public.

**Resolution 6** seeks the approval of Shareholders to issue Shares to Yaopeng International Trade Pty Ltd or its nominee for cash to raise up to A$2,500,000. This component of the Proposal forms part of the recapitalisation of the Company. This placement of Shares will be at the same issue price as the Capital Raising to Shareholders and the public.

**Resolution 7** seeks the approval of Shareholders to issue Shares to Yaopeng International Trade Pty Ltd or its nominee for cash, if required, in satisfaction of a partial underwriting of A$500,000 of the Capital Raising. This partial underwriting commitment has been offered by Yaopeng to boost the chances of a successful capital raising in the current challenging market conditions.

If other underwriting can be secured by the Company, then Yaopeng will not proceed with the partial underwriting. If however, as is likely, the partial underwriting is required, Yaopeng will enter into a partial underwriting agreement with the Company on normal commercial arm's length terms.

The issue of Shares under the partial underwriting of Shares will be at the same issue price as the Capital Raising to Shareholders and the public. If Yaopeng is called upon take all the shares in its proposed partial underwriting, due to a shortfall in the Capital Raising, the result will be that Yaopeng (including TFA) will increase its holding post-Proposal from 54.8% to 61.6% (on a minimum subscription basis).

Approval is sought from Shareholders under Resolutions 5, 6 and 7 in respect of Section 611 Item 7 of the Act and the information requirements are specified in Section 3.15 of this Notice.

Approval is also sought from Shareholders under Listing Rule 10.11 for Resolutions 5, 6 and 7. Listing Rule 10.11 relevantly prohibits the Company from issuing securities to a related party of the Company without the approval of shareholders. There are exceptions to LR 10.11 but these are not applicable in this instance.

Pursuant to Listing Rule 7.1 Exception 14, where an approval is granted by Shareholders under LR10.11, approval is not required under LR7.1.

Listing Rule 10.13 sets out the Notice requirements for approval by Shareholders in accordance with LR 10.11 and these are as follows:

(a) Maximum Number of Shares to be issued:

Resolution 5: Up to 9,750,000 Post Consolidation Shares.

Resolution 6: Up to 12,500,000 Post Consolidation Shares.

Resolution 7: Up to 2,500,000 Post Consolidation Shares.

(b) The date on which the Shares will be issued:

The Shares issued under Resolutions 5, 6 and 7 will be issued at the same time as the Shares issued under the Capital Raising in accordance with the terms of the Prospectus.

(c) The issue price of the securities:

20 cents per new Post Consolidation Share

(d) The names of the persons to whom the securities will be issued:

Resolution 5: Yaopeng International Trade Pty Ltd or its nominee

Resolution 6: Yaopeng International Trade Pty Ltd or its nominee

Resolution 7: Yaopeng International Trade Pty Ltd or its nominee

(e) The terms of the Securities:

The Shares will be fully paid ordinary Post Consolidation Shares of the Company and will rank equally in all respects with the Company's existing Post Consolidation Shares on issue.

(f) The intended use of the funds raised:

Resolution 5: No funds will be raised by this issue, which is intended to extinguish existing debt.

Resolution 6: The Company will apply the funds raised to the acquisition of the Project interest and for initial project development commitments, as well as for working capital purposes as detailed in Section 3.11.

Resolution 7: The Company will apply the funds raised to the Project and for working capital purposes as detailed in Section 3.11.

(g) Voting Exclusion Statement:

Voting exclusion statements are included in the Notice.

Please refer to Section 3.23 for details of the effects on the Company these Resolutions are not passed.

## 9. RESOLUTION 8

Resolution 8 seeks the approval of Shareholders for the Directors to issue up to 750,000 Post Consolidation Shares in aggregate ("the Advisor Shares") to one or more Advisors whom the Company might engage to provide services in support of the Capital Raising by way of the Prospectus.

Advisors must not be related parties of the Company and must hold an Australian Financial Services License. The Directors reserve the right to issue such number of the available Advisor Shares as they see fit to one of more Advisors.

Listing Rule 7.1 relevantly prohibits the Company from issuing more than 15% of new shares in the capital of the Company in any 12 month period without the approval of shareholders.

Therefore Resolution 8 seeks Shareholder approval for the issue of the Advisor Shares for the purposes of Listing Rule 7.1.

Resolution 8 is not conditional on the approval of any other Resolutions in the Notice.

Listing Rule 7.3 sets out the Notice requirements for approval by Shareholders in accordance with LR 7.1 and these are as follows:

(a) Maximum Number of Shares to be issued:

750,000 Post Consolidation Shares

(b) The date on which the Shares will be issued:

The Shares will be issued progressively, no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any waiver or modification of the ASX Listing Rules).

(c) The issue price of the securities:

The Advisor Shares will be issued for nil cash consideration as they will be issued in consideration of the introductions, facilitation and/or management services provided by the Advisors in connection with the Capital Raising.

(d) The names of the persons to whom the securities will be issued:

The Shares will be issued to Advisors pursuant to the Prospectus and allocated at the discretion of the Company in proportion to the nature of the services provided as determined at the absolute discretion of the Directors. No related party of the Company will participate in the offer.

(e) The terms of the Securities:

The Shares will be fully paid ordinary Post Consolidation Shares of the Company and will rank equally in all respects with the Company's existing Post Consolidation Shares on issue.

(f) The intended use of the funds raised:

No funds will be raised from the issue as the Advisor Shares will be issued in consideration for services provided.

(g) Voting Exclusion Statement:

A voting exclusion statement is included in the Notice.

**Annexure A**

Independent Technical Specialist Report

Zigong Guodun Farmers Market

your trusted value adviser



# Ferrowest Limited
## Guodun Farmer's Market Complex

Independent Technical Specialist's Report

21 October 2015

中联资产评估集团（澳大利亚）
CHINA UNITED ASSETS APPRAISAL GROUP（AUSTRALIA）

China United Assets Appraisal Group (Australia)

## Table of contents

1. Introduction ....................1
2. Background ....................1
3. Purpose of the Assignment ....................1
4. Scope ....................1
5. Executive Summary ....................2
6. Other Matters ....................3
7. Glossary of terms ....................4
8. Exchange rate assumption ....................5
9. Investment overview ....................5
10. Project overview ....................6
10.1 Zigong and Urban District Planning Area introduction ....................6
10.1.1 Zigong location ....................6
10.1.2 Zigong Urban District Planning Area ....................7
10.1.3 Location ....................7
10.2 Urban District Planning Area Phase 1 ....................7
11. Guodun Farmers Market Complex ....................9
11.1 Project background ....................9
11.1.1 Land rights ....................9
11.1.2 Other rights on land ....................9
11.1.3 Land acquisition price ....................9
11.2 Project planning ....................9
12. Market analysis ....................10
12.1 Status of china's macro-economy and commercial real estate ....................10
12.1.1 Overall situation of China's commercial real estate in 2015 ....................10
12.1.2 China's macro-economy ....................11
12.1.3 Commercial land market ....................12
12.1.4 Commercial market segmentation ....................13
12.2 Current situation and trend analysis of China's commercial real estate ....................14
12.2.1 Key trends in China's commercial real estate sector ....................14
12.2.2 Three problems of China's current commercial real estate ....................14
12.3 Real estate policies in Zigong City ....................15
12.4 Market characteristics of the underlying project ....................15
13. Project approval and financial overview ....................17
13.1 Project development approval ....................17
13.2 Project specifications ....................17
14. Project financial overview ....................18
14.1 Project development investment and cost estimates ....................18
14.2 Sales forecast ....................19
14.3 Project financial position ....................20
14.4 Project financial performance ....................20
14.5 Restrictions on transferring profit from Chinese operations to Australia ....................21
15. Project risk ....................21
16. Status of development approvals ....................21
16.1 Basis of key assumptions ....................22
16.2 Other considerations ....................22
17. Conclusion ....................22

18.Shareholder's Decision ........ 22
19.Limitations and Reliance on Information ........ 22
20.General advice only ........ 23
21.Independent disclosure ........ 23
Appendix 1 – Financial Services Guide ........ 24
Appendix 2 – Statement of Qualifications and Declarations ........ 26
Appendix 3 – Document reference list ........ 29

21 October 2015

The Independent Directors
Ferrowest Limited
3 Camden St,
Belmont WA 6104

Dear Sirs

**RE: Guodun Farmer's Market Complex Independent Technical Specialist Report**

# 1. Introduction

China United Assets Appraisal Group (Australia) Co Pty Ltd ["CUAAGA"] is pleased to provide its Independent Technical Specialist's Report in relation to the Guodun Farmer's Market Complex ["the Project"] in Zigong, China per our engagement letter dated 16 July 2015.

# 2. Background

Ferrowest Limited ["the Company" or "FWL"] is a listed Australian public company (ASX: FWL) quoted on the ASX since 2006. The Company's shares are currently in voluntary suspension pending a proposal from the Company's major shareholder, TFA International Pty Ltd to restructure the Company's primary operations from mineral exploration to property and infrastructure development ["the Proposal"].

The Proposal is being put to shareholders in early October and if approved, will see the Company acquire the rights to its first property development project in Zigong, China. Subject to shareholder approval, the Company will prepare a prospectus (a standard full disclosure document) for a Priority Entitlement Issue ["PEI"] to existing shareholders, with any shortfall marketed to the broader market.

FWL's independent directors have sought an Independent Technical Specialist Report ["ITSR"] to review aspects of the proposed development project in Zigong.

# 3. Purpose of the Assignment

The Independent Directors of FWL have appointed CUAAGA to prepare an ITSR to inform investors on the Project and specifically its prospects and risks. The ITSR has been undertaken by suitably knowledgeable technical experts (see Appendix 2 for qualifications) to ensure that the directors have, through the publishing of the ITSR, made reasonable inquiries about the Project and reasonable statements in this regard and also that the Directors will have reasonable belief that they have not omitted material information about the Project.

# 4. Scope

FWL is registered in Australia and, as such, needs to comply with Australian regulatory requirements. There is no specific Corporations Act requirement for the ITSR. Consequently, the Australian Securities and Investments Commission ["ASIC"] guidance contained in Regulatory Guide 111 – Content of Expert Reports ["RG111"], ASIC Regulatory Guide 112 - Independence of Experts ["RG 112'] and ASIC Regulatory Guide 74 – Acquisitions

Approved by Members ["RG 74"] as well as Clause 8303 of Schedule 8 of the Corporations Regulations have been considered and adopted where appropriate.

The scope of this ITSR specifically focuses on informing FWL Shareholders on the Project, its prospects and risks.

## 5. Executive Summary

The following points summaries the key conclusions set out in our report. This summary highlights some of the key points of the report. We encourage shareholders to read the entire report for a complete understanding of its prospects and risks.

Chinese property industry exhibits the following trends:

- Commercial real estate continues to grow rapidly, and regional bubble-risk is increasing.
- Local government planning has resulted in some areas being oversupplied with commercial real estate and some areas being undersupplied.
- The demand for commercial retail space is being negatively impacted by slowing growth in retail sales and growth in e-commerce.
- In general, rental rates are reducing and vacancy rates are growing, particularly in second and third tier cities.
- There is a shortage of retail expertise contributing to the lack of success of some retail ventures.

However, Guodun Farm Market in Zigong is unique compared to most of the commercial properties, which is largely due to:

- The population and economy in Zigong which is expected to grow rapidly;
- Current farmers markets in the area are inadequate to meet either current or forecast demand, and
- E-commerce is not yet a threat to bricks and mortar retail that sells fresh produce in China.

## 6. Other Matters

This report constitutes general financial product advice only and has been prepared without taking into consideration the individual circumstances of the shareholders of FWL. The decision to accept or reject the Proposed Transactions is a matter for individual shareholders. Shareholders of FWL should consider the advice in the context of their own circumstances and preferences. Shareholders of FWL who are in doubt as to the action they should take in relation to the Proposed Transaction should consult their own professional adviser. In developing this report we have relied upon representations provided by management. Although we have considered the reasonableness of the information provided, we have not conducted an audit or due diligence.

Our advice represents information provided to us as at the date of the report. Circumstances or information could change that could alter the conclusions in the report. The proposed investment is an early stage investment and as such could result in a wide range of outcomes. Typically early stage investments have high potential returns but these are associated with significant risks and uncertainty.
CUAAGA is a corporate authorised representative of Capital Value Securities which holds Australian Financial Services License number 311705.

CUAAGA has prepared a Financial Services Guide in accordance with the Corporations Act, 2001. This is included in Appendix 1 to this report.

Our opinion is made as at the date of this report and reflects circumstances and conditions as at that date. This letter must be read in conjunction with the full report.

Yours faithfully

Michael Churchill
Director

Mofei Xiong
Director

## 7. Glossary of terms

| | |
|---|---|
| ASX | Australian Securities Exchange |
| ATO | Australian Tax Office |
| AUD | Australian Dollar |
| CUAAGA | China United Assets Appraisal Group (Australia) Co |
| DCF | Discounted Cash Flow |
| FWL | Ferrowest Ltd |
| $m^2$ | Square metres |
| Minority interest | A significant but non-controlling ownership of less than 50% of a company's voting shares by either an investor or another company |
| New City Development Zone | A new area of the city that is being promoted by the Government |
| NDRC | National Development and Reform Commission |
| Project or The Project | Guodun Farmer's Market Complex located within phase 1 of the New City Development Zone |
| RG 111 | Regulatory Guide 111 – Content of Expert Reports |
| RG 112 | Regulatory Guide 112 - Independence of Experts |
| CNY | Chinese Yuan (direct quotation as at 3-Aug-15: AUD 1 = CNY 4.5313) |
| Small-cap | Small market capitalisation |
| SFP | Sichuan FuChang Property Co. Ltd |
| UDPA | Urban District Planning Area |
| USD | United States Dollar |

## 8. Exchange rate assumption

1. The project is located in China and CNY is the operating currency. All exchange rate between CNY and AUD used in this report was based on the exchange rate of AUD 1 = CNY 4.5313 as at 3 August. Exchange rates of both currencies have changed against the USD recently. We are not an expert in exchange rate forecasting. The exchange rate as at 3 August 2015 has been used throughout this report.

## 9. Investment overview

2. Sichuan FuChuang Property Co., Ltd ["SFP"] is a Chinese property development company which wholly owns the Guodun Farmer's Market project in Zigong near Sichuan Province, Central China.

3. SFP obtained a People's Republic of China Property Development Enterprises Qualification (provisional level) Certificate of the People's Republic of China, issued by the Ministry of Housing and Construction Department on 26 May 2015 (valid until on 26 May 2018), authorising SFP to operate as a real estate developer in China.

4. Key investment target information is detailed in the following table.

**TABLE 1 KEY INVESTMENT TARGET INFORMATION**

| Investment overview | |
|---|---|
| **Company name** | Sichuan FuChuang Property Co., LTD |
| **Company type** | Limited liability company (natural investment or holding) |
| **Company address** | No. 10, level 7, Yingxiang Business center, Dangui Committees 37, HuiDong district, Zigong |
| **Legal representative** | Jingda Song |
| **Registered capital** | $1,942,048 |
| **Business licence number** | 510300000047124 |
| **Business scope** | Property development (with qualification certificates), financing consultation, project technical consultation. |

5. SFP was established in March 2011 with registered capital of AU$1,942,048 (8,800,000 CNY). As of the date of this report the paid-in capital was AU$1,942,048. Details of SFP major shareholders are outline in table 2.

**TABLE 2 SHAREHOLDER STRUCTURE**

| Shareholders | Equity contribution (AUD) | Proportion |
|---|---|---|
| Jingda Song | 1,009,865 | 52% |
| Huiming Feng | 932,183 | 48% |
| **Total** | **1,942,048** | **100%** |

# 10. Project overview

## 10.1 Zigong and Urban District Planning Area introduction

6. The Urban District Planning Area ["UDPA"] is located in Zigong, China. The project is a pre-construction stage, mixed-use commercial and residential property development site which aims to capitalise on a unique location, proximate to Sichuan province and existing established populations, industry infrastructure and tourism. The Zigong Guodun Farmer's Market is located within the first phase of the UDPA development precinct.

### 10.1.1 Zigong location

7. Zigong is located to the south east of the Sichuan Basin in Central China (east longitude 104 ° 2 '- 105 ° 11', north latitude 28 ° 55 '- 29 ° 38') with an area of 4,373 km$^2$ and a population of 3.2 million.

**ZIGONG MAP**


8. Geographically, Zigong is characterised by low hills to the south of the region (average elevation: 250m – 500m) with higher mountains to the North (up to 900m). The region is bisected by several major rivers that form the Tuojiang and Minjiang river systems. Zigong is a historic and cultural city, whose unique geographic characteristics serve to enhance its many tourist attractions.

9. Zigong's neighbours are Neijiang and Luzhou City in the east, Yibin in the South and Leshan in the west. Zigong is strategically located near major rail infrastructure including Neijiang-Kunming railway, Chengdu-Chongqing railway, as well as major road infrastructure including the Chengdu-Chongqing Neiyi, Neile and Zilu expressways.

10. Zigong is one of the key second tier cities in the Sichuan province and is a major regional centre for southern Sichuan. Careful urban planning initiatives have seen the city develop as both a major industrial and tourism centre for the region.

### 10.1.2 Zigong Urban District Planning Area

11. In order to further encourage new urban development in Zigong, the Government has zoned a new area proximate to an existing industrial park (Bancang Industry Zone) in the North of Zigong. This pre-construction phase development is intended to accommodate the growing high-tech industry and a range of residential accommodation and amenity for the associated labour force.

