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

If you have sold or transferred all your shares in Bao Yuan Holdings Limited (the “Company”), you should at once hand this circular and the accompanied form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sales or transfer was effected for transmission to the purchaser or the transferee.

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寶源控股有限公司 Bao Yuan Holdings Limited

(Formerly known as Ching Hing (Holdings) Limited 正興(集團)有限公司*)

(Incorporated in Bermuda with limited liability)

(Stock code: 692)

REFRESHMENT OF GENERAL MANDATE AND NOTICE OF SPECIAL GENERAL MEETING

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

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橋
BRIDGE PARTNERS

BRIDGE PARTNERS CAPITAL LIMITED

A letter from the board of directors of the Company is set out from pages 3 to 10 of this circular. A letter from the independent board committee of the Company is set out on page 11 of this circular. A letter from Bridge Partners Capital Limited containing its advice to the independent board committee and the independent shareholders of the Company is set out from pages 12 to 21 of this circular.

A notice convening the special general meeting of the Company to be held at The City Garden Hotel, 9 City Garden Road, Hong Kong on Thursday, 13 January 2011 at 9:30 a.m. or any adjournment is set out from pages 22 to 24 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the accompanying form of proxy to the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17 Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the special general meeting of the Company. Completion and return of the form of proxy shall not preclude you from attending and voting at the special general meeting of the Company should you so wish.

* For identification purpose only

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DEFINITIONS

In this circular, unless the context otherwise requires, capitalized terms used shall have the following meanings:

“associate(s)”	shall have the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Bao Yuan Holdings Limited, a company incorporated in Bermuda and the shares of which are listed on the main board of the Stock Exchange
“Director(s)”	director(s) of the Company
“Existing Issue Mandate”	the general mandate to issue up to 90,786,423 new Shares granted by the Shareholders to the Directors at the special general meeting of the Company held on 5 October 2010
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	comprises all the three independent non-executive Directors, namely Mr. Cheung Cho Yiu, Mr. Liang Jin An and Mr. Wong Chun Hung to advise the Independent Shareholders in respect of the Refreshment of General Mandate
“Independent Financial Adviser”	Bridge Partners Capital Limited, a licensed corporation to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Refreshment of General Mandate

DEFINITIONS

“Independent Shareholder(s)”	any Shareholder(s) other than the controlling Shareholders and their associates or, if there is no controlling Shareholder, the Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates
“Issue Mandate”	the new mandate proposed to be sought at the SGM to authorise the Directors to allot, issue and deal with Shares not exceeding 20% of the issued share capital of the Company as at the date of passing of the relevant resolution(s) at the SGM
“Latest Practicable Date”	23 December 2010, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Refreshment of General Mandate”	the proposed refreshment of the Existing Issue Mandate
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“SGM”	the special general meeting of the Company to be held on 13 January 2011 for the purpose of considering and, if thought fit, approving the Refreshment of General Mandate
“Share(s)”	ordinary share(s) of HK\$0.001 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.

In the event of any inconsistency, the English text of this circular shall prevail over the Chinese text.



寶源控股有限公司
Bao Yuan Holdings Limited

(Formerly known as Ching Hing (Holdings) Limited 正興(集團)有限公司*)
(Incorporated in Bermuda with limited liability)
(Stock code: 692)

Executive Directors:

Mr. Yiu Kwok Ming, Tommy (*Managing Director*)
Mr. Chan Yiu Fai
Mr. Yim Hin Keung
Mr. Wong Man Pan
Mr. Wong Wai Man

Independent non-executive Directors:

Mr. Cheung Cho Yiu
Mr. Liang Jin An
Mr. Wong Chun Hung

Registered office:

Canon's Court
22 Victoria Street
Hamilton, HM12
Bermuda

*Head Office and principal place of
business:*

Room 3807
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

29 December 2010

To the Shareholders

Dear Sir or Madam,

REFRESHMENT OF GENERAL MANDATE

INTRODUCTION

The purpose of this circular is to provide you information relating to (i) the Refreshment of General Mandate; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from the Independent Financial Adviser setting out, among other things, its recommendation to the Independent Board Committee and the Independent Shareholders; and (iv) the notice of special general meeting to be convened and held for the purpose of considering and, if thought fit, approving the resolution(s) to implement the proposal for the Refreshment of General Mandate.

* For identification purpose only

LETTER FROM THE BOARD

REFRESHMENT OF GENERAL MANDATE

Background of the Refreshment of General Mandate

At the special general meeting of the Company held on 5 October 2010, the Shareholders approved, among other things, an ordinary resolution to grant to the Directors the Existing Issue Mandate to allot up to 90,786,423 Shares.

As at the Latest Practicable Date, the Existing Issue Mandate had been fully utilized as a result of the placing of 90,786,423 new Shares under the Existing Issue Mandate with net proceeds of approximately HK\$24.13 million announced on 5 October 2010 by the Company (the “**Placing**”) for the general working capital of the Group. The Placing was completed on 12 October 2010.

There has not been any refreshment of the Existing Issue Mandate since the special general meeting of the Company held on 5 October 2010. Accordingly, after the issue of the aforesaid new Shares as a result of the Placing, no further new shares may be further issued and allotted under the Existing Issue Mandate.

On 20 October 2010, the Company announced to raise approximately HK\$217.89 million before expense by way of the rights issue of 4,357,748,323 rights shares at a subscription price of HK\$0.05 per rights share (the “**Right Issue**”). Dealings in the rights shares on the Stock Exchange have been effective from 23 December 2010. As disclosed in the announcement of the Company dated 20 October 2010, the Company intends to apply the net proceeds from the Rights Issue (i) for working capital for the existing businesses of the Group including but not limited to the development of the iron and titanium mine in the PRC (the “**Mine**”), details of the estimated capital expenditures of the Mine have been disclosed in the circular of the Company dated 1 March 2010; (ii) for the reduction of liabilities of the Group (including but not limited to the outstanding convertible bonds of the Company with principal amount of HK\$686,800,000); and/or (iii) to finance any future investment opportunities to be identified by the Company. As at the Latest Practicable Date, save as disclosed above, the Company has not identified any other investment opportunities and/or future business development plan with specific funding needs.

LETTER FROM THE BOARD

Reasons for the Refreshment of General Mandate

Upon completion of the Rights Issue, the number of issued Shares has been increased from 544,718,540 Shares to 4,902,466,860 Shares. The Board considers that (i) it is necessary to refresh the Existing Issue Mandate to reflect the actual number of Shares to be allotted given the number of Shares exists has been increased substantially as a result of the Rights Issue; (ii) the proposed refreshment of the Existing Issue Mandate will enable the Group to conduct fund raising activities as and when opportunities arise; and (iii) granting of specific mandate is subject to the approval of the Independent Shareholders which may cause undue delay if the Group wishes to carry out timely acquisitions. Although the Company has just completed the Placing and the Rights Issue and raised approximately HK\$24.13 million and HK\$210.94 million respectively, the Board considers that it is in the best interests for the Company to have additional options when considering fund raising activities in the future. Given that equity financing (i) does not incur any interest paying obligations on the Group as compared with bank financing; (ii) is less costly and time-consuming than raising funds by way of rights issue or open offer; and (iii) provides the Company with the capability to capture any capital raising or prospective investment opportunity as and when it arises, the Board proposes to refresh the Existing Issue Mandate for the Directors to allot, issue and deal with new Shares with an aggregate nominal amount of not exceeding 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of the SGM. The Company would exercise due and careful consideration when choosing the best financing method available to the Group. As at the Latest Practicable Date, the Company does not have any concrete plan or intention to raise capital by using the Issue Mandate.

As at the Latest Practicable Date, a total of 4,902,466,860 Shares were in issue. Subject to the passing of the proposed resolution for the Refreshment of General Mandate and on the basis that no Share will be issued or repurchased by the Company prior to the SGM, the Company will be allowed under the Issue Mandate to issue a maximum of 980,493,372 new Shares.