12. The newly-zoned area is strategically located near major existing transport infrastructure including the Neiyi expressway. While the new development presents several synergistic opportunities in providing additional capacity to the nearby Bancang Industry zone, it also presents further opportunities to develop cultural education sites, sustainable residential development as well as improving upon existing public amenities to integrate the existing three major metropolitan areas of Zigong.

### 10.1.3 Location

13. Zigong Yantan New District is approximately 4.88 km$^2$. The first phase of development is 2.63 km$^2$ (excluding a marine area). The planning area is centrally located in Zigong between the Bancang Industrial Zone and the existing Laomanqiao Urban Country Wild Park as well as the proposed Chinese Salt Spring Holiday Leisure Base. Three main arterial roads including the Neiyi Expressway, City South Circular Road (provincial road S305 line), and Sichuan-Yunan Expressway surround the Urban Planning Area.

## 10.2 Urban District Planning Area Phase 1

14. Yantan New District was constructed in 1953 and is located in Zigong City South Gate, bordering the Daan region to the north covering an area of 462km$^2$.

15. The region has an average elevation of between 300m-400m. There are 16 towns and 151 villages with a total population of approximately 376,000 as well as a Provincial Demonstration Zone of Economic Development. While agriculture is the primary industry for the region, as much as 10% (42,000) of the existing population service non-agricultural industries.

16. The planned UDPA benefits from a stable and established ecological environment and encompasses a region of more than 20 hectares around South Lake.

17. Existing road infrastructure connects the major towns and villages in a grid formation surrounded by a major ring road to integrate the urban and rural road networks.

18. UDPA connects to the Wolong Lake Ecological Tourist Area in the south and benefits from close proximity to both the Bancang Industrial zone and major roads in the area.

19. The UDPA development also benefits from close proximity to existing and developed infrastructure. The following table outlines the current status of essential infrastructure in the New City Zone area.

## TABLE 3 CURRENT STATUS OF INFRASTRUCTURE CONSTRUCTION

| Service | Description |
|---|---|
| Water | Waterworks with capacity of 5,000 t/day against daily forecast demand of 1,000 t |
| Electricity | Three 10KV transmission lines from Daijia dam substation proximate to the New City Zone |
| Telecommunications | Existing telecommunication connectivity services to the whole park and new city zone with cable, mobile and network communication facilities. |
| Gas | One gas supply station with a daily capacity of 20,000 m3 |
| Waste management | Two major sewage treatment parks |
| Transport | Extensive existing road network connecting each village supported by comprehensive public transport providing 33 routes |

# 11. Guodun Farmers Market Complex

## 11.1 Project background

20. The Guodun Famers Market Complex is a planned 7 story (including basement) mixed-use retail and residential property development project in the UDPA phase 1 development in Zigong.

### 11.1.1 Land rights

21. The target land for the project has been obtained according to the State-Owned Land Use Right Transfer Contract (contract number: 51020020130041) and land use license (2013) No. 111175.

22. According to land use license records, the land is located in C-11-1 block of the new district Yantan of Zigong and covers an area of 9,057m². The land has been zoned for commercial application and the land rights have a life of 40 years (expiring 3 June 2053).

### 11.1.2 Other rights on land

23. Financing for the land acquisition has been provided by Harbin Bank Co., Ltd (Chengdu)["Harbin"] from 9 December 2014 to 8 December 2015 for a principal amount of AU$2,648,247.

### 11.1.3 Land acquisition price

24. SFP has been granted a lease over the land for 40 years commencing 2011 for a total consideration of AU$5,546,570 ($612/m²).

## 11.2 Project planning

25. According to information provided by SFP from the Zigong Urban and Rural Planning, Construction and Housing Security Bureau, the following planning requirements (shown below) are imposed on the development. These planning requirements are detailed in Land Planning Condition C - 11-1 letter (self-planning construction letter [2012] No. 413).

**TABLE 4 PROJECT DEVELOPMENT REQUIREMENTS**

| Criteria | Unit/description |
|---|---|
| Planning land area | 9,133 m² |
| Land use | Commercial use (no less than 4,000m2 of the Farmer's Market should be constructed on this block |
| Volume rate | 1.4 or less |
| Building density | 40% |

*All planning index calculation should be in accordance with Zigong planning management technical regulations.*

# 12. Market analysis

## 12.1 Status of china's macro-economy and commercial real estate

### 12.1.1 Overall situation of China's commercial real estate in 2015

26. In the second quarter of 2015, China's commercial real estate index (CCI) increased by 3.6 to 141.2, up by 2.6% over the last quarter and 8.6% over the last year, with the overall trend steadily rising.

FIGURE 1 CHINA'S COMMERCIAL REAL ESTATE INDEX


*Source: RET Rui Yi De China Commercial Property Research Centre*

## 12.1.2 China's macro-economy

FIGURE 2 CHINA'S MACRO-ECONOMY INDEX


*Source: RET Rui Yi De China Commercial Property Research Centre*

27. China Monthly Macro-economy Statistics provides the latest government statistics on Chinese economic development, including industrial production, transport, price indices, domestic trade, investment in fixed assets, household income and expenditure. This data is exclusively authorized by the National Bureau of Statistics of China, and provides the monthly statistics on Chinese macro-economic development. It is believed to be the most comprehensive, authoritative and timely database of Chinese macro-economic statistics.

28. In the second quarter of 2015, China's macro-economy index decreased by 2.0 to 131.0, down by 1.5% over last quarter but up by 10.3% over last year. The fall in the index in the second quarter was largely driven by a seasonal decline in disposable income per capita. The year-on-year growth rate averaged 9%.

29. In the first half of the 2015 calendar year the nation's gross domestic product (GDP) grew by 7%, fuelled by the rapid growth of the tertiary sector and strong government reform measures. After repeated cuts in interest rates and the reserve requirement ratio (RRR), the central bank is releasing more mid/long-term liquidity with lower cost. Currently, China is trying to raise the consumption level and to ensure steady economic growth with measures including cuts in corporate tax and interest rate. The effects of economic reform measures are expected to appear in the third quarter of the 2015 calendar year. Government measures to boost domestic demand and develop the service sector have had some success, with the tertiary industry now accounting for 49.5% of GDP, 5.8 percentage points higher than the secondary industry. Meanwhile, consumption has become the main driver of economic growth, and liberal economic policies are expected to continue, stimulating domestic demand and trade growth.

30. China has recently experienced challenging conditions with moderating growth, increasing debt and a declining stock market. Given increased risks, surplus capital may flow from shares and residential real estate into other areas, including low risk profitable commercial real estate opportunities in the more stable first-tier cities.

### 12.1.3 Commercial land market

31. In the second quarter of 2015, China's commercial land index (CLI) increased by 7.0 to 106.8, up by 7.0% over last quarter and 9.9% over last year. The growth of the index in the second quarter was largely fuelled by an increased transaction ratio of commercial land, which reached 39.8% in this quarter, the highest since 2013.

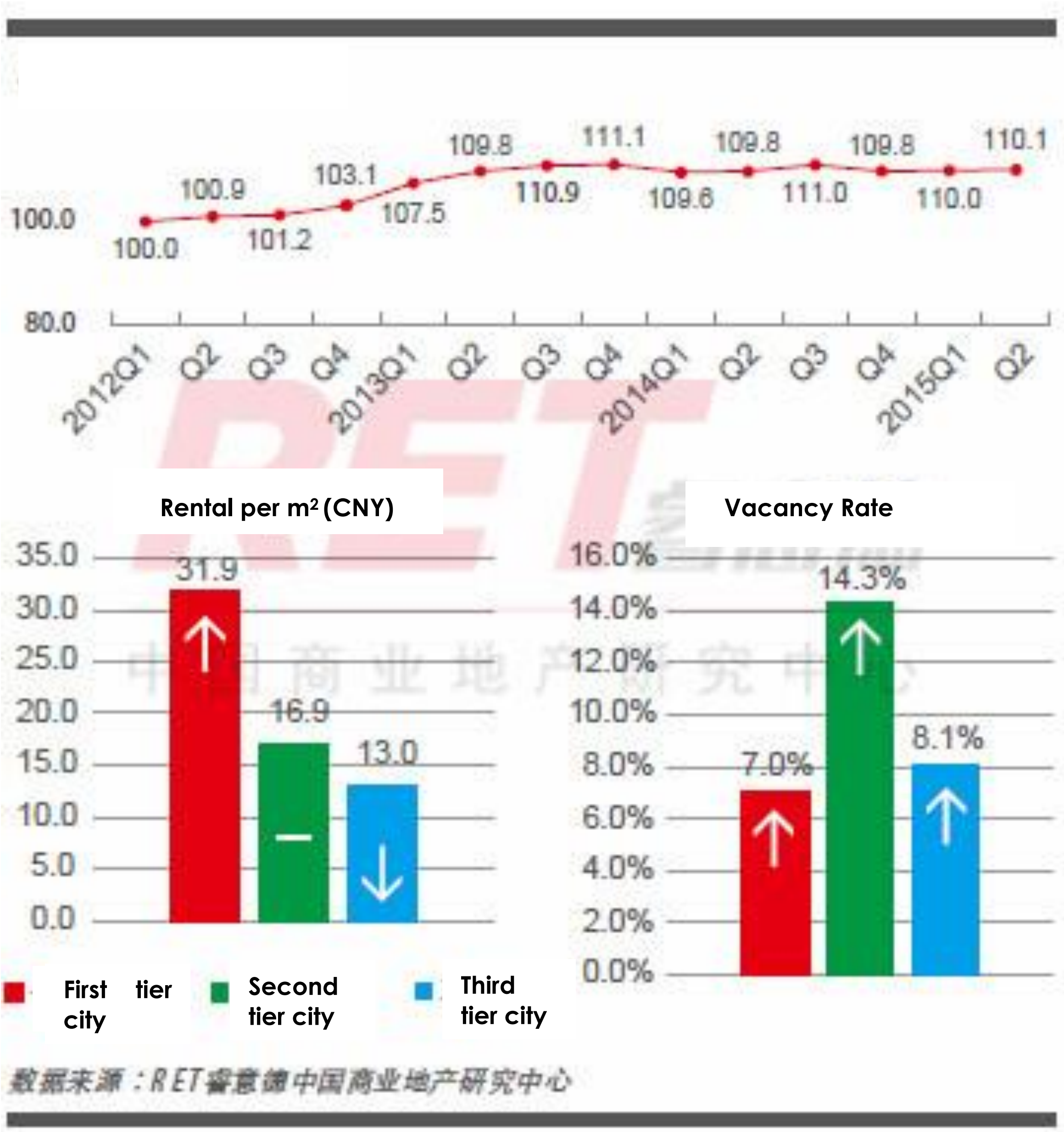
32. The overall transaction volume in the land market was down by nearly 60% compared with the average of the previous two quarters. The primary contributor for this fall was residential housing transactions with the transaction volume of residential land down by nearly 70% compared with the average of the previous two quarters. In contrast, the transaction volume of commercial land remained buoyant, with an average nearly 40% higher than the average of any quarter since 2013. The significantly improved transaction volume in second and third-tier cities was the main reason for the sustained high transaction volume of commercial land. According to the second quarter report of the China Commercial Property Report, the proportion of transactions from second and third tier cities increased from 90% to 95% over the last three quarters and the unsold rate had reduced.

33. In the previous two quarters, the introduction of many quality parcels of commercial land caused the commercial transaction floor price rise to the highest level since 2013; however the distribution of transactions of residential land, which shifted towards the central urban areas, promoted a greater increase in the floor price of residential transactions.

34. The premium ratio of transactions of commercial land compared to residential land fell. Accelerated by the land parcels in the central urban areas, the premium rate for transaction of residential land rose significantly, while that of commercial land was stable, mostly sold at approximately reserve price.

### 12.1.4 Commercial market segmentation

**FIGURE 3 CHINA'S COMMERCIAL PROPERTY INDEX**




*Source: RET Rui Yi De China Commercial Property Research Centre*

35. In the second quarter of 2015, China's Commercial Property Index (CRI) slightly increased by 0.1 to 110.1, up by 0.1% over last quarter and 0.3% over last year.

36. The rent in the second quarter in first-tier cities rose significantly, which was boosted by the substantial completion of upgrading of most shopping malls during this round. However, the difference between expected rental income from shopping centres management and expected rental expenses from commercial tenant triggers more issues. In many shopping centres, high vacancy rates are directly due to high rental expectations that potential tenants are unable to meet. In the second half of the year, the commercial market is expected to experience another wave of investment. However, due to decentralized projected buildings

and differentiated competitive strategies, the expected rents will remain at a stable level.

37. Zigong is a second tier city in China. Average rent growth has moderated in the first half of 2015 in second tier cities. Shopping malls in second tier cities have responded to increasing competition for new renters via a variety of strategies, including integrating Internet, introducing new brands and reducing rents. In the second half, second-tier cities will continue to have an overhang in supply and it is expected that overall vacancy rates will rise. Rent levels of quality shopping malls have stabilized and are expected to remain stable, while the rental rates of those with lower occupancy rates and remoter location will fall further.

38. In third-tier cities, existing shopping malls were impacted by e-commerce (i.e. online shopping) and new shopping malls, resulting in closure of many traditional department stores due to their weakened competitiveness. In this context, rents reduced significantly in this quarter, and the vacancy rate also rose significantly.

## 12.2 Current situation and trend analysis of China's commercial real estate

### 12.2.1 Key trends in China's commercial real estate sector

39. Key trends in China's current commercial real estate include:
    a. Commercial real estate continues to grow rapidly, and regional bubble-risk is increasing.
    b. Growth in retail sales is slowing down,
    c. Mergers and acquisitions of commercial projects occur frequently, and
    d. With the great increment of e-commerce and the varying sizes of physical stores, there are a diverse range of retail modes.

### 12.2.2 Three problems of China's current commercial real estate

#### 12.2.2.1 Overall lack of regional planning, and imbalance in commercial distribution

40. Many local governments have not provided a comprehensive arrangement on urban planning and commercial network planning, rigidly setting the ratio of commercial land and residential land, and lacking an overall consideration on the economic development patterns and population distribution of the entire city. Some developers pursuing short-term profit have adopted a sales-oriented development model, usually leading to inadequate market research in the early stages, poor planning in the later stages, and lack of management attention. This has directly caused over-crowded commercial projects in the market in 'hot' urban areas, but inadequate commercial facilities in other areas, showing an unbalanced commercial layout of the entire city.

#### 12.2.2.2 Inexperienced developers

41. Rent and vacancy rates are the two most important indicators reflecting the value of the shopping mall. The current situation showed falling rent and rising vacancy rate. For instance, the vacancy rate of commercial shopping mall in Shenyang is as high as 24.3%, ranking first in the country. Vacancy rates of retail space in quality business districts in Beijing and Guangzhou are 11.5% and 10.0%, respectively. Among second-tier cities, the vacancy rates in Chengdu and Shenyang reach 10.6% and 20.2%. One crucial reason for this situation is that the developers are inexperienced in developing and operating commercial real estate.

#### 12.2.2.3 Financing bottleneck has restricted the paradigm shift in enterprise development and management

42. With large investment, long cycles, and slow returns, the development and operation of commercial real estate is significantly different from residential housing, but well-operated projects can achieve high returns and prolonged profits. Today, in addition to traditional bank loans, there are a variety of financial products, such as overseas issuance of notes, trust funds, and private placements, but they are typically high cost and thus not matched to the demands of commercial real estate.

## 12.3 Real estate policies in Zigong City

43. On the 19th November 2014, Zigong Municipal People's Government issued the "Opinions on Promoting the Stable and Healthy Development of the Real Estate Sector" (No.18 issued by Zigong Municipal People's Government [2014]). Highlights of the new policy include: 1. Relaxed restrictions on down payment and interest rate floor which may stimulate consumer interest; 2. The house-purchasing grant supported by government will boost market confidence; 3. The lowered costs of developers will reduce the difficulties in developing and provide more channels for housing resources to enter the market; 4. The gross adjustment of the real estate market from the perspective of planning control over land will support the stable and healthy development of the real estate market in Zigong from the beginning.

## 12.4 Market characteristics of the underlying project

44. The project is located at the intersection of Times Avenue and Guyandao Street, Yantan New District, Zigong City, with JunHaoYuYuan in the east, GuanLan and LongHuShangCheng in the west, the commercial centre of ChuangXingCheng in the south, and Wangs' Grand Courtyard, the tourist attraction built by government, in the north. The project takes up an area of 9,133 $m^2$ in a parcel long and narrow in the north-south direction. The planned total construction area is approximately 18,000 square meters, with a total of five stories, as the complex building of farmers market.

45. The proposed development services residents in the core area of the Nanhu New District and the whole Yantan New District. The Nanhu New District occupies an area of 8.2 square kilometres, with an expected future population of about 75,000, and the Yantan New District takes up an area of 5 square kilometres, with an expected future population of about 57,000.

46. The project is located at Yantan New District, which is next to Nanhu New District. Nanhu is the central of the new city planning zone, strategically designed to provide additional features to the key areas of the city. Yantan New District is designed to be the residential supporting area for Bancang Industry zone.

47. Nanhu and Yantan will be built by the Zigong government and will become the new centre of Zigong in the future. They are intended to be the future centre of commerce in southern Sichuan. It is expected that these areas will have the highest land and housing prices in Zigong. There are high-end residential areas and commercial complex buildings within the two new districts, such as Nanhu YinXiang, Singapore Garden, Milan Spring, Oriental Venice, Nanhu International Community, Nanhu Mansion, Nanhu Jun, ShuiAnHaoTing, Jinyu International, Taifeng International City, Taifeng ITC, Huashang International City, ZiJingChengBang, Hengda Oasis, Longhu times, Longhu Jun, Longhu Forest, ChuangXingCheng, GuanLan, and JunHaoYuYuan. The urban area is supported by facilities such as the Nanhu Ecological Park, Nanhu Sports Center, Zigong Golden Apple Kindergarten, Zigong Huidong Experiment School Nanhu Branch

Campus, Zigong University for the Elderly, Longhu Landscape Theme Park, Daishan Hospital, Salt Merchants Culture Theme Park, and Zigong Vocational and Technical College. Currently, both urban districts have begun to take shape with basically complete infrastructure. Initial applications for residential communities have been submitted.

48. Road access to the developing area has been completed, Nanhu national park, Nanhu Sport Centre and Zigong Pingguo Childcare centre and the new branch of Huidong High School is expected to be completed. A new theme park and farms markets are still under planning.

49. The proposed development of Zigong means there is likely to be significant demand for a new farmers market development. Poor sanitation and outdated hardware facilities are common in Zigong's current farmers markets, with almost no soft infrastructure or with bad market management. The project is positioned as a standard modern farmers market, which is designed for the residents in Yantan New District and serves the surround regions, mainly selling fresh non-staple foods such as fruits and vegetables and simultaneously acting as a storage facility.

50. Despite the negative market condition of Chinese general property market, the improvement of vendor and customers in the Zigong is expected to attract potential buyers of the project. The modern and well-managed new farmer's market is ideally located to services the high-end residential areas. The unique position of Guodun Farmer's Market might be able to eliminate some of the development risk.

# 13. Project approval and financial overview

## 13.1 Project development approval

51. Planning documentation for the Guodun Farmer's Market Complex by SFP has been submitted to the Zigong Yantan Region National Development and Reform Commission (NDRC) on 3 June 2015. The following table outlines key project information.

### TABLE 5 GUODUN FARMER'S MARKET COMPLEX KEY DETAILS

| Item | Unit/description |
|---|---|
| Project name | Guodun Farmer's Market Complex |
| Location | C 11-1 Block, New City Zone, Yantan, Zigong |
| Land use | Total development area 18,279.8 m² including commercial housing 12,679.8 m² and basement 5,600 m² |
| Land area | 9,057 m² |
| Forecast investment | AU$10,592,986 |
| Capital source(s) | Sichuan Fuchuang Property Co., Ltd. |

## 13.2 Project specifications

52. The following table outlines the key technical specifications detailed in the development plan for the residential, retail, car parking and associated services for the Guodun Farmer's Market Complex.

### TABLE 6 PROJECT TECHNICAL SPECIFICATIONS

| Number | Planning name and area | Unit | Description |
|---|---|---|---|
| 1 | Net land area (m²) | title 9057 | 9,133 m² |
| 2 | Plot ratio | ≤1.4 | |
| 3 | Construction density (%) | ≤40% | Foundation area 3,615.92 m² |
| 4 | Construction height limit | ≤ meter | |
| 5 | Greening rate | ≥20% | |
| 6 | Total construction area (m²) | 17,834.61 | |
| 1 | Ground building area (m²) | 12,292.75 | |
| 1 - 1 | Commercial area (1st floor) (m²) | 3,620.72 | |
| 1 - 2 | Farmers market (2nd floor) (m²) | 4,145.60 | |
| 1 - 3 | Commercial area (3rd floor) (m²) | 2,832.38 | |
| 1 - 4 | Commercial area (4th floor) (m²) | 1,476.05 | |
| 1 - 5 | Commercial area (5th floor) (m²) | 218.00 | Office/commercial use |
| 2 | Underground construction mm(marea | 5,541.86 | |
| 2 - 1 | Equipment placement area (m²) | 1,388.87 | |
| 2 - 2 | Garage area (m²) | 3,388.71 | |
| 2 - 3 | Supermarket area (m²) | 764.28 | |
| 7 | Capacity building area (m²) | 382.14 | |
| 8 | Number of retail units | 129 | Approx. 129 residences assuming 100m²/residence |
| 9 | Parking | 63.00 | All underground parking |

# 14. Project financial overview

53. The Guodun Farmer's Market is at an early, conceptual stage and the financial estimates prepared by SFP are sufficient to illustrate prospective financial performance of the project.

54. We have reviewed the financial estimates provided by SFP and those estimates do not appear unreasonable for indicative, early-stage planning purposes.

55. In the absence of detailed design and cost estimates to validate the illustrative financial estimates prepared by SFP, we do not believe it would be appropriate to report the prospective financial performance of the Project.

56. The planning estimates and other calculations presented in this section should be regarded as indicative only and are based on industry standard costs for construction in Sichuan Province as at the date of this report.

57. Actual costs and other estimates could vary significantly depending on the timing of construction and as a result of detailed design and construction cost estimation.

## 14.1 Project development investment and cost estimates

58. The following table outlines the key development expenses expected to be incurred during construction of the Guodun Farmer's Market Complex. Total development expenses for the project are estimated to be AU$20,076,957.

### TABLE 7 PROJECT DEVELOPMENT INVESTMENT AND COST ESTIMATES

| | Project forecast development costs ($AU) Item | Description/unit | Collect fees (price/$m^2$) | Area $m^2$ | Amount AUD |
|---|---|---|---|---|---|
| 1 | **Land cost** | 55,442 $m^2$ | 127 | 2,603 | **7,061,991** |
| 2 | **Preliminary site appraisal expense** | | | | |
| | Construction project application fee | Total construction fee of $35/$m^2$. Cost of geological prospecting, seismic safety, water safety, environment assessment, energy conservation, anti-thunder assessment etc., of appoximately $0.66/$m^2$ | 3,936 | 163 | 641,547 |
| | Three supplies and one field engineering | Above ground construction area | 2,713 | 35 | 94,950 |
| | investigation and survey expense | Total construction area | 3,936 | 10 | 39,359 |
| | Geological survey and design expense | Total construction area | 3,936 | 25 | 98,397 |
| | Temporary facility expense (including fence, office etc.) | Total construction area | 3,936 | 3 | 11,808 |
| | **Total preliminary site appraisal expense** | | | | **886,061** |
| 3 | **Residential development** | | | | |
| | Construction safety expense | Above ground commercial | 2,713 | 1900 | 5,198,558 |
| | | Underground part (including commercial) | 1,223 | 1900 | 2,323,734 |
| | Outdoor engineering expense | Safety and protection system etc. | 3,936 | 100 | 393,587 |
| | Vegetation construction expense | Land area (20%) | 1,999 | 100 | 39,975 |
| | fire control facilities | Total construction area | 3,936 | 20 | 78,717 |
| | Supervision expense | Total construction area | 3,936 | 8 | 31,487 |
| | **Total residential development expense** | | | | **8,066,058** |
| | **Other expenses** | | | | |
| 4 | Management expense | pre-commencing management expense | Cost item 2 + Cost item 3*3% | | 267,239 |
| 5 | Finance expense | Including two years holding period (2 years) and 50% of the constructuion deposite (1 year) | Cost item 1 *15%*2+Construction safety expnese *50%*15%*1 | | 2,679,459 |
| 6 | Sales expense | Marketing/advertisement/ sales department/show room/sales commission, | 2% of sales income | | 738,355 |
| 7 | Contingency expense | Project development contingency expense | Cost item(2, 3, 4, 5, 6)*3% | | 377,791 |
| | **Total other expenses** | | | | **4,062,844** |
| | **Total forecast project expenses** | | | | **20,076,954** |

## 14.2 Sales forecast

59. The proposed development involves the construction of the Guodun Farmer's Market and generation of revenue from the sale of commercial space in the Project.

60. SFP has prepared indicative revenue forecasts for planning purposes which are based on comparable prices per square metre for commercial properties in Sichuan province.

61. SFP estimates an average sale price of AU$2,070/m$^2$ across the full development.

62. We have reviewed the revenue estimates provided by SFP and those estimates do not appear unreasonable for indicative early stage planning purposes.

63. CUAAGA is not able to provide any assurance as to the likely achievability of the assumptions underpinning the project. However, based on the information available to us at the date of this report the assumptions employed in the financial projections do not appear to be unreasonable notwithstanding those actual conditions could materially vary from those anticipated by the project developer.

64. We understand that issuance of a project planning permit, project site permit and construction permit are needed before the commencement of construction. Accordingly the construction timing is uncertain.

## 14.3 Project financial position

TABLE 9 PROJECT FINANCIAL POSITION

| As at<br>$ | 30-Jun-15<br>Management |
|---|---|
| Current assets | |
| Cash | 3,142 |
| Others | 2,717 |
| | **5,859** |
| Non-curent assets | |
| Intangibles | 6,359,056 |
| | **6,359,056** |
| **Total assets** | **6,364,915** |
| | |
| Current liabilities | |
| Accounts payable | 17,234 |
| Other liabilities | 4,639,072 |
| | **4,656,306** |
| **Total liabilities** | **4,656,306** |
| | |
| **Net assets** | **1,708,609** |

*Source: Unaudited Management Accounts*

## 14.4 Project financial performance

TABLE 9 PROJECT FINANCIAL PERFORMANCE

| For the 6 months ended<br>$ | 30-Jun-15<br>Management |
|---|---|
| Revenue | **0** |
| | |
| Expenses | |
| Management fee | (13,744) |
| | **(13,744)** |
| **EBITDA** | **(13,744)** |
| Depreciation & amortisation | 0 |
| **EBIT** | **(13,744)** |
| Borrowing costs | (199,501) |
| **PBT** | **(213,245)** |

*Source: Unaudited Management Accounts*

## 14.5 Restrictions on transferring profit from Chinese operations to Australia

65. As advised by management, profit from Chinese operations will be sent to Hong Kong before distributed to Australia. Based on the current company structure, we understand that there are unlikely to be restrictions on transferring profit generated by the Chinese operations to the Australian parent once appropriate Chinese Government taxes are paid.
66.

# 15. Project risk

67. CUAAGA considers the key risks associated with the Project to be:

    a. Final project approval may require changes or modifications to technical specifications outlined in this report. Any changes to technical specifications of the project will result in changes to forecast project returns;

    b. Delays in commencing project construction expose the project to changes in the pre-sale real estate market and may change project returns; and

    c. SFP have obtained mortgage financing to acquire the project site. We have not been provided with a detailed feasibility study or cashflow projections. Consequently, this report does not consider the impact of the project financing on the profitability of the project, although allowances have been included for project financing costs in the estimates provided.

    d. Core commercial and residential areas close to the proposed development by are still being built. If the current economic slowdown delays or stops these areas from being built this will mean the investment will not achieve the forecast investment return.

    e. Retail competition in the area may result in oversupply as it has in other second and third tier cities, resulting in high vacancy rates and lower revenues than forecast.

All current Project estimates and schedules have been prepared on a preliminary planning basis commensurate with current industry standards. Cost and timing estimates may differ significantly following detailed design or as a result of government approval requirements. Any changes could impact the prospects of the project.

# 16. Status of development approvals

68. SFP obtained approval on 29 April 2015 from Zigong Bureau of Land and Resources to modify the start and end construction dates of the project. Subsequently, the updated construction commencement date is 15 June 2015 and the completion date is 14 June 2017. However, we note the project is expecting some delay in the commencement of construction. All other conditions prescribed in the State-owned land use right approval contract (No. 51020020130041) remain unchanged.

69. SFP obtained Record Notice of Enterprise Investment Project approval on 23 June 2015 from the Bureau of Development and Reform (registration number: Sichuan investment [51031115062301] (No. 0012)).

70. Issuance of a project planning permit, project site permit and construction permit are needed before the commencement of construction.

## 16.1 Basis of key assumptions

71. CUAAGA has relied on the following assumptions in the preparation of this ITSR:

    a. The commercial planning accurately references planning conditions on the development;

    b. A project development period of 1.5 years based on the scale of the project;

    c. No change to site or market conditions that would materially impact the project operations or prospects;

    d. All currency (where stated) has been converted to Australian Dollars based on the exchange rate of AUD 1 = CNY 4.5313 as at 3 August 2015.

## 16.2 Other considerations

72. Construction of the project is yet to commence. Mortgage financing has been secured by SFP to finance the acquisition of the project land.

# 17. Conclusion

73. We have reviewed the indicative financial estimates prepared by SFP and conclude that the estimates do not appear unreasonable given the early conceptual stage of the project.

# 18. Shareholder's Decision

74. This report constitutes general financial product advice only and has been prepared without taking into consideration the individual circumstances of Shareholders. The decision to approve the Proposed Transaction is a matter for individual shareholders.

75. Shareholders should consider the advice in the context of their own circumstances, preferences and risk profiles. Shareholders should also have regard to the Explanatory Notes in relation to the Proposed Transaction.

76. Shareholders who are in doubt as to the action they should take in relation to the Proposed Transaction should consult their own professional adviser.

# 19. Limitations and Reliance on Information

77. Our opinion is based on the economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

78. Our report is also based upon financial and other information provided by or on behalf of FWL. The information provided was evaluated through analysis, enquiry and review for the purpose of forming an opinion as to whether the transactions are in the best interests of the FWL shareholders. However, in assignments such as this, time is limited and we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or "due diligence" investigation might disclose. None of these additional tasks have been undertaken.

79. An important part of the information base used in forming an opinion of the kind expressed in this report is the opinions and judgement of management of the relevant companies. This type of information has also been evaluated through

analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.

80. All dollar amounts are shown in Australian dollars [“AUD”] unless otherwise stated.

## 20. General advice only

81. This report constitutes general financial product advice only and has been prepared without taking into consideration the individual circumstances of the shareholders of FWL. The decision to accept or reject the Proposed Transaction is a matter for individual shareholders. Shareholders of FWL should consider the advice in the context of their own circumstances and preferences. Shareholders of FWL who are in doubt as to the action they should take in relation to the Proposed Transaction should consult their own professional adviser.

82. CUAAGA has prepared a Financial Services Guide in accordance with the Corporations Act, 2001. This is included in Appendix 1 to this report.

83. Our opinion is made as at the date of this letter and reflects circumstances and conditions as at that date.

## 21. Independent disclosure

84. China United Assets Appraisal Group (Australia) is independent with respect to Sichuan FuChuang Real Estate Co., LTD and Ferrowest Limited and confirms that there is no conflict of interest with any party involved in the assignment.

85. Under the terms of engagement between China United Assets Appraisal Group (Australia) and Ferrowest Limited for the provision of this report China United Assets Appraisal Group (Australia) will receive a fee, based on time expended and our current standard terms and conditions, payable by Ferrowest Limited. The payment of this fee is not contingent on the outcome of any transaction between Sichuan FuChuang Real Estate Co., LTD, Ferrowest Limited and other party.

86. The Directors and staff of China United Assets Appraisal Group (Australia) involved in the preparation of this report hold no interest in Sichuan FuChuang Real Estate Co., LTD and Ferrowest Limited.

# Appendix 1 – Financial Services Guide

Issue Date: August 2015

**China United Assets Appraisal Group (Australia) Co Pty Ltd ABN 52 169 153 557** ("China United Assets Appraisal Group (Australia) Co" or "we" or "us" or "our" as appropriate) provides general advice in relation securities to retail clients as an authorised representative of Capital Value Securities Pty Ltd ABN 46 123 674 886 ("CVS" or "licensee") AFSL No 311705.

## Financial Service Guide

In the above circumstances we are required to issue you, as a retail client, with a Financial Services Guide [FSG]. This FSG is designed to help retail clients make a decision as to their use of our general security advice.

This FSG includes information about:

1. Who we are and how we and the licensee can be contacted
2. The services we are authorised to provide under the licensee's Australian Financial Services Licence
3. Remuneration that we, the licensee and any associates receive in connection with our general advice
4. The licensee's complaints handling procedures and how you may access them.

The licensee has authorised this FSG.

## Financial services we are authorised to provide

We hold Authorised Representative number 001008149 authorising us to provide general security advice on behalf of the licensee, Capital Value Securities Pty Ltd.

## General advice

We provide general advice, not personal advice because it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

## Benefits that we may receive

We charge fees for providing general advice. These fees will be agreed with, and paid by, the person who engages us. Fees will be agreed on either a fixed fee or time cost basis. Clients may request particulars within a reasonable time after receiving this Guide (and before any financial service is given).

Except for the fees referred to above, neither China United Assets Appraisal Group (Australia) Co, CVS nor any of their directors, employees or related entities receive any pecuniary benefit or other benefit directly or indirectly for or in connection with the provision of financial product advice.

## Referrals

We do not pay commissions or provide other benefits to any person for referring customers to CVS or us in connection with the advice that we are authorised to provide.

## Associations and relationships

CVS and CUAAGA are ultimately controlled by, and operate as part of the Peloton Global group of companies. Our Directors may be executive directors of CVS.

From time to time, we may provide professional services to financial product issuers in the ordinary course of our business.

## Complaints resolution

***Internal complaints resolution process***

As a holder of an Australian Financial Services Licence, CVS is required to have a system for handling complaints from retail clients to whom it and its representatives provide financial product advice. All complaints must be in writing, addressed to: The Complaints Officer, Capital Value Securities Pty Ltd, Level 2, 65 Southbank Boulevard, Southbank, Vic 3006.

When CVS receives a written complaint it will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practicable and not more than 45 days after receiving the written complaint, it will advise the complainant in writing of its determination.

***Referral to External Dispute Resolution Proposed Scheme***

A complainant not satisfied with the outcome of the above process, or the licensee's determination, has the right to refer the matter to the Financial Ombudsman Service Ltd ["FOS"]. FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available from the FOS website www.fos.org.au or by contacting them directly at: Financial Ombudsman Service Ltd. GPO Box 3, Melbourne Victoria 3001 or toll free 1300 78 08 08 or by facsimile (03) 9613 6399.