The Independent Board Committee, comprising Mr. Cheung Cho Yiu, Mr. Liang Jin An and Mr. Wong Chun Hung, all being the independent non-executive Directors, has been formed to consider the Refreshment of General Mandate. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

LETTER FROM THE BOARD

Pursuant to Rule 13.36(4)(a) of the Listing Rules, any controlling Shareholders and their associates, or where there is no controlling Shareholder, the Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the relevant resolution(s) regarding the Refreshment of General Mandate to be proposed at the SGM. As at the Latest Practicable Date, there is no controlling Shareholder and therefore Mr. Yiu Kwok Ming, Tommy and Mr. Wong Wai Man, both Directors, and their associates (if any), are interested in 20,724,519 and 27,000 Shares, representing approximately 0.42% and 0.00% of the issued share capital of the Company. Accordingly, Mr. Yiu Kwok Ming, Tommy and Mr. Wong Wai Man, and their respective associates shall abstain from voting in favour of the relevant resolution(s) regarding the Refreshment of General Mandate. Pursuant to Rule 13.39(4) of the Listing Rules, the vote of the Independent Shareholders in respect of the Refreshment of General Mandate at the SGM will be taken by way of poll. As at the Latest Practicable Date, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company and their respective associates had indicated that they have no intention to vote against the resolution(s) regarding the Refreshment of General Mandate at the SGM.

Equity fund raising activity in the past twelve months

The equity fund raising activities during the past twelve months prior to the Latest Practicable Date:

Date of announcement	Description of the fund raising activity	Net proceeds raised (<i>approximately</i>)	Proposed use of the net proceeds	Actual use of proceeds
9 August 2010	Placing of 2,057,767,649 new Shares under the general mandate granted in the annual general meeting of the Company on 31 May 2010	HK\$19.81 million	General working capital	Approximately HK\$1 million was applied to the payment of administrative expenses for the Company and the balance has been deposited into bank

LETTER FROM THE BOARD

Date of announcement	Description of the fund raising activity	Net proceeds raised <i>(approximately)</i>	Proposed use of the net proceeds	Actual use of proceeds
5 October 2010	Placing of 90,786,423 Shares under the refreshed general mandate granted in the special general meeting of the Company on 5 October 2010	HK\$24.13 million	General working capital	Approximately HK\$20.3 million was applied for the early redemption of the outstanding Convertible Notes; HK\$2 million was applied to the payment of administrative expenses for the Company and the remaining balance has been deposited into bank
20 October 2010	The Rights Issue	HK\$210.94 million	(i) General working capital for the existing businesses of the Group including but not limited to the development of the iron and titanium mine in the PRC; (ii) the reduction of liabilities of the Group and (iii) to finance any investment opportunities to be identified by the Company	HK\$150 million was applied for the early redemption of the outstanding Convertible Notes, while the remaining balance of the proceeds has been deposited in the bank accounts of the Group and will be used as intend

Save as and except for the above, the Company had not conducted any other equity fund raising activities in the past twelve months immediately prior to the Latest Practicable Date.

LETTER FROM THE BOARD

Potential dilution to shareholding of the public shareholders

The table below sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) after full utilization of the Issue Mandate (subject to the passing of the proposed resolution for the Refreshment of General Mandate and assuming no other Shares are issued or repurchased by the Company prior to the SGM):

Shareholder	As at the Latest Practicable Date <i>(Note 1)</i>		After full utilization of the Issue Mandate (subject to the passing of the proposed resolution for the Refreshment of General Mandate and assuming that no Shares are issued or repurchased by the Company prior to the SGM)	
	<i>Number of Shares</i>	%	<i>Number of Shares</i>	%
Mr. Wong Wai Man <i>(Note 2)</i>	27,000	0.00	27,000	0.00
Mr. Yiu Kwok Ming, Tommy <i>(Note 2)</i>	20,724,519	0.42	20,724,519	0.35
Public Shareholders	4,881,715,341	99.58	4,881,715,341	82.98
New Shares available to be issued under the Issue Mandate	—	—	980,493,372	16.67
Total	4,902,466,860	100.00	5,882,960,232	100.00

Note:

1. The above shareholding information is based on the disclosure of interests posted on the website of the Stock Exchange.
2. Mr. Wong Wai Man and Mr. Yiu Kwok Ming, Tommy are the Directors.