**Professional Indemnity insurance**

China United Assets Appraisal Group (Australia) Co has Professional Indemnity insurance in place that covers claims in respect of current and former employees and representatives for services provided on behalf of China United Assets Appraisal Group (Australia) Co. This insurance satisfies the requirements under the Corporations Act relating to compensation arrangements.

## Contact details

You may contact CVS at level 2, 65 Southbank Boulevard, Southbank Vic, 3006 or by phone (03) 9626 4300 or by facsimile (03) 9626 4301.

## Appendix 2 – Statement of Qualifications and Declarations

China United Assets Appraisal Group (Australia) Co is qualified to provide this report. It is the corporate authorised representative of Capital Value Securities (a wholly-owned subsidiary of CUAAGA), which holds an Australian Financial Services Licence under the Act. The CUAAGA personnel responsible for this report have not provided financial advice to FWL in relation to this Proposed Transaction.

Prior to accepting this engagement, CUAAGA considered its independence with respect to FWL with reference to ASIC Regulatory Guide 112: *Independence of experts*. In our opinion, we are independent of FWL.

This report has been prepared specifically for the shareholders of FWL. Neither CUAAGA nor any member or employee thereof undertakes responsibility to any person, other than a shareholder of FWL, in respect of this report, including any errors or omissions howsoever caused.

The statements and opinions given in this report are given in good faith and the belief that such statements and opinions are not false or misleading. In the preparation of this report CUAAGA has relied upon and considered information believed after due inquiry to be reliable and accurate. CUAAGA has no reason to believe that any information supplied to it was false or that any material information has been withheld from it. CUAAGA has evaluated the information provided to it by FWL, its advisors, as well as other parties, through inquiry, analysis and review, and nothing has come to its attention to indicate the information provided was materially mis-stated or would not afford reasonable grounds upon which to base this report. CUAAGA does not imply and it should not be construed that it has audited or in any way verified any of the information provided to it, or that its inquiries could have verified any matter which a more extensive examination might disclose. The information we have had regard to in the preparation of this report is set out in Appendix 4 – Sources of Information.

The information provided to CUAAGA has been evaluated through analysis, enquiry and review to the extent it considered necessary for the purposes of forming an opinion. CUAAGA does not warrant that its enquiries have identified or verified all the matters that a formal audit or due diligence may disclose. Accordingly, this report and the opinions contained in it should be considered more in the nature of a commercial and financial review rather than a comprehensive audit or due diligence.

FWL has provided an indemnity to CUAAGA for any claims arising out of any mis-statement or omission in any material or information provided to it in the preparation of this report.

This report should be read in its entirety to ensure that no isolated statements, analyses or other factors are construed out of context. The preparation of an opinion is a complex process and subject to professional judgement. The overall opinion is not to partial analysis or summary.

CUAAGA provided draft copies of this report to the independent directors and management of FWL for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of CUAAGA alone. Changes made to this report as a result of this review by the independent directors and management of FWL have not changed the methodology or conclusions reached by CUAAGA.

CUAAGA will receive a professional fee based on time spent in the preparation of this report, estimated at $40,000 (exclusive of GST). This fee is not contingent on the outcome of the Proposed Transaction. CUAAGA will not be entitled to any other pecuniary or other benefit whether direct or indirect, in connection with the making of this report.

Mr Michael Churchill, a director of CUAAGA, has assumed overall responsibility for this report. He has over 25 years' experience in providing financial advice and valuation advice and has professional qualifications appropriate to the advice being offered. Michael holds a Bachelor of Administration, post graduate Diploma in Financial Analysis and Investment and is a Fellow of CPA Australia, a Senior Fellow of Finsia, a member of the Tax Institute and of the Institute of Company Directors.

Mofei Xiong, a director of CUAAGA, has provided significant project management, analysis and translation support in the production of this report. He holders a bachelors degree in Accounting and a Masters of Accounting conferred by the University of Technology Sydney. Mofei has over 4 years' relevant experience in the valuation and assessment of businesses, securities, and intangible assets. Mofei was born in China and has worked in Australia since completing undergraduate and Masters degrees in Australia. Mofei is a member of the Institute of Chartered Accountants in Australia and New Zealand.

Details of the CUAAGA team members who performed the majority of research and analysis in China are provided below.

**TABLE 10 CUAAGA ASSIGNMENT TEAM**

| Name | Responsible person 1<br>Bingxi Fang | Responsible person 2<br>Guirong Tian |
|---|---|---|
| Title | Deputy General Manager | Department Manager |
| Professional working career (years) | 21 | 16 |
| Occupation qualification | Certified Practicing Valuer | Certified Property Valuer |
| Registered certification number | 11000094 | 2004510240 |

Bingxi Fang is the Deputy General Manager of China United Assets Appraisal Group Northwest Branch. Bingxi Fang was awarded as one of the nine most senior valuation expert in Sichuan Valuation Association and he is also a senior fellow of the Disciplinary Committee of Sichuan Valuation Association. Mr Fang has intensive experience in valuation business and properties in China, he has provided approximately 30 valuation report for IPO purpose.

Guirong Tian is the manager of property department of China United Assets Appraisal Group Northwest Branch. Ms Tian was graduated from Sichuan Construction Engineering School with major in Commercial and Residential Property Construction. Ms Tian has been appointed as property valuation expert in a number of Chinese valuation companies during her valuation career.

In the preparation of this report CUAAGA has had regard to relevant Regulatory Guides issued by ASIC. It is not intended that the report should be used for any other purpose than to be sent to the Shareholders of FWL. In particular, it is not intended that this report should be used for any other purpose other than as an expression of its opinion as to whether or not the Offer is fair and reasonable for the Shareholders.

The financial forecasts considered in the preparation of this report reflect the judgement of directors and management of FWL based on present circumstances, as to both the most likely set of conditions and the course of action it is most likely to take. It is usually the case that some events and circumstances do not occur as expected or are not anticipated. Therefore, actual results during the forecast period will almost always differ from the forecast and such differences may be material. To the extent that our conclusions are based on forecasts, we express no opinion on the achievability of those forecasts.

CUAAGA consents to the issue of this report in the form and context in which it accompanies the Notice of General Meeting to be sent to the shareholders of FWL.

# Appendix 3 – Document reference list

| Ref | Document |
|---|---|
| 1 | Business registration of Sichuan FuChuang Real Estate Co., Ltd. (copy) |
| 2 | Preliminary Certificate of Real Estate Development issued by People's Republic of China |
| 3 | Contract of land transfer and land use certificates (copy) |
| 4 | Letter on land planning condition of C-11-1 block, New City Zone issued by Zigong Urban and Rural Planning and Construction and Housing Security Bureau (self-regulated construction letter [2012] No. 413) |
| 5 | Record Notice of Enterprise Investment |
| 6 | Independent Technical Qualification Certificate |
| 7 | Independent Technical Specialist Report prepared by China United Assets Appraisal Group Co., LTD. Southwest Branch |

**FERROWEST LIMITED**
**GENERAL MEETING**

FERROWEST
LIMITED

**PROXY FORM – 30 NOVEMBER 2015 (9:30 AM)**

The Secretary
Ferrowest Limited
Reply Paid 383
BELMONT WA 6104

**Appointment of Proxy**

I/We (full name) ________________________________________________

of________________________________________________

being a member(s) of Ferrowest Limited, hereby appoint as my/our proxy:

[ ] **Or** ☐ the Chair of the General Meeting or, failing the person or body corporate named above, the Chair of the General Meeting, to attend and vote for me/us at the General Meeting of the Company to be held at **9:30 AM** (WST) on **Monday**, **30 November 2015** and at an adjournment thereof in respect of __________% of my/our shares or, failing any number being specified, ALL of my/our shares in the Company.

**Voting Directions**

Please mark "X" in the box to indicate your voting directions to the Proxy. The Chairperson of the Meeting intends to vote undirected proxies in FAVOUR of all the resolutions.

| | RESOLUTIONS | FOR | AGAINST | ABSTAIN |
|---|---|---|---|---|
| **1** | CHANGE IN THE NATURE AND SCOPE OF THE COMPANY'S ACTIVITIES | ☐ | ☐ | ☐ |
| **2** | CHANGE OF COMPANY NAME | ☐ | ☐ | ☐ |
| **3** | CONSOLIDATION OF CAPITAL | ☐ | ☐ | ☐ |
| **4** | CAPITAL RAISING PURSUANT TO A PROSPECTUS (Public & Priority Entitlement) | ☐ | ☐ | ☐ |
| **5** | ISSUE OF SHARES TO YAOPENG TO RETIRE DEBT | ☐ | ☐ | ☐ |
| **6** | PLACEMENT OF SHARES TO YAOPENG | ☐ | ☐ | ☐ |
| **7** | ISSUE OF SHARES TO YAOPENG (Partial Underwriting) | ☐ | ☐ | ☐ |
| **8** | AUTHORITY TO ISSUE ADVISOR SHARES | ☐ | ☐ | ☐ |

If no directions are given my proxy may vote as the proxy thinks fit or may abstain.

This section must be signed in accordance with the instructions overleaf to enable your directions to be implemented.

**Signature of Security Holder(s)**

| Individual or Security Holder | Security Holder 2 | Security Holder 3 |
|---|---|---|
| | | |
| Sole director & Sole Company Secretary | Director / Secretary | Director / Secretary |

Dated this day of 2015

**NOTES**

1. A member entitled to attend and vote is entitled to appoint not more than two proxies.

2. Where more than one proxy is appointed and that appointment does not specify the proportion or number of the member's votes, each proxy may exercise half of the votes.

3. A proxy need not be a member of the Company.

4. A proxy is not entitled to vote unless the instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed is either deposited at the registered office of the Company (**3 Camden Street, BELMONT WA 6104**) or sent by mail (**Reply Paid 383, BELMONT WA 6984**) or by facsimile on Fax #: **08 9277 5303** to be received not less than 48 hours prior to the time of the General Meeting.

5. Signing Instructions

   **Individual**: where the holding is one name, the Shareholder must sign.
   **Joint Holding**: where the holding is in more than one name, all of the Shareholders must sign.
   **Companies**: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the Company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director may sign alone. Otherwise this form must be signed by a Director jointly with either another Director or Company Secretary. Please indicate the office held in the appropriate place.

   If a representative of the corporation is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be lodged with the Company before the meeting or at the registration desk on the day of the meeting.

6. The Chair of the General Meeting intends to vote all undirected proxies in favour of the resolutions where he or she is entitled to cast such votes.

7. Reply paid postal address (no stamp required):

   **Ferrowest Limited**
   **Reply Paid 383**
   **BELMONT WA 6984**

FERROWEST LIMITED

# *Detailed Directors' Report*

# An Assessment of the Proposal

Prepared for the Shareholders of Ferrowest Limited

"The Proposal" means the proposal to reconstruct Ferrowest Limited ("the Company") through the approval by Shareholders of the Resolutions contained in the Notice of General Meeting dated on or about 21 October 2015.

If the Proposal is approved by Shareholders, one result will be that TFA International Pty Ltd ("TFA") and Yaopeng International Trade Pty Ltd ("Yaopeng") or related parties of them (collectively known in this Report as "the Investors") will then control the Company through the proposed acquisition of Shares that form a part of the Proposal.

Section 602(b) of the Act states, among other things, that the Shareholders of a listed company should be given enough information to enable them to assess the merits of a proposal that will see a party acquire control over the voting shares of a listed company.

This Detailed Directors' Report ("the Report") provides a detailed analysis of the Proposal and the resulting acquisition of a controlling interest in the Shares of the Company by the Investors, which is consistent with the intent of ASIC Regulatory Guide 74.29 that states that the Directors should disclose all material information on how to vote on a proposal.

This Detailed Directors' Report has been prepared by the Directors of the Company who are not associated with the Proposal ("the Non-Associated Directors").

The Non-Associated Directors have concluded that the Proposal is **Fair** and **Reasonable** to the Non-Associated Shareholders of the Company.

Please note that the Non-Associated Directors have also unanimously recommended that Shareholders approve the Resolutions put to members in the Notice.

This Detailed Directors' Report is approved by the Non-Associated Directors as at 21 October 2015.

FERROWEST LIMITED

# Table of Contents


1. Introduction ........ 3
2. Summary and Conclusion ........ 4
3. Summary of Transaction ........ 7
4. Profile of the Company ........ 10
5. Valuation Approach ........ 15
6. Valuation of the Company Prior to the Proposal ........ 16
7. Valuation of the Company Post Implementation of the Proposal ........ 19
8. Is the Proposal Fair to Non-Associated Shareholders? ........ 20
9. Is the Proposal Reasonable to Non-Associated Shareholders? ........ 20
10. Other Relevant Information ........ 22

Annexure A – Historical Financial Reports of the Company

Annexure B – Capitalised Terms

Dear Shareholders

# 1. Introduction

### 1.1 This Report Forms Part of the Notice

This Detailed Directors' Report ("the Report") has been prepared to form part of the Notice of General Meeting and Explanatory Statement ("the Notice") to Shareholders for a General Meeting of Ferrowest Limited ("the Company") to be held on or about 30 November 2015.

### 1.2 The Proposal

The Notice sets out a series of Resolutions that collectively form a reconstruction and recapitalisation proposal for the Company ("the Proposal").

The Proposal involves:

1. Changing the Company's core business from "*Mineral Exploration*" to "*Property and Infrastructure Development*";
2. A change of the Company's name;
3. A consolidation of Share capital of the Company on a 1 for 40 basis;
4. A Share placement of up to A$2,500,000 to Yaopeng or its nominee to raise capital to assist in the recapitalisation of the Company, primarily to be used for the purpose of paying for an interest in an initial property development project;
5. A public offer of shares by way of a full prospectus to raise up to A$3,000,000, which offer will include a priority entitlement offer for Non-Associated Shareholders to raise up to A$1,500,000. These offers exclude the Investors and other related parties of the Company. Funds raised from these offers are to further recapitalise the Company and are primarily to be used for the purpose of implementing the new business plan;
6. A Share placement to Yaopeng or its nominee to convert A$1,950,000 of debt, owed by the Company to Yaopeng, into equity at the same price as the public offer; and
7. Approval for Yaopeng or its nominee to partially underwrite up to A$500,000 of the $3,000,000 public offer, if required.

This Report will focus on items 4, 6 and 7 above by which the Investors would, if approved, gain control of the Company.

It should be noted that all Share issues under the Proposal, whether to the Investors, Non-Associated Shareholders or the public (items 4 to 7 inclusive above) are proposed to occur at the same issue price of $0.20 per Share.

### 1.3 Change of Control

If Shareholders approve the Proposal, its implementation will involve, among other things, the issue of Shares to the Investors or their nominees that will result in a change of control of the Company in favour of the Investors. It is this change of control that this Report addresses in order to provide appropriate information to Non-Associated Shareholders to assist in their deliberations on the Proposal.

TFA, a major shareholder of the Company, currently holds **29.17%** of the ordinary Shares.

The collective holding of the Investors (TFA and Yaopeng) will increase to between a minimum of **54.8%** (assuming the public offer is fully subscribed and no underwriting from the Investors is required) and a maximum of **61.6%** (if only minimum subscription is obtained for the public offer and the full extent of the partial underwriting is required from the Investors).

***The maximum voting power of the Investors on successful completion of the Proposal is therefore 61.6%.***

Regardless of the exact outcome of the implementation of the Proposal, the Investors would control the Company if the Proposal is approved by Shareholders and successfully implemented. This means that the Investors will be able to control the future direction and operations of the Company within the limitations of the law.

### 1.4 The Purpose of this Report

The Share issue component of the Proposal will result in:

1. a control transaction (for the purposes of Chapter 6 of the Act);
2. a related party transaction (for the purposes of Chapter 2E of the Act); and
3. a transaction with a person of influence (for the Purposes of Chapter 10.11 of the Listing Rules),

   with items 1 and 3 above requiring Shareholder approval in this circumstance.

In order to meet the information requirements for the Share issue component of the Proposal, the Non-Associated Directors' of the Company have prepared this Report to assist Non-Associated Shareholders to determine whether to approve the Resolutions contained in the Notice.

The Non-Associated Directors' have determined that they are independent and qualified for the purpose of expressing an opinion as to whether the issue of Shares to the Investors (as part of the overall Proposal) is **Fair** and **Reasonable** to Non-Associated Shareholders in the circumstances of this Proposal.

The ultimate decision whether to approve the Proposal should be based on each Shareholder's assessment of their circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If in doubt as to the action you should take with regard to the Proposal, or the matters dealt with in this Report, Shareholders should seek independent professional advice.

## 2. Summary and Conclusion

### 2.1 The Opinion of the Non-Associated Directors

**In Our opinion, for the reasons set out in Sections 8 and 9 of this Report, the Proposal is considered to be Fair and Reasonable to the Non-Associated Shareholders of the Company.**

In assessing whether the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders, We have considered ASIC Regulatory Guide 111 – Content of Expert Reports ("RG111"), which provides specific guidance as to how directors are to appraise transactions in a detailed directors' report.

Where an issue of shares by a company, otherwise prohibited under section 606 of the Act, is approved under item 7 of section 611, and the effect on the company shareholding is comparable to a takeover bid, such as the proposed issue of Shares to the Investors that will result in a controlling stake in the Company, RG111 states that the transaction should be analysed as if it was a takeover bid.

For the purposes of this Report, "Fair" and "Reasonable" are considered separately.

### 2.2 Fair or Not Fair

We have considered whether or not the issue of Shares to the Investors is "Fair" to the Non-Associated Shareholders by comparing the:

- Fair Value of a Share in the Company before the Proposal, with Shareholders (collectively) in control; and
- The Fair Value of a Share in the Company after the Proposal has been implemented with the Investors in control.

The Fair Value of a Share prior to and immediately after the implementation of the Proposal is calculated to be, for the purposes of this Report, as specified in the Table 1 below:

| Calculation of Fairness | Value per Share |
|---|---|
| Pre Proposal Fair value of a Share (Control basis) | A$0.0000 |
| Post Proposal Fair value of a Share (Non control basis) | A$0.0025 |

***Table 1**: Calculation of Fairness (Refer to Sections 6, 7 and 8 for more details)*

In accordance with RG111, and in the absence of any other relevant information, for the purposes of Section 611, Item 7 of the Corporations Act 2001, **We consider the issue of Shares to the Investors to be Fair to the Non-Associated Shareholders of the Company** because the calculation of the possible value for a Share after the Proposal is implemented is higher than prior to the Proposal.

**2.3 Reasonable or Not Reasonable**

We have considered whether the issue of Shares to the Investors is “Reasonable” to the Non-Associated Shareholders by undertaking an analysis of the other factors relating to the Proposal which are likely to be relevant to the Non-Associated Shareholders in their decision of whether or not to approve the Proposal.

RG111 states that the Proposal is Reasonable if it is deemed to be Fair. It also states that the Proposal could still be Reasonable if, despite not being Fair, there are sufficient reasons for Shareholders to accept the Proposal in the absence of any superior alternative.

We have considered material factors in relation to the Reasonableness aspects of the Proposal, with particular consideration of:

- The future prospects of the Company if the Proposal does not proceed; and
- The advantages and disadvantages to the Non-Associated Shareholders if the Proposal proceeds.

If the Proposal does not proceed, then the Company will need to urgently raise capital by other means in order to:

- repay debt of over A$2.5M;
- meet its ongoing operating expenses; and
- advance its mineral projects.

Given that the Board of the Company has made extensive efforts to raise capital by various means over the last 18 months with no material success, We note there is no guarantee that the Company will be able to raise the funds that would urgently be required if the Proposal is rejected. If the Company could not obtain the funds necessary to repay its debts and continue its business as a going concern, it is possible that it could be placed into voluntary administration or liquidation.

However, if the Proposal does not proceed, Shareholders will not suffer any dilution of the proportion of the Company which they hold directly as a result of the Proposal and control will remain with the collective body of shareholders.

If it were possible to refinance the debt and raise funds to advance the operations of the Company, it is likely that the Company would be in a disadvantageous negotiating position and any terms for debt or equity are unlikely to be favourable. Shareholder would likely suffer significant dilution in this scenario in any event.

It is also possible that if the Proposal does not proceed, another party may consider a takeover of the Company. In such a case, a greater premium may be offered to Shareholders through the takeover bid, however given the Company’s current level of debt, We do not consider that this is a likely outcome.

The key advantages of the Proposal are:

- The placement of equity to the Investors will enable the Company to acquire controlling interest in its first property development project and thus commence its new business direction;
- The funding from the public offer and the share placement to Yaopeng will also ensure the Company can continue as a going concern;
- The conversion of up to A$1,950,000 of debt to equity and repayment of a further approximately $1,085,000 of debt from cash raised, will clear all existing materials debts of the Company and substantially improve the Company’s balance sheet;
- A reduction of debt will result in a reduction of future interest payments, lifting a significant ongoing burden off the Company;
- Yaopeng’s offer to partially underwrite a portion of the public offer will increase the likelihood of a successful outcome for the implementation of the Proposal;

- TFA has offered to facilitate balance sheet support and relationship support in negotiation of debt funding for the construction of the first new property development that the Company would undertake. This will have a material benefit for the Company in its early implementation of the new business plan; and
- Given the Investors' substantial equity position following the successful implementation of the Proposal, the Investors will be highly motivated to assist the Company develop its new business plan in property and infrastructure development.

The key disadvantages of the Proposed Transaction are:

- Shareholders' interests in the Company will be significantly diluted, with the collective percentage of the Company held by existing Shareholders, other than Yaopeng/TFA, reducing from 70.81% before the Proposal to between 45.20% and 38.40% upon completion of the Proposal (a 25.61% to 32.41% reduction);
- Acceptance of the Proposal by Shareholders may deter other parties from launching a takeover bid which may have provided a greater premium for control to the benefit of the existing Shareholders;
- There is no guarantee that the Proposal will be successfully implemented in full, with the result that the Company's shares may not be re-quoted on the ASX. Some specific risks in this regard are listed at Section 10.1 of this Report;
- There is no guarantee that the new business plan or proposed property development project will be successful. Some specific risks in this regard can be found in Section 3.28.2 of the Explanatory Statement and Section 15 of the ITSR; and
- The resource sector in which the Company currently operates is a cyclical business environment. If there is a major 'upturn' in the resource sector in the next few years, the Company would miss the chance to benefit from such an upturn.

We are not, at the date of this Report, aware of any alternative proposals which may provide a greater benefit to the Non-Associated Shareholders of the Company than the Proposal.

### 2.4 Scope of the Report

***Corporations Act***

Section 606 of the Act prohibits a person from acquiring a relevant interest in the issued voting shares of a public company if the acquisition will result in that person's voting interest in the company increasing from a starting point that is above 20% and below 90%. Completion of the Proposal will result in the Investors (collectively) increasing their voting interest in the Company from 29.17% to between 54.8% and 61.6%.

Under Item 7 of Section 611 of the Act, the prohibition contained in Section 606 does not apply if the acquisition has been approved by the Non-Associated Shareholders of the Company.

Accordingly, the Company is seeking approval from the Non-Associated Shareholders for Resolutions 5 to 7 inclusive under Item 7 of Section 611 of the Act.

Section 611 of the Act states that shareholders must be given all information that is material to the decision on how to vote at the meeting. This Report and the Explanatory Statement provide this information.

**ASX Listing Rule 10.11**

In addition, ASX Listing Rule 10.11 prohibits the Company from issuing Shares to a related party without the approval of ordinary shareholders. Accordingly, the Company is seeking approval from the Non-Associated Shareholders for Resolutions 5 to 7 in accordance with Listing Rule 10.11. While there is no specific ASX Listing Rule requirement for a Detailed Directors' Report to accompany the Notice in respect to a resolution to which Listing Rule 10.11 applies, this Report provides relevant information for Shareholders in respect of their overall decision making.

**Regulatory Guidance 111 ("RG111")**

In determining whether the Proposed Transaction is "Fair and Reasonable", the Non-Associated Directors have given regard to the guidance provided in RG111.

RG111 states that the Report should focus on:

- the issues facing the security holders for whom the report is being prepared; and
- the substance of the transaction rather than the legal mechanism used to achieve it.

# 3. Summary of Transaction

### 3.1 Background

The Company is in a difficult position at the current time with the following facts impacting on its ability to pursue its business objectives, or even, possibly, to continue as a going concern:

- The Company has no substantive cash reserves;
- The sale of its main mineral asset, Yogi, fell through;
- Iron ore prices (which underpin the value of the Company's projects) have fallen more than 50% and have remained low for a protracted period;
- The Company has been unable to raise equity or debt funding to advance its projects;
- The Company has been unable to secure any interest in joint ventures on its mineral projects or third party reconstruction proposals for the Company; and
- The Company has significant liabilities (Over A$2.5 million in debt).

In addition to these factual issues, it is the view and experience of the Non-Associated Directors that investment interest in iron ore exploration companies at this time is virtually non-existent and that the broader interest in mineral exploration investments generally, while better, remains depressed at the date of this Report.

### 3.2 Proposal Overview

TFA, with significant debt and equity exposure to the position of the Company, offered to assist the Company by suggesting the Proposal. In this regard, TFA was uniquely positioned to offer a reconstruction proposal because it could deal with the debt owed to it by the Company (approximately A$1.2M at the time the Proposal was made) as part of the Proposal and, together with the capital raisings proposed, the debts of the Company could be cleared. This made any proposal by TFA significantly superior to any alternative available to the Board at the time it was proposed. It provided the opportunity for a reconstruction that would position the Company with no material debt and in a recapitalised condition, which had the potential to benefit shareholders greatly in comparison to other possible outcomes.

TFA has been providing loan funding to the Company to maintain it as a going concern while the Proposal has been prepared ready to put to Shareholders. The debt owed to TFA has increased to over A$1.7M.

To facilitate the Proposal, TFA secured the support of another company, Yaopeng. While Yaopeng and TFA have no common directors or shareholders, the Company considers them to be 'working in concert' to support the Proposal and therefore they are referred to in this Report collectively as "the Investors".

TFA has sold the debt that the Company owes to it, to Yaopeng and Yaopeng is going to extend loan funding to the Company during the period while the Proposal is considered and, if approved, implemented.

The Proposal from the Investors is premised on the following key points:

1. The Investors would loan further funds to the Company to ensure that it could remain a going concern and to allow time for both the consideration of the reconstruction Proposal and for the sale of the Yogi Mine Project;

2. TFA believes that the Company should change its main business activity from '*mineral exploration*' to '*property and infrastructure development*'. In TFA's view, this is essential to get away from reliance on an industry that is currently performing poorly and to move toward one where (if properly targeted) good growth potential currently exists and where projects can be brought to profitable stages in much shorter time frames than is typical in the mineral exploration industry. TFA proposes focusing on the development of commercial (retail and office) and high density residential space by targeting key development areas in inland China, where there is strong Government support for urbanisation. TFA believes that, with its assistance, the Company can successfully enter into property and infrastructure development in China. In time, with successful projects complete, the Company would aim to also enter property and infrastructure development projects in Australia.
3. Provided that shareholders support the change of business, the Investors are prepared to support the reconstruction by:
    a. Subscribing for a substantial placement of equity (up to A$2.5M) to help recapitalise the Company and allow the purchase of an interest in the Company's first property development;
    b. Agreeing to a Priority Entitlement offer for existing Shareholders within the public capital raising offer planned to assist in the recapitalisation of the Company;
    c. Converting the debt owed to Yaopeng (up to A$1.95M in total – TFA having sold its debt to Yaopeng since the Proposal was suggested) to equity at the same price as existing Shareholders and the public would be offered under the Priority Entitlement and public offers;
    d. If required, partially underwrite up to A$500,000 of the proposed public offer to increase its chances of a successful outcome.

As a result of this support for the reconstruction in both debt conversion and cash, the Investors' shareholding in the Company would increase from 29.17% pre-reconstruction to at least 54.8% post reconstruction. It could also increase up to as much as 61.6% in the event that Yaopeng is required to provide its partial underwriting and that underwriting commitment is fully required due to an unsubscribed shortfall in the public capital raising offer. In either case, the Investors would have a controlling interest in the Company if Shareholders support the Proposal and it is successfully implemented.

It should be noted that for this Proposal to be successful, the Company would have to complete the proposed public offer successfully and to also re-comply with Chapters 1 and 2 of the ASX Listing Rules in order for the Shares of the Company to be re-quoted on the ASX. If these objectives cannot be achieved, the Proposal would not proceed and the Company's Shares would not be re-quoted. Section 10.1 of this Report identifies some specific risks in this regard.

TFA has also assisted the Company to locate a suitable initial property development project (that is not related to the Investors). The Company has entered into conditional 'call and put' option agreements to acquire a 51% interest in this proposed project from the project vendors. This acquisition is subject only to Shareholder approval of the Proposal and the Company's successful re-compliance for quotation of its Shares on the ASX. Details of these arrangements are provided in the Explanatory Statement. TFA and/or Yaopeng may also facilitate balance sheet support through guarantees to enable the Company to secure favourable debt financing terms for the construction of the first property development project.

The initial property development project proposed, called the Zigong Guodun Farmers Market, is a proposed shopping centre complex located in Zigong in the Sichuan Province of China. Details about this proposed project are included in the Explanatory Statement and at Annexure A of the Notice in the Independent Technical Specialist Report. A full prospectus would be prepared around the initial project as the disclosure document for the public and Priority Entitlement offers and other proposed Share issues under the Proposal and to meet the re-compliance requirements of the Listing Rules (LR1.1 Condition 3) if the Proposal is approved. The proposed project itself is outside the scope of this Report.

### 3.3 The Property and Infrastructure Development Business Model

TFA believes that the Company should move into the business of property and infrastructure development. In this proposed model, the Company would acquire land and plan a development. Once approvals are received, the construction work would be entirely contracted to experienced contractors. The Company workforce would be kept to a minimum. Units of the development, whether they are residential apartments, retail space or office space, would progressively be sold as the development is completed. Some relatively small portion of the floor space may be retained to provide ongoing rental income and to build the Company's asset base. Profits and returned capital from the sale of the development floor space would be applied to the acquisition of the next land purchase for the next project. Choosing the right initial projects will be important to the success of the new business plan.

Initial projects are likely to be in inland China. This is because construction debt ratios are higher in China than Australia (allowing larger projects to be undertaken for a smaller initial outlay) and because TFA can support the Company with project development expertise in the initial stages.

The characteristics of the initial projects would be:

- Projects of a scale that the Company can secure a controlling interest in, as a minimum
- Relatively short construction timeframes of around 18 months
- Projects that meet community needs in apartments, retail space, office space and/or infrastructure
- Inland projects in China where urbanisation is more strongly supported by the Government
- Projects in areas where there is already existing demand and Government development planning

The longer term plan is to move into property and infrastructure development in Australia once the Company has established a successful track record in China.

### 3.4 Capital Structures

The following tables set out a summary of the capital structure of the Company prior to and following the implementation of the Proposal with the minimum and the maximum possible Share interests of the Investors.

**<u>Current Capital</u>**

| Capital Structure | Other Holders (Not the Investors) | The Investors (TFA) | Total |
|---|---|---|---|
| Current at the date of this Notice | 159,246,165 | 65,573,643 | 224,819,808 |

***Table 2**: Share structure of the Company before the Proposal*

**<u>After Implementation of the Proposal (Full Subscription but No Yaopeng Underwriting Required)</u>**

| Proforma Capital Structure | Other Holders (Not the Investors) | The Investors (TFA and Yaopeng) | Total |
|---|---|---|---|
| Post Consolidation (Resolution 3) | 3,981,154 | 1,639,341 | 5,620,495 |
| Placement to Yaopeng (Resolution 6) | - | 12,500,000 | 12,500,000 |
| Capital Raising (Resolution 4) | 15,000,000 | - | 15,000,000 |
| Conversion of Yaopeng Debt (Resolution 5) | - | 9,750,000 | 9,750,000 |
| Advisor Shares (Resolution 8) | 750,000 | - | 750,000 |
| **Total Post Consolidation Shares** | **19,731,154** | **23,889,341** | **43,620,495** |

***Table 3**: Share structure of the Company after the Proposal (Full Subscription – No Yaopeng Underwriting)*

**After Implementation of the Proposal (Minimum Subscription and Full Yaopeng Underwriting)**

| Proforma Capital Structure | Other Holders (Not the Investors) | The Investors (TFA and Yaopeng) | Total |
|---|---|---|---|
| Post Consolidation (Resolution 3) | 3,981,154 | 1,639,341 | 5,620,495 |
| Placement to Yaopeng (Resolution 6) | - | 12,500,000 | 12,500,000 |
| Capital Raising (Resolution 4) | 11,750,000 | - | 11,750,000 |
| Conversion of Yaopeng Debt (Resolution 5) | - | 9,750,000 | 9,750,000 |
| Partial Underwriting (Resolution 7) | - | 2,500,000 | 2,500,000 |
| Advisor Shares (Resolution 8) | 750,000 | - | 750,000 |
| **Total Post Consolidation Shares** | **16,481,154** | **26,389,341** | **42,870,495** |

***Table 4**: Share structure of the Company after the Proposal (Minimum subscription and full Yaopeng partial underwriting)*

*Note: Tables 2, 3 and 4 are prepared on the assumption that no other shares are issued in the interim.*

**Convertible Notes**

The Company currently has 1,078 convertible notes on issue with a face value of A$500 each. These convertible notes are due for redemption on 28 November 2015, before the consolidation of capital proposed under Resolution 3 of the Notice. It is highly unlikely that any noteholder will opt for conversion prior to the redemption date because the minimum conversion price per share is significantly higher that the value of a share (based on the last closing price of the Company's shares) and so the Company is proceeding on the assumption that these convertible notes will be redeemed prior to implementation of the Proposal.

880 of the convertible notes were held by TFA (A$440,000 in face value) but have been sold to Yaopeng to facilitate the Proposal. These 880 Convertible Notes will be redeemed by the Company and converted to equity as part of the conversion of Yaopeng debt to equity. The remaining 198 Convertible Notes with a face value of A$99,000 will be repaid.

# 4. Profile of the Company

## 4.1 Overview of the Company

The Company listed on the ASX in 2006 with the rights to explore and develop iron ore assets in Western Australia with an aim of value adding to an end product of Merchant Pig Iron. In 2012, the Company made a strategic decision to diversify its commodity focus and acquired a number of other exploration assets encompassing iron ore, gold and nickel.

The Company's market capitalisation as at 31 March 2015 when the Company's Shares were last traded was A$674,459.

The Company's mineral projects can be grouped into three main projects:

**Yogi Mine Project** – located 14Km east of Yalgoo in Western Australia

This project proposes a 4.5 million tonne per annum magnetite mining and concentrating operation. Shareholders approved the sale of Yogi for A$750,000 and at the date of this Report, it remains the Company's intention to sell the project but no sale agreement has yet been concluded.

**Yalyirimbi Iron Project** – located North Nor West of Alice Springs in the Northern Territory

This was an iron ore project in central Australia, which became unviable at the current iron ore prices. The value of the project was highly sensitive to future iron ore pricing and the Board made the decision to write off its carrying value at 30 June 2015 in the Company's accounts. The Company terminated its participation in the project with a Deed of Cancellation signed and announced on 22 September 2015, whereby the project was handed back to the Company's joint venture partner in the project, Arafura Resource Limited.