The table above illustrates that the shareholding of the existing public Shareholders would be decreased from approximately 99.58% as at the Latest Practicable Date to approximately 82.98% upon full utilization of the Issue Mandate (subject to the passing of the proposed resolution for the Refreshment of General Mandate and assuming that no Shares are issued or repurchased by the Company prior to the SGM), which represents a dilution of approximately 16.60%.

LETTER FROM THE BOARD

Recommendation

Having considered the reasons set out herein, the Board is of the view that the Refreshment of the General Mandate is fair and reasonable and is in the interests of the Company and the Shareholders as a whole. The Board hereby recommends the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the SGM to approve the Refreshment of General Mandate.

Your attention is drawn to the letter from the Independent Financial Adviser, which contains its advice to the Independent Board Committee and the Independent Shareholders as regards to the Refreshment of General Mandate. The text of the letter from the Independent Financial Adviser is set out from pages 12 to 21 of this circular.

SGM

A notice for convening the SGM to be held at The City Garden Hotel, 9 City Garden Road, Hong Kong on Thursday, 13 January 2011 at 9:30 a.m. or any adjournment is set out from pages 22 to 24 of this circular.

Whether or not you are able to attend the meeting in person, you are requested to complete and return the accompanying form of proxy to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17 Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM. Completion and return of the form of proxy shall not preclude you from attending and voting at the SGM should you so wish.

Period during which the Issue Mandate will remain effective

The Issue Mandate will, if granted, remain effective until the earliest of (i) the conclusion of the next annual general meeting of the Company; (ii) the date by which the next annual general meeting is required to be held; and (iii) the date upon which such authority is revoked or varied by an ordinary resolution of the Shareholders in a general meeting of the Company.

LETTER FROM THE BOARD

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules on The Stock Exchange for the purpose of giving information with regard to the issuer. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

By order of the Board
Bao Yuan Holdings Limited
Chan Yiu Fai
Executive Director



寶源控股有限公司
Bao Yuan Holdings Limited

(Formerly known as Ching Hing (Holdings) Limited 正興(集團)有限公司*)
(Incorporated in Bermuda with limited liability)
(Stock code: 692)

29 December 2010

To the Independent Shareholders:

Dear Sir or Madam,

REFRESHMENT OF GENERAL MANDATE

We refer to the circular of the Company dated 29 December 2010 (the “**Circular**”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

We have been appointed to advise the Independent Shareholders in connection with the Refreshment of the General Mandate. Bridge Partners Capital Limited has been appointed to advise the Independent Board Committee and the Independent Shareholders in this respect.

We are of the view that the Refreshment of the General Mandate, after taking into account the advice of Bridge Partners Capital Limited as set out from pages 12 to 21 of the Circular, are fair and reasonable so far as the Independent Shareholders are concerned, and that the Refreshment of General Mandate is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Refreshment of General Mandate.

Yours faithfully,

Independent Board Committee

Mr. Cheung Cho Yiu

Mr. Liang Jin An

Mr. Wong Chun Hung

Independent Non-Executive Directors

* For identification purpose only

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter of advice to the Independent Board Committee and the Independent Shareholders from Independent Financial Adviser relating to the Refreshment of General Mandate for the purpose of inclusion in this circular:



BRIDGE PARTNERS

BRIDGE PARTNERS CAPITAL LIMITED

Unit 605, 6/F, Grand Millennium Plaza
181 Queen's Road Central
Central, Hong Kong

29 December 2010

*To: The independent board committee and the independent shareholders
of Bao Yuan Holdings Limited*

Dear Sirs,

REFRESHMENT OF GENERAL MANDATE

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the refreshment of Existing Issue Mandate (“Refreshment of General Mandate”), details of which are set out in the “Letter from the Board” contained in the circular dated 29 December 2010 (the “Circular”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