**Marvel Loch Project** – located South of Southern Cross in Western Australia

This project involves 'green fields' exploration for gold and nickel. Despite some initial exploration success, the Company has not had the funds to maintain the exploration requirements for this project and it has been necessary to progressively relinquish much of the tenement areas to which it relates. A single tenement remains at 30 June 2015 and the carrying value of this project group was written down at 30 June 2015 in the Company's accounts and retains only a nominal carrying value.

### 4.2 Directors of the Company

The current Board of the Company consist of:

- Mr Bryan Kevin Hughes – Non Executive Chairman (Appointed 18 April 2012)
- Mr Brett Lee Manning – Managing Director (Appointed 10 April 2005)
- Mr Barry Edward Wyatt – Non-executive Director (Appointed 16 May 1996)
- Mr Graeme Godsman Johnston – Non-executive Director (Appointed 20 February 2006)
- Mr Robert (Wei) Sun – Non-executive Director (Appointed 4 October 2012)

*Note: Mr Sun is also General Manager of TFA and as such did not participate in the preparation of this Report.*

The Board believes that if the Proposal is adopted by Shareholders, it would be appropriate make some changes to the Board structure of the Company in order to re-align the skill set of the Board members with the new business plan of the Company in property and infrastructure development.

To this end, Messrs Hughes, Wyatt and Johnston, current members of the Board, would resign from the Board at the appropriate time. As TFA's nominee, Mr Sun would remain. Mr Manning, as the current Managing Director of the Company, would also remain for the time being to ensure corporate continuity of the operational management of the Company. Mr Manning's continued executive involvement would also facilitate a smooth transition into the new business plan. A third new director would be sought with specific property and infrastructure development experience. It is likely that, over time, the Board will be further augmented along the same lines but there are no firm plans by either the existing Board or the Investors (as the future controller of the Company) to make any further appointments in the short term.

If the Proposal is approved by Shareholders, the Company plans to maintain a minimum of three directors at all times during the implementation of the Proposal, consistent with the requirements for a listed public company.

It is appropriate (and required) that Yaopeng specifies its intentions for the Company in the event that it secures control through the implementation of the Proposal. Yaopeng's stated intentions are set out in Section 3.12 of the Explanatory Statement. One of the stated intentions of Yaopeng is a recommendation that it would like to see Mr Sun appointed as Managing Director of the Company if the Proposal is implemented and that the current Managing Director, Mr Manning be appointed as Executive Chairman. The current Board supports these proposed changes, in the event that the Shareholders vote in favour of the Proposal.

Detailed backgrounds and qualifications of the current Board members of the Company are available from the Company's Annual Report or at its website, www.ferrowest.com.au The qualifications and experience of the Non-Associated Directors to prepare this Report are discussed in Section 10.3 below.

The Company intends to conduct a formal search for a new director with property and infrastructure development experience if Shareholders approve the Proposal. Neither the Company, nor the Investors have considered any candidate for this proposed future director appointment at the date of this Report. Therefore it is not possible to provide any further information in this regard.

If Shareholders approve the Proposal, the Board will identify an appropriate candidate and appoint that individual pursuant to clause 11.4 of the Company's Constitution, which permits the Board to appoint additional directors. Also pursuant to that clause 11.4, the newly elected director would serve until the next General Meeting of the Company and would then be eligible for re-election by Shareholders of the Company. Any new director appointed by the Board who has not been re-elected by Shareholders by the time the proposed re-quotation application is assessed by ASX, will require approval under the 'good fame and character' provisions of the Listing Rules.

It is currently anticipated that the proposed Board changes would be made at the appropriate time after the Shareholder approval of the Proposal at the General Meeting and before the release of the Prospectus.

**4.3 Financial Performance**

It would normally be the case for the Directors' Report to set out a comparison of the Company's historical financial performance with the projected future financial performance of the Company if the Proposal were implemented.

Notwithstanding the obligation on the Company to disclose the prospective financial information, if available, the Company is also obliged not to mislead Shareholders in circumstances where there is not a reasonable basis to consider the prospective financial information appropriately reliable.

The Non-Associated Directors have determined that in this case, a comparison of the Company's historical financial performance with projected future financial performance would be inappropriate because:

1. The historical financial performance of the Company would not be indicative of future performance if it remained in the mineral exploration business (i.e. if the Proposal were rejected) because of the significant shift in the junior iron ore sector brought about by the sustained fall in iron ore prices that are outside the normal cyclical nature of commodity prices; and
2. The early stage of the proposed Zigong Guodun Farmers Market Project (the proposed new business of the Company) in its development cycle means that there is not a reasonable basis for the Company to use the currently available information to support estimates of the future financial performance of the Company under the proposed business plan.

The Explanatory Statement and the Independent Technical Specialist Report included in the Notice of Meeting provides information about the Zigong Guodun Farmers Market Project that should provide Shareholders with the general scope and potential of that project, should the Proposal be approved.

Additionally, historical financial performance of the Company for the last three years has been included at Annexure A of this Report. The Non-Associated Directors do believe it is important to draw Shareholders attention to the Emphasis of Matter included in the Audit Report issued by the Company Auditor on 30 September 2015 in respect of the 30 June 2015 accounts of the Company which states:

> *"Without modifying our opinion, we draw attention to Note 1(a) to the financial report which indicates that the board recognises that additional funding is required to ensure that the Company can continue to fund its operations for a period of at least twelve months from the date of signing this financial report. Should the recapitalisation proposal be rejected or otherwise fail for any reason and none of the future equity raisings and/or the other agreements be completed to the extent required, there will exist a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore it may be unable to realise its assets (in particular its deferred exploration expenditure) and extinguish its liabilities in the normal course of business."*

**4.4 Share price performance**

The Company requested a trading halt in its Shares on 1 April 2015 when the settlement of the sale of the Yogi Mine Project did not occur on time and at the date of this Report, its Shares remain in a voluntary suspension.

Figure 1 below sets out the Company's closing share prices and traded volumes for the 12 months prior to entering a trading halt on 1 April 2015. The prices are shown in cents per share and as they are historical, are prior to the consolidation of capital proposed under Resolution 3.

In the 3 months prior to the trading halt on 1 April 2015, the Company' Shares traded in a range from a high at the beginning of January 2015 of **A$0.006** to a low of **A$0.003** by the end of March 2015.

Traded Volumes of the Company's shares during the last 12 months prior to the voluntary suspension of trading were extremely low with only 15.2M shares or 6.8% of the total Shares on issue changing hands in that 12 month period. The number of days per month on which Shares were traded was also very low (See figure 2 below).

The average monthly VWAP of the Shares in the Company also declined over the last 12 months as a consequence of both the falling iron ore prices (and the negative sentiment this created) and the Company's difficulty in raising capital to pursue its business plans, which has been an ongoing problem for some time. This is shown in Figure 3 below.

Given the lack of liquidity and low frequency of trading, the Non-Associated Directors do not place a great reliance on Share Price as an indication of Company value, other than to note the absence of buying support.

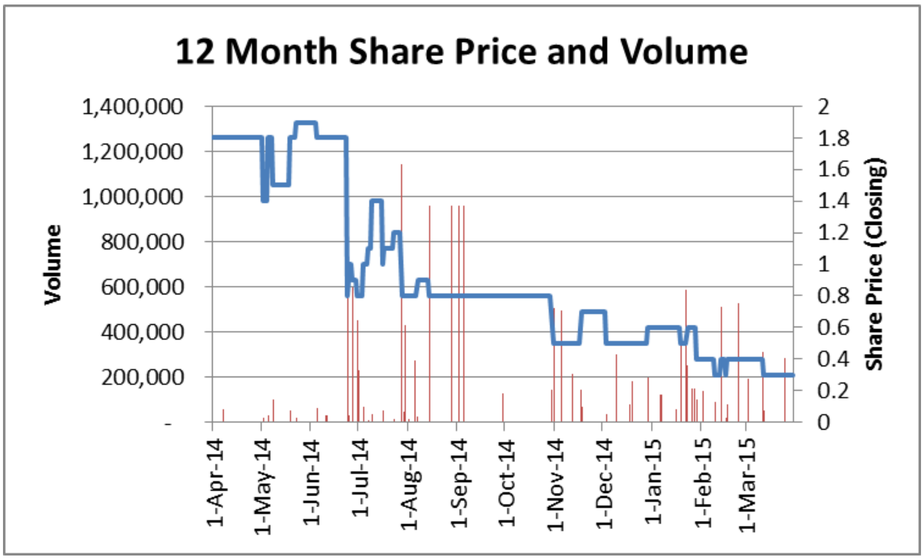



***Figure 1**: Company Daily Closing Share Price (cents per share) and Volumes (Source: www.eoddata.com)*

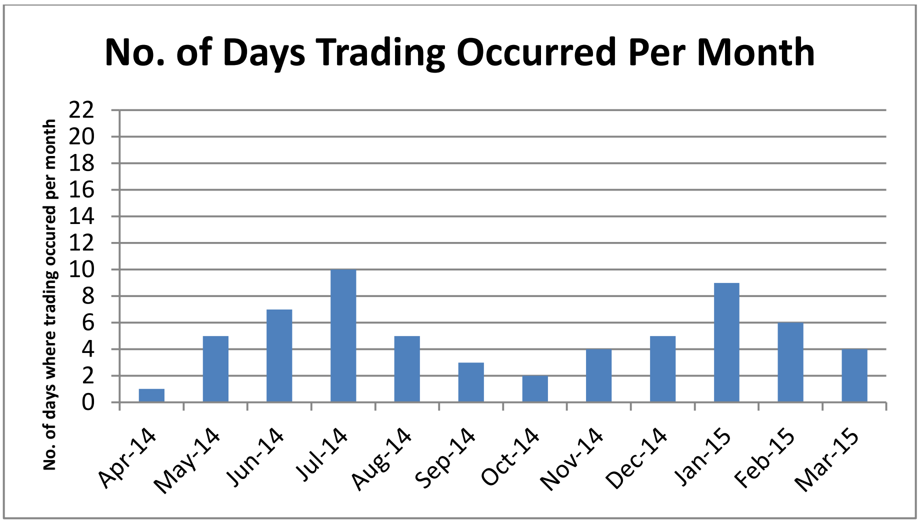



***Figure 2**: Number of days per month when trading occurred (Source: www.eoddata.com)*

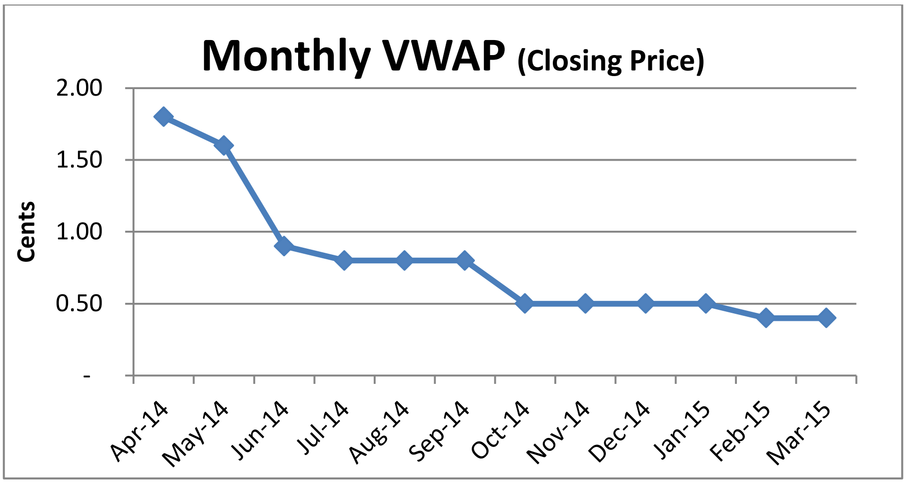



***Figure 3****: Company Average Monthly –Closing Prices (Source: [www.eoddata.com](http://www.eoddata.com))*

### 4.5 Top 20 Shareholders of the Company

The Top 20 shareholders of the Company as at 30 September 2015 are set out below.

| Rank | Shareholder Name | Holding | % |
|---|---|---|---|
| 1 | TFA International Pty Ltd | 65,573,643 | 29.17% |
| 2 | Graeme & Margaret Johnston <The G&M Johnston Superfund> | 8,502,431 | 3.78% |
| 3 | Western Opals | 8,100,000 | 3.60% |
| 4 | Sin-Tang Mining Pty Ltd | 6,647,176 | 2.96% |
| 5 | De Belle S & Sheehan J | 6,508,333 | 2.89% |
| 6 | Trust 4C | 6,200,000 | 2.76% |
| 7 | Bruijnzeel Matthew David | 5,600,000 | 2.49% |
| 8 | Alcardo Investments Limited | 5,587,979 | 2.49% |
| 9 | Philip James Evers | 4,765,834 | 2.12% |
| 10 | Botsis Holdings Pty Ltd | 3,730,295 | 1.66% |
| 11 | Grenache Pty Ltd | 3,525,000 | 1.57% |
| 12 | BL& E Manning S-F | 3,400,000 | 1.51% |
| 13 | Anthony James Baker | 3,032,766 | 1.35% |
| 14 | Bakeburg Ronald H&C | 3,000,000 | 1.33% |
| 15 | Brett Manning | 2,300,000 | 1.02% |
| 16 | Wyatt Family S/F A/C | 2,070,858 | 0.92% |
| 17 | Matthew Bruijnzeel | 1,961,800 | 0.87% |
| 18 | Eugenia Manning | 1,900,000 | 0.85% |
| 19 | Robert David Evers | 1,869,080 | 0.83% |
| 20 | Alex Feldman | 1,760,750 | 0.78% |
| | | **146,035,945** | **64.96%** |

***Table 8****: Top 20 shareholders of the Company*

# 5. Valuation Approach

## 5.1 RG111 Methodologies

RG111 proposes that it is generally appropriate to consider using the following methodologies to determine the likely 'Fair Value' of the Company before and after the Proposal as a method to determine whether the Proposal is "Fair" to Non-Associated Shareholders:

1. The discounted cash flow ("DCF") method and the estimated realisable value of any surplus assets;
2. The application of earnings multiples to the estimated future maintainable earnings or cash flows of the entity, added to the estimated realisable value of any surplus assets;
3. The amount which would be available for distribution to security holders on an orderly realisation of assets;
4. the quoted price for listed securities, when there is a liquid and active market and allowing for the fact that the quoted price may not reflect their value, should 100% of the securities be available for sale; and
5. any recent genuine offers received by the Company for the entire business.

The Non-Associated Directors have determined that some of the methods above are not appropriate in considering the Proposal's effect on the Fair Value of the Company.

For example, the DCF method (1 above) and the Earnings Multiples (2 above) are clearly unsuitable because there is no earnings data or projections on a sufficient, reasonable basis to support such analysis, either historically or going forward, at this time. These methods of valuation are more appropriate when valuing companies where future cash flow projections can be made with a reasonable degree of confidence.

The use of industry 'rules of thumb' to estimate the fair market value of the Company would only be general in nature because the assumptions would be derived from the analysis of other industry transactions and the trading multiples of comparable companies. These approaches would not take into account Company specific risks and other circumstances unique to the Proposal and the Company itself, which in this case may have a significant bearing on the likely value of the Company.

The Company has not received any recent genuine offers for the entire business (5 above) and given the Company's level of debt, such an offer seems unlikely at this time. Again, We do not believe there are reasonable grounds for considering highly speculative alternatives or making assumptions about a possible offer for the Company based on other offers for potentially similar companies in the current market (particularly the junior iron ore space), which market may reasonably be described as uncharacteristic at the date of this Report.

The Company has recently received a genuine offer for the purchase of one of its projects (the Yogi Mine Project) and this is incorporated in the valuation process.

It is also considered that the quoted price of the Company's securities (4 above), while providing a source of secondary confirmation of the Fair Value, should not be a primary source due to the thinly traded nature of the Company's shares over the last 12 months (as discussed in Section 4.4).

Asset based methods (3 above) are appropriate when companies are not profitable and/or a significant proportion of the company's assets are liquid. Asset based methodologies are used in this Report to provide the primary estimate of the Fair Value of a company's securities based on the realisable value of its net assets.

Asset based methodologies can consider the:

- orderly realisation of assets;
- liquidation of assets; and
- net assets on a going concern basis.

The Fair Value achievable in an orderly realisation of assets is estimated by determining the net realisable value of the assets of a company which would be distributed to security holders after payment of all liabilities, assuming the company is wound up in an orderly manner.

The liquidation of assets is similar to the orderly realisation of assets method, except the liquidation method assumes that the assets are sold in a shorter time frame (and therefore for a correspondingly lower return).

Net assets on a going concern basis, estimates the market values of the net assets of a company but unlike the orderly realisation of assets method it does not take into account realisation costs.

### 5.2 Selection of Valuation Methodologies

The primary method to determine the Fair Value of a Company Share pre-Proposal that has been adopted in the Report (on a "control basis", meaning the current Shareholders remain in control) is a "Sum of the Parts" valuation. This method values the net assets of the Company.

Normally a 'high' and 'low' range of values would be established for the Company to recognise the possible variation in the recoverable values of the deferred exploration expenditure assets of the Company, such as the mineral projects. However, in this instance, the Company's only material mineral tenement asset that is carried in the Company's accounts is the Yogi Mine Project. The Yogi Mine Project is carried at the value of the recent genuine offer for an outright sale of $750,000. The Company has Shareholder approval to sell this asset for $750,000 and all recent discussions for the sale with prospective buyers have also occurred at this price. The Non-Associated Directors' therefore have used this proposed sale price in the valuation.

As all material asset values in the Company's accounts are therefore known, a single value, rather than a range has been established in this Report.

The Quoted Price of Listed Securities methodology has been adopted as a secondary valuation method. The Company's Shares are listed on the ASX, which means there is a regulated and observable market for its Shares. However, as noted in Section 4.4, the question of adequate liquidity means this is only to be used as a secondary validation of the primary Fair Value method.

A reasonable premium for control is added to the valuation of the Quoted Price of Listed Securities as anticipated in RG111.65 to better reflect the value a Non-Associated Shareholder might realise if the Proposal were instead a market based takeover bid.

The Fair Value of a Share in the Company is then considered post-Proposal (On a "non control basis", meaning the current Shareholders have surrendered control to the Investors through the implementation of the Proposal).

In order to prepare the post-Proposal valuation, the pre-Proposal valuation is adjusted for the impact of the Proposal by making the following adjustments:

- Including the cash injections at realisable value;
- Eliminating any debt that will be converted at realisable value;
- Including any dilution from the issue of Shares;
- Deducting specific costs associated with the implementation of the Proposal; and
- Applying a discount for minority interest (premium for control).

## 6. Valuation of the Company Prior to the Proposal

### 6.1 Sum of parts valuation

We have assessed the value of a Company Share on a control basis to be **$0.000** per Share prior to the Proposal. The analysis is based on the Sum of the Parts valuation methodology, as detailed in the table below. The value of a Share is zero because the liabilities of the Company are now larger than its assets, which means if all its assets were sold to pay its liabilities, there would be no funds left over for distribution to Shareholders. The table below should be read in conjunction with the notes that follow it.

**Value of a Company Share Prior to the Proposal**
**(On a Control Basis - Using the "Sum of Parts" Methodology)**

| | Notes | 30-Jun-15 |
|---|---|---|
| Deferred Exploration Expenditure | | 127,867 |
| Assets classified as held for sale | | 750,000 |
| Loans | | -2,199,482 |
| Other Assets and Liabilities | | -231,996 |
| **Net Assets (Sum of Part Valuation)** | *1.* | **-1,553,611** |
| Number of Shares on Issue | *2.* | 224,819,808 |
| **Value Per Share before the Proposal** | *3.* | **$** - |

***Table 9**: Fair Value of a Company Share – Sum of the parts basis*

Notes relating to Table 9

*General Note: The valuation is based on the 30 June 2015 audited and consolidated accounts of the Company.*

1. *This is the Net Assets of the Company at 30 June 2015.*
2. *This is the number of shares on issue at the date of this report.*
3. *This is the resulting value per Share using the Sum of the Parts valuation method. Note there is no need to determine a negative value as the value of the Shares just becomes zero.*

### 6.2 Quoted Price of Listed Securities (Secondary method)

To provide some confirmation of the Sum of the Parts Valuation of the Company before the Proposal, we have considered the most recent quoted market prices for the Company's Shares on the ASX prior to the announcement of the Proposal.

As the Proposal was only announced after the Company's Shares were already in voluntary suspension, the historical Share values do not reflect any influence from the announcement of the Proposal.

An analysis of the volume in the trading of the Company's Shares for 30 days, 3 Months, 6 Months, 9 Months and 12 Months prior to the Company entering a trading halt on 1 April 2015 is set out in the Table 10 below. Table 10 indicates very limited volume and liquidity in the Company's Shares over the preceding year. The frequency of days traded averages a little more than 1 trade per week over the year analysed. Less than 5% of total current Shares on issue were traded during the year. This represents low liquidity in the Company's Shares when compared to the broader market.

| **VWAP preceding 1 April 2015** | **30 Day** | **3 month** | **6 Month** | **9 Month** | **12 Month** |
|---|---|---|---|---|---|
| VWAP (A$) | 0.004 | 0.0045 | 0.0048 | 0.0067 | 0.0072 |
| Total Volume (000's) | 835 | 1,864 | 3,111 | 8,636 | 11,006 |
| Total Volume as a % of Total Shares | 0.37% | 0.83% | 1.38% | 3.84% | 4.90% |
| Low Price (A$) | 0.003 | 0.003 | 0.003 | 0.003 | 0.003 |
| High Price (A$) | 0.004 | 0.006 | 0.007 | 0.014 | 0.019 |
| Trading Days (no.) | 4 | 19 | 30 | 48 | 61 |

***Table 10**: Traded volumes of the Company's Shares*

While the Shares last traded at 0.3 cents per Share, we have selected the 30-day VWAP of 0.45 cents per Share for our assessment of the Quoted Price of Listed Securities valuation of a Company Share.

RG111.11 states that when considering the value of a company's shares, a premium for control should be considered. As the Proposal will result in the Investors securing control of the Company, our assessment of the Fair Value of a Company Share must include a premium for control.

We have used a premium for control in the range of 20% to 30%.

The Fair Value of a Company Share on a non-control minority basis, based on a 3 month VWAP and including a premium for control is between **0.5** and **0.6** cents per Share, as detailed in the table below.

| | Low | High |
|---|---|---|
| 3 Month VWAP of a Share in the capital of the Company prior to 1 April 2015 | \$0.0045 | \$0.0045 |
| Add premium for control | 20% | 30% |
| Quoted market price (controlling) value | \$0.0054 | \$0.0059 |

***Table 11**: Assessed value of a Company Share – Quoted Price of Listed Securities*

### 6.3 Valuation Conclusion (Pre-Proposal)

The results, derived under the two methodologies, for the value of a Share in the Company are set out in the table below.

| **Methodology** | **Low** | **High** |
|---|---|---|
| Sum of the Parts | \$0.000 | \$0.000 |
| Quoted Price of Listed Securities | \$0.005 | \$0.006 |

***Table 12**: Company Share valuation summary*

The Quoted Price of Listed Securities valuation can be seen to be higher in this circumstance but We believe that the Sum of the Parts valuation should carry a greater weight in this situation for the following reasons:

1. The market valuation is based on the Shareholders belief in the business as a going concern, based upon the information that the Company had available during the three month over which the VWAP was analysed. It was the Company's expectation during that period that the sale of the Yogi Mine Project would proceed in a timely fashion and that the resulting proceeds would be re-invested in reducing debt and in new mineral exploration opportunities. When the purchasing party defaulted on this transaction and the Company requested suspension of its Shares in response, it changed the position of the Company materially. This change was further exasperated by the continuing very low iron ore price that required the Board to write off the carrying value of the Yalyirimbi Iron Project. These changes mean that placing too high a reliance on the previous 3 months trading as a basis for Company value would be misplaced;
2. The iron ore market, like all commodities, is a cyclic business. Shareholders could reasonably expect that after more than 6 months of very low iron ore prices there might be a price recovery, which in turn would return significant value to the Company's iron ore project assets. In fact, if iron prices returned to US\$100 per tonne or more, the carry value of the Company's iron projects could be significantly undervalued. It is this prospect of a price recovery, albeit a very uncertain one, that can result in Shareholders choosing not to sell Shares that have already lost much of the previous value. We feel that these sentiments skew the price a little toward a higher value than might be realistic at a particular moment in time in a depressed market; and
3. With very low liquidity, also comes a distortion in the market price based upon perhaps the buying or selling decision of a single Shareholder, rather than as a true reflection of how the wider Shareholder base values the Company.

In our opinion, We consider that the Sum of the Parts Valuation methodology provides a better indicator of the Fair Value of a Company Share because the market in the Company's Shares was not deep enough over the assessment period to use the Quoted Value of Listed Securities method to determine Fair Value.

**For these reasons it is Our view that the preferred valuation per Share prior to the Proposal (on a controlling basis) is \$0.000.**

# 7. Valuation of the Company Post Implementation of the Proposal

As We believe that the Sum of the Part Valuation is the most realistic methodology for valuing the Company, it follows that the effect of the Proposal on the value of the Company should be assessed using the same method. In this case, the Pre-Proposal valuation has been adjusted by the components of the Proposal to arrive at a Post-Proposal value for a Share in the Company.

We have assessed the value of a Company Share on a non-control basis to be **A$0.0025** per Share (adjusted to remove the Share consolidation) after implementation of the Proposal.

The detail of this valuation is provided in Table 13 on the following page, which should be read in conjunction with the associated notes that follow the table.

**Value of a Company Share post implementation of the Proposal**
**(Non-Control Basis - Using the "Sum of Parts" Methodology)**

| | Notes | Effect of Transaction |
|---|---|---|
| **Changes In Net Assets - Full Subscription** | | |
| Undiluted Value of the Company pre the Proposal | *4.* | -1,553,611 |
| Yaopeng Conversion of Debt | | 1,950,000 |
| Yaopeng Share Placement | | 2,500,000 |
| Full Subscription - Pro Rata Issue | | 3,000,000 |
| Costs during the reconstruction | | -503,852 |
| Other new deferred liabilities during reconstruction | | -19,800 |
| **Undiluted value of the Company post Proposal** | *5.* | **5,372,737** |
| **Changes in Shares (Full Subscription)** | | |
| Number of Post Consolidation Shares | | 5,620,495 |
| Debt Conversion Shares to Yaopeng | | 9,750,000 |
| Share Placement Shares to Yapoeng | | 12,500,000 |
| Capital Raising Shares (Full Subscription) | | 15,000,000 |
| **Total Shares after implementation of the Proposal (Full Subscription)** | | **43,620,495** |
| Undiluted value per Share | *6.* | $ 0.1232 |
| Discount for minority interest | *7.* | $ 0.0240 |
| Minority value per Share (undiluted) after the Proposal | | $ 0.0992 |
| **Valuation adjusted to a Pre-consolidation Basis (Divided by 40)** | *8.* | **$ 0.0025** |

***Table 13**: Assessed value of a Share in the Company on Net Assets Basis (Post-Proposed Transaction)*

<u>Notes relating to Table 13</u>

4. *This starting value is carried forward from the Pre-Proposal valuation in Table 9, Note 1;*
5. *The total provides the Post-Proposal valuation for the Company. It should be noted that the valuation is done based on the actual cash movements because these are easily defined for valuation purposes. However, around A$2M will actually be shares issued to repay the cash purchase price to acquire a 51% interest in the first property development project that was paid by Yaopeng on the Company's behalf;*
6. *Net assets, divided by total shares on issue after the transaction. The actual value of a Share will be determined by the market's view of the Company's new prospects but this value is not considered here for the purposes of the valuation;*
7. *A minority interest discount is determined at Note 7. to adjust for the fact that Shareholders have surrendered control of the Company to the Investors under the Proposal. This is calculated using the following formula:*
    a. *Discount for minority interest = 1 / (1 + 25% premium for control) – 1 = 20%*
8. *In order to properly compare the Fair Value of a Share pre-Proposal (a pre-consolidation Share) with the Fair Value of a Share post-Proposal, it is necessary to effectively un-consolidate the Shares by dividing the value per Share by the consolidation ratio of 40 to arrive at a Post-Proposal Fair Value.*

# 8. Is the Proposal Fair to Non-Associated Shareholders?

The Fair Values per Share prior to and upon completion of the Proposal are summarised below:

| Fair Values per Shares (Pre-Consolidation Basis) | Fair Value |
|---|---|
| Sum of the Parts Pre-Proposal | A$0.0000 |
| Sum of the Parts Post-Proposal | A$0.0025 |

***Table 14**: Fair Values Per Share*

Therefore, based on the information available to Us at the date of this Report, as the Post-Proposal Fair Value established using the Sum of the Parts methodology is greater than the Pre-Proposal Fair Value, **We determine that the Proposal is Fair to Non-Associated Shareholders of the Company** for the purposes of Section 611, Item 7 of the Act, in accordance with the guidelines set out in RG111.

# 9. Is the Proposal Reasonable to Non-Associated Shareholders?

### 9.1 Reasonableness

RG111.12 states that an offer is Reasonable if it is Fair. If an offer is not fair it may still be reasonable after considering the specific circumstances applicable to the offer. In Our assessment of the Reasonableness of the Proposal, We have given consideration to:

- The future prospects of the Company if the Proposal does not proceed; and
- Other advantages and disadvantages of the Proposal to the Non-Associated Shareholders.

### 9.2 Opinion on Reasonableness

Based on the information available to Us at the date of this Report and notwithstanding the requirements of RG111.12 to determine that the Proposal is Reasonable because We have determined it to be Fair, **We determine that the Proposal is Reasonable to Non-Associated Shareholders of the Company** for the purposes of Section 611, Item 7 of the Act and Listing Rule 10.11, in accordance with the guidelines set out in RG111.

The basis for this determination is discussed below.

### 9.3 Future Prospects of the Company if the Proposal Does Not Proceed

If the Proposal does not proceed, the Company will face an immediate need to raise capital in order to remain as a going concern and to be able to meet the following liabilities:

- Certain creditor payments, where the creditors have agreed to allow the Company to defer payment pending the implementation of the Proposal and/or the sale of Yogi;
- Significant loans and deferred interest due to the Investors. Some of these liabilities would be due immediately but all would be payable within 6 months;
- Loans and interest to other parties that are payable on demand; and
- Funds to maintain company operations and advance its mineral projects (including potentially acquiring a replacement for the Yogi Mine Project once sold).

The quantum of this re-financing task would be expected to exceed A$3M as a minimum.

The Non-Associated Directors note serious reservations about the likelihood of being able to achieve this task or some analogous proposal, given the time constraints that would be on the Company in those circumstances and caution that the difficulties of capital raising in the current market played a significant part in Our recommendation to put the Proposal to Shareholders. If the Company were unable to promptly re-finance its operations, Voluntary Administration or Liquidation of the Company could be the result.

Were the Company able to re-finance by other means, it would be negotiating in disadvantageous circumstances and any resulting terms are unlikely to be favourable to the Company. This is likely to have a dilutionary impact on existing Shareholders. However, if this task could be achieved, with the Company successfully re-capitalised, the prospects of the Company would then be dependent on:

- The market conditions prevailing in the mineral resources sector (including commodity prices, particularly iron ore); and
- How quickly the Company could acquire new mineral project interests and pursue their exploration and development.

In assessing whether the Non-Associated Shareholders are likely to be better off if the Proposal proceeds than if it does not, We have considered other advantages and disadvantages that are likely to accrue to the Non-Associated Shareholders of the Company.

### 9.4 Advantages of approving the Proposal

***Advantage 1 – Reduction of debt***

The successful implementation of the Proposal will remove all material amounts of debt up to completion of the Proposal. The reduction in debt will improve the future prospects of the Company and should make the Company more appealing to new investors.

***Advantage 2 – Reduction in interest payments***

Interest expenses in the order of $175,000 per annum will be avoided. This is a benefit for a company with limited cash reserves.

***Advantage 3 – Potential for the New Business Plan***

The new business plan and resulting new project or projects are planned to move the Company toward income and self-sustaining operations within 2 years. If this business plan is successful, the prospects of Share price growth and/or dividend returns could benefit Shareholders significantly in comparison to the Company's current position.

***Advantage 4 – The Investors Alignment of Goals and Business Experience***

Following the implementation of the Proposal, the Investors would have a significant vested interest (as the major Shareholders) in the success of the new business plan. Add to that local Chinese market experience and the Investors will be both motivated and very able to assist the Company in its new endeavours. This may prove to be a not insignificant benefit for the prospects of the Company and therefore for the interests of the Non-Associated Shareholders.

***Advantage 5 – Lower Risk Profile***

There are risks associated with the Proposal, such as *'can it be implemented successfully?'* and *'will the new business plan be successful?'*, however, the Proposal provides the opportunity to re-capitalise the Company. This point alone would remove the current potential risk that the Company may fail without the Proposal. This is obviously a significant advantage of having the Proposal available for Shareholders to consider.

**9.5 Disadvantages of approving the Proposed Transaction**

***Disadvantage 1 – Dilution of Non-Associated Shareholders' Interests in the Company***

The Proposal will result in a reduction of the current Non-Associated Shareholders' voting power and interests in the Company by between 25.63% and 32.43% on an undiluted basis. After the Proposal is implemented, the Investors will be able to control the business of the Company by passing ordinary resolutions at General Meetings of the Company and having a significant influence over special resolutions, provided in either case that the Investors are not a related party for the purposes of such resolutions.

***Disadvantage 2 – Approval of the Proposal does not Guarantee Success***

For the Proposal to be successful, the Company will still need to raise significant capital (At least A$2,350,000 from Shareholders and the public after the Yaopeng underwriting) and meet all the requirements for re-quotation on the ASX, such as Shareholder spread criteria etc. The Non-Associated Directors' caution that the raising of capital will be challenging, even under the new business plan in the current market. If the Company were to fail to complete the Proposal successfully at the end of the process, it would have incurred further debt with possibly no additional benefit. The property and infrastructure business can also be cyclical and suffer from external pressures. There is no certainty that the new business plan will be successful. A specific list of some of the possible risks associated with the implementation of the Proposal is provided at Section 10 of this Report.

***Disadvantage 3 – Deterring Alternative Proposals***

If Shareholders approve the Proposal, any potential party which may have been considering offering an alternative proposal or a take-over of the Company is less likely to pursue such a course of action. Shareholders would therefore miss the potential to be offered a potentially superior alternative. We are, however, not aware of any alternative proposal at the current time which might offer the Non-Associated Shareholders of the Company a greater benefit than the Proposal. Given the market circumstances and the Company's debt level, We believe an alternate proposal is unlikely.

***Disadvantage 4 – Change of Business***

The implementation of the Proposal would result in the business of the Company changing from 'mineral exploration' to 'property and infrastructure development'. This change will change the investment and risk profile of the Company, which may not suit the investment objectives of all current Shareholders.