Pursuant to Rule 13.36(4)(a) of the Listing Rules, any controlling Shareholders and their associates, or where there is no controlling Shareholder, the Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the relevant resolution(s) regarding the Refreshment of General Mandate to be proposed at the SGM. As there is no controlling Shareholder, the Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates will abstain from voting in favour of the relevant resolution(s) regarding the Refreshment of General Mandate.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, Mr. Yiu Kwok Ming, Tommy and Mr. Wong Wai Man, both the executive Directors, and their respective associates, were interested in 20,724,519 and 27,000 Shares respectively, representing approximately 0.42% and 0.00% of the existing issued share capital of the Company. In this respect, Mr. Yiu Kwok Ming, Tommy and Mr. Wong Wai Man and their respective associates are therefore required to abstain from voting in favour of the Refreshment of General Mandate. Pursuant to Rule 13.39(4) of the Listing Rules, the vote of the Independent Shareholders in respect of the Refreshment of General Mandate at the SGM will be taken by way of poll.

An Independent Board Committee comprising Mr. Cheung Cho Yiu, Mr. Liang Jin An, and Mr. Wong Chun Hung (all being independent non-executive Directors) has been established to advise the Independent Shareholders as to whether the Refreshment of General Mandate is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Independent Shareholders as a whole.

BASIS OF OUR OPINION

In formulating our advice and recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors and the management of the Company. We have assumed that all information and representations that have been provided by the Directors and the management of the Company, for which they are solely and wholly responsible, are true, accurate and complete in all material respects and not misleading or deceptive at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiries and careful considerations. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. We consider that we have received sufficient information to enable us to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular to provide a reasonable basis for our opinions and recommendations.

The Directors have collectively and individually accepted full responsibility, includes particulars given in compliance with the Listing Rules, for the purpose of giving information with regard to the Company. The Directors have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, the information

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or the Circular misleading.

We consider that we have been provided sufficient information to reach an informed view and to provide a reasonable basis for our recommendation. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, or their respective subsidiaries or associates.

This letter is issued to the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Refreshment of General Mandate, and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and advice on the Refreshment of General Mandate, we have taken into consideration the following principal factors and reasons:

(1) Background of the Refreshment of General Mandate

The Company has been engaged principally in (i) exploitation of mineral resources; (ii) the sale of fabrics and/or garment business; and (iii) securities investment.

At the special general meeting of the Company held on 5 October 2010, the Independent Shareholders approved an ordinary resolution to grant to the Directors to allot, issue and deal with the Shares not exceeding 20% of the issued share capital of the Company as at the date of the resolution on that date.

As at the Latest Practicable Date, the Existing Issue Mandate has been fully utilized as a result of the placing of 90,786,423 new Shares (the “Placing”) that were placed to not less than six independent places. The Company raised the net proceeds of approximately HK\$24.13 million from the Placing and intended to apply such net proceeds for the general working capital of the Group. The Placing was completed on 12 October 2010.

On 20 October 2010, the Company made an announcement that the Company proposed to raise approximately HK\$217.89 million to HK\$219.94 million, before expense, by way of rights issue and issue not less than 4,357,748,320 and not more than 4,398,736,272 rights shares at a subscription price of HK\$0.05 per rights

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

share on the basis of eight rights share for every existing share held (the “Right Issue”). The Company intends to apply the net proceeds from the Rights Issue (i) for working capital for the existing businesses of the Group including but not limited to the development of the iron and titanium mine in the PRC (the “Mine”); (ii) for the reduction of the liabilities of the Group (including but not limited to the outstanding convertible bonds of the Company with a principal amount of HK\$686,800,000); and/or (iii) to finance any future investment opportunities to be identified by the Company. As a result of the Right Issue, the number of issued shares of the Company has been increased from 544,718,540 Shares to 4,902,466,860 Shares upon the completion of the Rights Issue.

In view of the above and the actual number of Shares to be allotted given the number of Shares exists has been increased substantially as a result of the Rights Issue, the Board proposes to seek approval of the Independent Shareholders for the Refreshment of General Mandate so that the Directors could be granted an authority to issue, allot and deal with new Shares not exceeding 20% of the total issued share capital of the Company as at the date of passing the relevant resolution(s) at the SGM. As advised by the Directors, the next annual general meeting will not be convened until around May 2011, which is around five months away from the Latest Practicable Date. In the event that the Existing Issue Mandate (which was fully utilized) is not to be refreshed at the SGM, the Company will not have sufficient general mandate to issue new shares to raise funds for reduction of the liabilities of the Group and the future business development, if so required, until the general mandate is approved in the next annual general meeting of the Company.

As at the Latest Practicable Date, the Company had 4,902,466,860 Shares in issue. Subject to the passing of the proposed resolution for the Refreshment of General Mandate and on the basis that no other Shares will be issued or repurchased by the Company prior to the SGM, the Company will be allowed under the Issue Mandate to issue a maximum of 980,493,372 new Shares, representing 20% of the aforesaid issued share capital of the Company.

(2) Flexibility in financing

Upon our enquiries, the Directors confirmed that the Group had approximately HK\$57.13 million of cash and bank deposits as at 30 November 2010. Coupled with the net proceeds of approximately HK\$210.94 million from the Rights Issue, the cash and bank balances of the Group is estimated to be approximately HK\$268.07 million. Although the Group has sufficient cash on hand at this moment, the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Directors expected that more financing flexibility is required (i) for working capital for the existing businesses of the Group including but not limited to the development of the Mine; (ii) for the reduction of the liabilities of the Group (including but not limited to the outstanding convertible notes of the Company with a principal amount of HK\$686,800,000 (“Convertible Notes”)); and/or (iii) to finance any future investment opportunities to be identified by the Company. Owing to the fact that equity financing is less time-consuming than raising funds by way of rights issue or open offer, we consider that the Refreshment of General Mandate will provide the Company with flexibility to issue new Shares to raise fund for the development of the Mine. Given the financial flexibility available to the Company as discussed above, we are of the opinion that the Refreshment of General Mandate is in the interests of the Company and the Shareholders as a whole.

(3) Reasons for the Refreshment of General Mandate

According to the “Letter from the Board”, the Board considers that (i) it is necessary to refresh the Existing Issue Mandate to reflect the actual number of Shares to be allotted given the number of Shares exists has been increased substantially as a result of the Rights Issue; (ii) the proposed Refreshment of General Mandate will enable the Group to conduct fund raising activities as and when opportunities arise; and (iii) the equity financing does not incur any interest paying obligations on the Group as compared with debt financing.

With respect to the other forms of pro-rata equity financing method such as rights issue and open offer, the pro-rata equity financing would incur substantial costs in the form of placing and underwriting commission. Although both rights issue and open offer may allow the Shareholders to maintain their respective pro-rata shareholdings in the Company, we consider that such fund raising alternatives would be relatively time consuming as compared to the equity financing through issue of new Shares under the general mandate and there would be no certainty that the Company would be able to procure favorable commercial terms in the underwriting process.

However, we consider that it is not the best option for the Group to incur additional bank borrowings and debt financing as the Group has recorded the unaudited net current liabilities of HK\$8.06 million and the unaudited non-current liabilities of HK\$866.94 million as at 30 June 2010 and the ability to obtain bank borrowings usually depends on the Company’s profitability, financial position and the then prevailing market condition. The approval of bank borrowing is also subject to lengthy due diligence and negotiations with the banks. Should the Group seek

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the approval from the Independent Shareholders for the specific mandate, it may cause undue delay if the Group wishes to carry out timely acquisitions. As such, we consider that equity financing is the best option for the Group to conduct fund raising as well as reduce the gearing of the Group and we are of the view that the Refreshment of General Mandate is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In view of all the above and in particular, the importance of financing flexibility for the Company to raise funds for improving the financial position of the Group, we are of the view that the Refreshment of General Mandate is in the interests of the Company and the Shareholders as a whole.