**9.6 Conclusion**

It is Our view that, on balance, the advantages are likely to outweigh the disadvantages for most Non-Associated Shareholders. Rejecting the Proposal is, in Our view, also a high risk strategy in the current market. These considerations inform Our determination that the Proposal is Reasonable as stated at Section 9.2.

# 10. Other Relevant Information

**10.1 Risks Specific to the Implementation of the Proposal**

If the Shareholders vote in favour of adopting the Proposal by approving the resolutions in the Notice, there will remain material risks associated with the implementation of the Proposal. Should the Company be unable to successfully implement the Proposal for any reason, the result may be the permanent failure of the Proposal and, as a result, significant doubt as to whether the Company would be able to continue as a going concern. Some of the key risks associated with the implementation of the Proposal are set out below. The list is not exhaustive:

#### *10.1.1 Capital Raising Risk*

The Company must raise A$2.85M minimum from the Shareholders and the public to meet the expected Minimum Subscription requirements of the Prospectus. There is no certainty that this can be achieved.

#### *10.1.2 Shareholder Spread Risk*

One of the requirements for the re-quotation of the Company's Shares on the ASX is that following the capital raising, the Company expects to require a minimum of 350 Shareholders with a parcel of Shares with a nominal value of at least A$2,000 to meet ASX Listing Rule requirements. This can be a difficult criteria to achieve.

#### *10.1.3 Regulatory Compliance Risk*

The Company must prepare and lodge a Prospectus with ASIC and ASX for the capital raising, which Prospectus will also be the compliance document in respect of the re-quotation requirements for the Company's Shares. Other documentation, including a quotation application, must also be lodged with ASX. Should the Company be unable to complete the re-quotation requirements for any reason, the Proposal could be delayed or may fail entirely.

#### *10.1.4 Investor Support Risk*

The Proposal is reliant on the Investors providing significant funding. If the Investors withdraw the Proposal or fail to provide the funding as required, the Proposal would fail.

#### *10.1.5 Creditor Risk*

The implementation of the Proposal is reliant on the continued cooperation of certain parties owed money by the Company that have agreed to wait for payment until following completion the Proposal and/or the sale of the Yogi Mine Project. Should those parties require payment prior to the completion of the reconstruction process, the Proposal may fail.

#### *10.1.6 Future Business Risk*

The Company proposes the future pursuit of a property development project as described in the Explanatory Statement and the ITSR. There are risks associated with any business venture and these types of risks will also apply to the Company after the Proposal is successfully completed. Please refer to the Explanatory Statement for more detail in this regard on the business and project specific risks.

### 10.2 Declarations and Disclosures

The Non-Associated Directors who prepared and authorised this Report are:

- Mr Bryan Hughes
- Mr Brett Manning
- Mr Barry Wyatt
- Mr Graeme Johnston

The Non-Associated Directors declare that they have no interest in the outcome of the Proposal, other than in their capacities as Directors' of the Company and their personal interests as Non-Associated Shareholders of the Company.

The Share holdings of the Non-Associated Directors who prepared this Report are as follows:

| Non-associated Director | Shares | Convertible Notes |
|---|---|---|
| Mr Bryan Hughes | 1,131,818 | 16 |
| Mr Brett Manning | 6,785,000 | 17 |
| Mr Barry Wyatt | 6,558,041 | 0 |
| Mr Graeme Johnston | 9,422,431 | 44 |

***Table 15**: Non-Associated Directors' Shareholdings*

Except for their normal remuneration as Directors and officers of the Company, the Non-Associated Directors who prepared this Report declare that they will receive no payment, remuneration, commission or other benefit associated with the preparation of this Report or the approval or otherwise of the Proposal by Shareholders.

### 10.3 Qualifications

The Non-Associated Directors who prepared this Report have the following qualifications and experience relevant to the preparation of this Report:

**Mr. Bryan Kevin Hughes**
Chairman

Mr Hughes has been a director of the Company and Chairman of the Board for approximately 3 years and 2 months. He is a Chartered Accountant with over 28 years' experience in the corporate and resources sectors. He has been the Managing Director of Pitcher Partners, Perth (and its preceding companies) for the last 18 years and during that time has been a member of, and consulted to, many Boards.

Bryan has overseen, and facilitated, the raising of significant amounts of capital, and played a pivotal role in the launching of some highly successful resource companies, such as Western Areas, Sinosteel Midwest Corporation, and Consolidated Minerals. He has extensive expertise in the evaluation, development and management of companies and their operations. He also has significant experience in corporate matters generally including the operation of corporate laws, the Corporations Act and is a registered liquidator.

**Mr. Brett Manning**
Managing Director

Mr Manning has been a director of the Company for approximately 10 years and 1 month and Managing Director for 9 years and 5 months. He is responsible to the Board for the operations of the Company. He has more than 21 years' experience in corporate management in a diverse variety of management disciplines in both public listed companies and private companies. He has previously operated a management consultancy and received training in general management, accounting, corporate governance and company secretarial practice. He also has significant experience in corporate matters generally, including the operation of corporate laws and the Corporations Act. He is a director of a number of private companies.

**Mr. Barry Edward Wyatt**
Non-Executive Director

Mr Wyatt has been a director of the Company for approximately 20 years. He has a Bachelor of Civil Engineering degree, previously was a member of both the Institute of Engineers Australia and the Australasian Institute of Mining and Metallurgy and was a foundation member and Fellow of the Institute of Arbitrators and Mediators Australia. He has over 40 years' experience in managing companies and was President of the Northern Territory Master Builders Association for three years. Mr Wyatt has authored Bankable Feasibility Studies, conducted project reviews and authored project assessment reports for financial institutions.

**Mr. Graeme Johnston**
Non-Executive Director

Mr Johnston has been a director of the Company for approximately 9 years and 3 months. He has a Bachelor of Science degree (Hons) in Geology, M.Sc. in Structural Geology and Rock Mechanics, a Diploma of Imperial College of Science and Technology and is a Fellow of the Geological Society of London. He also has more than 20 years management experience in private companies and listed public companies. He has been deemed a 'competent person' for more than 15 years in respect of preparing geological resource reports in compliance with the JORC Code and has authored a number of such detailed reports over that time.

### 10.4 Reliance on this Report

This Report has been prepared exclusively for the purpose of assisting Non-Associated Shareholders in considering the Proposal. The Non-Associated Directors disclaim to the maximum extent possible under the law any responsibility or liability for any loss suffered by any party who is not a Non-Associated Shareholder or any party at all relying on the Report for any other purpose than considering the Proposal.

The Non-Related Directors have:

- prepared this Report in good faith, solely for the purpose for which it is intended;
- relied upon information known to the Directors and provided by others, including the Investors;
- made reasonable inquiries in regard to the matters considered by Us to be relevant to this Report;
- not omitted any matter considered by Us to be relevant to the Report;
- no reason to believe that the information used to prepare this Report is inaccurate, misleading or incomplete at the date of this Report;
- used economic, financial and market information prevailing at the date of this Report but caution Shareholders that such information can alter significantly over relatively short periods of time.

It should not be construed that any form of audit or verification has been conducted on information, including public information and information supplied by third parties in response to reasonable inquiries, which could reasonably be assumed by Us to be reliable.

**10.5 Consents**

Each of the Non-Associated Directors who prepared this Report has authorised its contents and has not otherwise withdrawn such authorisation as at the date of this Report.

The Investors have given, and have not before the date of this Report, withdrawn their consent to be named in the Report in the form and context to which they are named, together with all references to them.

**ANNEXURE A**

The following table sets out a summary of the Financial Performance of the Company for the years ended 30 June 2013 (“FY13”), 30 June 2014 (“FY14”) and 30 June 2015 (“FY15”).

| STATEMENT OF FINANCIAL PERFORMANCE | Audited | Audited | Audited |
|---|---|---|---|
| | FY15 | FY14 | FY13 |
| **Revenue** | 52,649 | 11,790 | 21,224 |
| Salaries and employee benefits expense | (583,200) | (557,062) | (514,825) |
| Depreciation and loss on disposal | (25,152) | (35,738) | (45,726) |
| Exploration expenditure written off | (389,514) | (582,916) | (390,442) |
| Impairment of deferred exploration expenditure | (8,745,433) | - | - |
| Interest and finance costs | (106,443) | (65,805) | (28,038) |
| Share based payment | - | - | (11,550) |
| Land option written off | - | (300,000) | - |
| Corporate and administration costs | (225,144) | (319,852) | (494,066) |
| **Loss before income tax expense** | **(10,022,237)** | **(1,849,583)** | **(1,463,423)** |
| Income tax expense | - | - | - |
| **Net loss for the year** | **(10,022,237)** | **(1,849,583)** | **(1,463,423)** |
| Other Comprehensive Income | - | - | - |
| **Total Comprehensive Loss** | **(10,022,237)** | **(1,849,583)** | **(1,463,423)** |

***Annexure A, Table 1****: Financial Performance from the audited and reviewed published Company Financial Reports*

As a mineral exploration venture, the Company has had no material source of revenue and funds are generally sourced from equity or debt. The majority of expenditure is committed to exploration and administration as shown in the Statement of Comprehensive Income.

The significant write down of exploration expenditure in the FY15 above reflects a write down of the value of the Yogi Mine Project and the Yalyirimbi Iron Project following the sustained collapse of the iron ore price.

***Emphasis of Matter***

The audit report for the year ending 30 June 2015 contained the following emphasis of matter:

> “*Without modifying our opinion, we draw attention to Note 1(a) to the financial report which indicates that the board recognises that additional funding is required to ensure that the Company can continue to fund its operations for a period of at least twelve months from the date of signing this financial report. Should the recapitalisation proposal be rejected or otherwise fail for any reason and none of the future equity raisings and/or the other agreements be completed to the extent required, there will exist a material uncertainty that may cast significant doubt on the Group’s ability to continue as a going concern and therefore it may be unable to realise its assets (in particular its deferred exploration expenditure) and extinguish its liabilities in the normal course of business.”*

The table below sets out a summary of the Financial Position of the Company for the years ended 30 June 2013 ("FY13"), 30 June 2014 ("FY14") and 30 June 2015 ("FY15").

| STATEMENT OF FINANCIAL POSITION | Audited | Audited | Audited |
|---|---|---|---|
| **Assets** | **HY15** | **FY14** | **FY13** |
| **Current Assets** | | | |
| Cash and cash equivalents | 48,369 | 34,736 | 682,815 |
| Other assets | 402 | 402 | 43,960 |
| **Total Current Assets** | 48,771 | 35,138 | 726,775 |
| **Non-Current Assets** | | | |
| Other assets | 33,828 | 41,445 | 90,624 |
| Property, plant and equipment | 16,016 | 40,742 | 387,568 |
| Asset held for sale | 750,000 | - | - |
| Deferred exploration expenditure | 127,867 | 9,616,345 | 9,264,589 |
| **Total Non-Current Assets** | 927,711 | 9,698,532 | 9,742,781 |
| **Total Assets** | 976,482 | 9,733,670 | 10,469,556 |
| **Liabilities** | | | |
| **Current Liabilities** | | | |
| Trade and other payables | 998,358 | 389,644 | 214,947 |
| Borrowings | 1,531,735 | 336,400 | 136,400 |
| **Total Current Liabilities** | 2,530,093 | 726,044 | 351,347 |
| **Non-Current Liabilities** | | | |
| Borrowings | - | 539,000 | - |
| **Total Non-Current Liabilities** | - | 539,000 | - |
| **Total Liabilities** | 2,530,093 | 1,265,044 | 351,347 |
| **Net Assets** | (1,553,611) | 8,468,626 | 10,118,209 |
| **Equity** | | | |
| Issued capital | 19,700,333 | 19,700,333 | 19,500,333 |
| Reserves | - | 39,341 | 125,522 |
| Accumulated losses | (21,253,944) | (11,271,048) | (9,507,646) |
| **Total Equity** | (1,553,611) | 8,468,626 | 10,118,209 |

***Annexure A, Table 2****: Statements of Financial Position from the audited and reviewed published Company Financial Reports*

As at FY15, the Company had a working capital deficiency of A$2,481,322 (current assets less current liabilities).

Current Borrowings are related to unsecured loans from directors and related parties including the Investors. The loans carry various interest charges of between 7.8% and 10% per annum. The Non-Current Borrowings relate to unsecured convertible notes. The convertible notes are redeemable on 28 November 2015 and carry a coupon rate of 10% per annum.

The table below sets out a summary of the cash flow of the Company for the years ended 30 June 2013 ("FY13"), 30 June 2014 ("FY14") and 30 June 2015 ("FY15").

| STATEMENT OF CASH FLOWS | Reviewed | Audited | Audited |
|---|---|---|---|
| | **FY15** | **FY14** | **FY13** |
| **Cash flows from operating activities** | | | |
| Payments to suppliers and employees | (499,508) | (727,098) | (1,052,122) |
| Interest received | 275 | 6,369 | 16,530 |
| Interest paid and finance costs | (19,329) | (18,535) | (29,917) |
| Other revenue received | 1,283 | - | 3,785 |
| Net cash (used in) operating activities | (517,279) | (739,264) | (1,061,724) |
| **Cash flows from investing activities** | | | |
| Payments for plant and equipment | (426) | - | (18,016) |
| Proceeds on disposal of plant & equipment | 11,091 | 14,090 | 909 |
| Payments for exploration expenditure | (183,705) | (871,084) | (728,112) |
| Payment for mineral interests | - | - | (367,500) |
| Loans repaid by other entities | - | - | 25,000 |
| Rental bond repayment/(paid) | 7,617 | 49,179 | 300 |
| Payment for subsidiary, net of cash acquired | - | - | (30,444) |
| Proceeds of option fee on sale of tenements | 40,000 | - | - |
| Net cash (used in) investing activities | (125,423) | (807,815) | (1,117,863) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of securities | - | 180,000 | 2,540,882 |
| Proceeds from borrowings | 656,335 | 719,000 | 200,000 |
| Repayment of borrowings | - | - | (389,600) |
| Net cash provided by financing activities | 656,335 | 899,000 | 2,351,282 |
| Net increase/(decrease) in cash & cash equivalents | 13,633 | (648,079) | 171,695 |
| Cash and cash equivalents at 1 July | 34,736 | 682,815 | 511,120 |
| **Cash and cash equivalents at end of period** | 48,369 | 34,736 | 682,815 |

***Annex A, Table 3****: Cash flow from the audited and reviewed published Company Financial Reports*

The Cash Flow Statement demonstrates the Company's dependence on regular capital raisings to funds its exploration business. It is the lack of available equity funding during recent years that has challenged the Company's ability to implement its mineral exploration business plan. This problem has been greatly exacerbated by worsening market sentiment brought about by iron ore prices falling by more than 50% in the last 12 months.

**ANNEXURE B**

**Capitalised Terms**

**A$** means Australian Dollar, the official currency of the Commonwealth of Australia

**Act** means the *Corporations Act 2001* (Cth)

**ASIC** means the Australian Securities & Investments Commission

**ASX** means the Australian Securities Exchange

**Board** means the Board of Directors of the Company at the date of this Report

**Company** means Ferrowest Limited (ACN 074 009 091)

**Control Basis** means, in assessing the fair value on an equity interest, where the holder or holders have control of entity in which the equity is held

**CNY** means Chinese Yuan, the official currency of China

**Director** means a director of the Company at the date of this Report

**Discounted Cash Flow Method** or **DCF** means a method within the income approach whereby the present value of future expected net cash flows is calculated using a discount rate

**Equity** means the owner's interest in property after deduction of all liabilities

**Explanatory Statement** means the Explanatory Statement forming part of the Notice

**Fair** has the meaning attributed to it in RG111

**Fair Value** means the amount at which an asset could be exchanged between a knowledgeable and willing but not anxious seller and a knowledgeable and willing but not anxious buyer, both acting at arm's length

**FME** means Future Maintainable Earnings

**FY** means Financial Year (Ending)

**ITSR** means the Independent Technical Specialist Report so named at Annex A of the Explanatory Statement

**Loan Amounts** means amounts loaned by the Investors to the Company and any associated unpaid interest

**Non-Associated Director** means a Director who is not a related party of the Investors and/or the Proposal

**Non-Associated Shareholder** means a Shareholder other than the Investors or a related party of the Investors

**Non Control Basis** means, in assessing the fair value on an equity interest, where the holder or holders do not have control of entity in which the equity is held

**Notice** or **Notice of Meeting** means the Notice of Meeting to vote on the Proposal

**Our** means in relation to a view expressed by the Non-Associated Directors who authored the Report

**Proposal** means the proposed transactions described in the Notice to reconstruct the Company, including the issue shares to the Investors or its nominees which will result in a change of control

**Prospectus** means a prospectus to be lodged with ASIC for: an offering to the Public (including a priority entitlement offer and shortfall offer); an equity for debt offer; a placement offer and an offer of shares to advisors to the Company.

**Reasonable** has the meaning attributed to it in RG111

**Regulations** means the *Corporations Act Regulations 2001* (Cth)

**Report** means this Detailed Directors' Report dated 21 October 2015

**RG74** means ASIC Regulatory Guide 74 Acquisitions approved by members

**RG111** means ASIC Regulatory Guide 111 Contents of expert's reports

**Shares** means ordinary shares in the capital of the Company

**Shareholder** means a holder of ordinary Shares in the Company

**TFA** means TFA International Pty Ltd and any associate or nominee of that company

**Us** means the Non-Associated Directors who authored the Report

**VWAP** means the Volume weighted average share price

**We** means the Non-Associated Directors who authored the Report

**Yaopeng** means Yaopeng International Trade Pty Ltd and any associate or nominee of that company

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