(4) Equity fund raising activity in the past twelve months

Save as and except for the following fund raising activities, the Company has not conducted any equity fund raising activities during the past twelve months prior to the Latest Practicable Date:

Date of announcement	Description of the fund raising activity	Net proceeds raised (approximately)	Proposed use of proceeds	Actual use of proceeds
9 August 2010	Placing of 2,057,767,649 new Shares under the general mandate granted in the annual general meeting of the Company on 31 May 2010 (the “First Placing”)	HK\$19.81 million	General working capital	Approximately HK\$1 million was applied to the payment of administrative expenses for the Company and the balance has been deposited into bank

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Date of announcement	Description of the fund raising activity	Net proceeds raised (<i>approximately</i>)	Proposed use of proceeds	Actual use of proceeds
5 October 2010	Placing of 90,786,423 Shares under the refreshed general mandate granted in the special general meeting of the Company on 5 October 2010 (the “Second Placing”)	HK\$24.13 million	General working capital	Approximately HK\$20.3 million was applied for the early redemption of the outstanding Convertible Notes; HK\$2 million was applied to the payment of administrative expenses for the Company and the remaining balance has been deposited into bank
20 October 2010	The Rights Issue	HK\$210.94 million	(i) General working capital for the existing businesses of the Group including but not limited to the development of the iron and titanium mine in the PRC; (ii) the reduction of liabilities of the Group and (iii) to finance any investment opportunities to be identified by the Company	HK\$150 million was applied for the early redemption of the outstanding Convertible Notes, while the remaining balance of the proceeds has been deposited in the bank accounts of the Group and will be used as intended

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Despite the fact that the Company has raised an aggregate amount of the net proceeds of approximately HK\$254.88 million from the First Placing, Second Placing and Rights Issue, the Directors are of the view that such cash resources available to the Group may not be sufficient for the reduction of existing liabilities of the Group, in particular, the redemption of the Convertible Notes and funding for any prospective investment opportunity as and when it arises. In the event that the Company identifies a suitable investment opportunity but does not have sufficient financial resources on hand, or cannot find other alternatives to finance such investment opportunity in a timely manner, the Company may lose its chances to capture an otherwise favorable investment and/or a favorable opportunity to expand its business portfolio. Notwithstanding that there is currently no concrete proposal for future investment, the Directors believe that the Refreshment of General Mandate would offer the Group the ability to capture investment opportunities which may arise at any time and require prompt investment decision by the Group.

In view of the foregoing, in particular, the reduction of the gearing of the Group and the next annual general meeting will not be convened until around May 2011 (which is about five months away from the Latest Practicable Date), we concur with the Directors' view that the Refreshment of General Mandate is fair and reasonable to the Company and is in the interests of the Company and the Independent Shareholders as a whole.

(5) Potential dilution to shareholding of the public Shareholders

The table below sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) after full utilization of the Issue Mandate (subject to the passing of the proposed resolution for the Refreshment of General Mandate and assuming no other Shares are issued or repurchased by the Company prior to the SGM):

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Shareholder	As at the Latest Practicable Date		After full utilization of the Issue Mandate (subject to the passing of the proposed resolution for the Refreshment of General Mandate and assuming that no other Shares are issued or repurchased by the Company prior to the SGM)	
	<i>(Note 1)</i>		prior to the SGM)	
	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>
Mr. Wong Wai Man <i>(Note 2)</i>	27,000	0.00	27,000	0.00
Mr. Yiu Kwok Ming, Tommy <i>(Note 2)</i>	20,724,519	0.42	20,724,519	0.35
Public Shareholders	4,881,715,341	99.58	4,881,715,341	82.98
Shares to be issued	—	—	980,493,372	16.67
Total	<u>4,902,466,860</u>	<u>100.00</u>	<u>5,882,960,232</u>	<u>100.00</u>

Note:

1. The above shareholding information is based on the disclosure of interests posted on the website of the Stock Exchange.
2. Mr. Wong Wai Man and Mr. Yiu Kwok Ming, Tommy are the executive Directors.

The table above illustrates that the shareholding of the existing public Shareholders will decrease from approximately 99.58% as at the Latest Practicable Date to approximately 82.98% upon full utilization of the Issue Mandate (assuming no other Shares are issued or repurchased by the Company prior to the SGM), which represents a dilution of approximately 16.60%.

Taken into consideration that the benefits of the Refreshment of General Mandate as discussed above and the fact that the shareholdings of all Shareholders will be diluted to the same extent, we consider that the potential dilution effect to shareholding of the existing Independent Shareholders upon full utilisation of the Issue Mandate is acceptable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having taken into consideration the facts and reasons as stated above, we are of the opinion that the Refreshment of General Mandate is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the SGM to approve the Refreshment of General Mandate.

Yours faithfully,
For and on behalf of
Bridge Partners Capital Limited
Monica Lin
Managing Director

NOTICE OF SPECIAL GENERAL MEETING



寶源控股有限公司 Bao Yuan Holdings Limited

(Formerly known as Ching Hing (Holdings) Limited 正興(集團)有限公司)*
(Incorporated in Bermuda with limited liability)
(Stock code: 692)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the “SGM”) of Bao Yuan Holdings Limited (the “**Company**”) will be held at The City Garden Hotel, 9 City Garden Road, Hong Kong on Thursday, 13 January 2011 at 9:30 a.m. for the purpose of considering and, if thought fit, passing with or without modifications, the following resolution of the Company:

ORDINARY RESOLUTION

“**THAT:**

- (a) subject to paragraph (c) below, the exercise by the directors of the Company (the “**Directors**”) during the Relevant Period (as defined in paragraph (d) below) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements, options and rights of exchange or conversion which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall be in addition to any other authorization given to the Directors and shall authorise the Directors during the Relevant Period (to be defined in paragraph (d) below) to make or grant offers, agreements, options and rights of exchange or conversion which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by any one of the Directors pursuant to the approval granted in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (to be defined in paragraph (d) below), or (ii) any share option schemes of the Company approved by The Stock Exchange

* For identification purpose only

NOTICE OF SPECIAL GENERAL MEETING

of Hong Kong Limited, or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the articles of association of the Company, shall not exceed 20 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this resolution, and the said approval shall be limited accordingly; and

(d) for the purposes of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by law or the Company’s articles of association to be held; or
- (iii) the date upon which the authority set out in this resolution revoked or varied by way of ordinary resolution of the Company in general meeting; and

“Rights Issue” means an offer of shares open for a period fixed by the Directors to holders of shares on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of any relevant jurisdiction, or the requirements of any recognized regulatory body or any stock exchange, in any territory outside Hong Kong).”

By order of the Board
Bao Yuan Holdings Limited
Chan Yiu Fai
Executive Director

Hong Kong, 29 December 2010

NOTICE OF SPECIAL GENERAL MEETING

Registered office:

Canon's Court
22 Victoria Street
Hamilton, HM12
Bermuda

Head Office and principal place of business:

Room 3807
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

Notes:

- (1) Any shareholder of the Company (the “**Shareholder(s)**”) entitled to attend and vote at the SGM shall be entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a Shareholder.
- (2) The form of proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.
- (3) Delivery of the form of proxy shall not preclude a Shareholder from attending and voting in person at the SGM and in such event, the form of proxy shall be deemed to be revoked.
- (4) Where there are joint Shareholders any one of such joint Shareholder may vote, either in person or by proxy, in respect of such shares as if he were solely entitled thereto, but if more than one of such joint Shareholders be present at the SGM the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint Shareholders, and for this purpose seniority shall be determined by the order in which the names stand in the register of shareholders of the Company in respect of the joint holding.
- (5) The form of proxy and (if required by the board of directors of the Company) the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, shall be delivered to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17 Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof at which the person named in the form of proxy proposes to vote or, in the case of a poll taken subsequently to the date of the SGM or any adjournment thereof, not less than 48 hours before the time appointed for the taking of the poll and in default the form of proxy shall not be treated as valid.