



ASX ANNOUNCEMENT

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9 September 2014

Valuation Satisfies Condition for Hengda Merger and Due Diligence Update

Highlights

- Roma Appraisals Limited (Roma), an independent professional valuation firm, has performed a valuation for Hengda's business and assets, which satisfied and surpassed the US\$150 million minimum valuation Condition Precedent under merger agreement.
- Leading mining technical expert RungePincockMinarco (RPM) and BDO Hong Kong (BDO) have completed due diligence on China Sciences Hengda Graphite Co Ltd (Hengda).
- Roma calculated an equity value of US\$186 million (enterprise value of US\$271 million) for Hengda, based on the due diligence report by RPM and the Hengda management's forecasts.
- A Shareholders' Meeting is planned to seek approval of planned merger.
- A corporate video providing an overview of Hengda's assets and operations is available for viewing at http://lambooresources.com.au/Corp_Videos.htm

Lambo Resources Limited (ASX: LMB) has received the results of independent due diligence carried out by BDO Hong Kong (BDO) and RungePincockMinarco (RPM) in relation to the binding agreement (Agreement) with China Sciences Hengda Graphite Co, Ltd (Hengda) regarding the parties' intention to merge, as announced on 7 July 2014.

Our findings confirm, among other things, Hengda's production capacity and capabilities as one of China's leading graphite miners and processors.

Lambo is also pleased to confirm that, for the purposes of the Agreement, the minimum valuation Condition Precedent of US\$150 million for 100% of Hengda has been satisfied, with Roma delivering an independent valuation that surpassed the threshold valuation.

Legal due diligence is also nearing completion.



Lambooo Resources Managing Director, Richard Trevillion, commented “The positive valuation and due diligence outcomes so far validate our plan to proceed with the merger with Hengda.”

“The proposed merger will create the first vertically-integrated, stock exchange listed, flake graphite resource company with state-of-the-art integrated downstream processing and production facilities.”

“With an extensive range of Hengda’s existing graphite products, including spherical graphite, anode materials and graphene, the merged entity will have a strong competitive advantage to address the burgeoning lithium ion battery and electric vehicle markets.”

Hengda Corporate Video

A corporate video on Hengda’s assets and operations has been prepared and is available for downloading and viewing at the Lambooo Resources Website at http://lambooresources.com.au/Corp_Videos.htm

Valuation Condition Precedent & Independent Valuation

Roma, a wholly-owned subsidiary of Roma Group Limited (8072.HK), was engaged to undertake an independent valuation of Hengda’s assets and business to determine whether the Condition Precedent of a minimum valuation of US\$150 million would be achieved. Based on the due diligence report by RPM and the Hengda management forecast, Roma calculated an equity value of US\$186 million (enterprise value of US\$271 million).

Cautionary Statement: The Board commissioned the Roma valuation for the limited purpose of confirming the reasonableness of the consideration offered under the proposed transaction with Hengda which purpose was a condition precedent to the transaction. The valuation was not prepared for public disclosure and accordingly, the methodology and scope may not be consistent with other public expert reports required under the Corporations Act 2001 (Cth), as articulated in ASIC Regulatory Guide 111. The Board cautions that the Roma valuation has been based in part on forecasts and assumptions adopted by the Hengda management. Such forecasts are inherently uncertain. The valuation included net debt and other liabilities and a marketability discount and was based on estimates of resource production for Hengda’s operating mines, the subject of which were not estimated to JORC-equivalent standards. Key assumptions in the valuation included the following:

Exchange Rate: RMB X USD	0.16198
Cost of Equity	17.73%
Cost of Debt	6.55%
WACC	16.01%
Terminal Growth Rate	3.00%

In calculating the US\$186 million equity valuation (US\$271 million enterprise valuation) as at 31 July 2014, Roma advised that it did not include any value for Hengda’s three exploration-stage flake graphite exploration licences in China and assumed that the Business Enterprise will have sufficient graphite resources to implement the business plan and financial projection. In addition, the resources at Hengda mines at the Jinchang Mining Area and Jingying Mining Area on which the management assumptions were based were not classified to JORC standards.

Roma Group Limited is principally engaged in the provision of valuation and technical advisory services in Hong Kong with principal clients being companies listed on the Hong Kong Stock Exchange (HKSE). Roma provides valuation services including natural resources valuation and technical advisory services and has significant experience in valuing resource assets and businesses in Asia.

In preparing its report, Roma advises it had discussions with the Hengda and Lambooo management in relation to the development, operations and other relevant information of Hengda and its subsidiaries (the Business Enterprise). As part of Roma’s analysis, it advised that it reviewed such financial information and other pertinent data concerning the Business Enterprise provided to Roma by the Hengda management and that it did not consider such information and data as not attainable and unreasonable.



Roma adopted an income-based approach in arriving at the market value of the 100% equity interest of the Business Enterprise. Under the income-based approach, Roma reviewed the financial forecasts provided by the Hengda management. This approach included the future revenue streams generated from all the existing assets which were grouped into three parts, namely, mining assets, processing assets and downstream graphite production assets, and all of the total costs, expenditures and taxes in operating, maintaining and improving those assets. Using this information, Roma adopted a discounted cash flow (DCF) method to derive the market value of the 100% equity interest of the Business Enterprise.

Independent Due Diligence Advisers

RungePincockMinarco is the world's largest publicly listed independent group of mining technical experts, with local expertise in all mining regions and is experienced across all commodities and mining methods. RPM consultants from both Australia and China participated in the due diligence assignment.

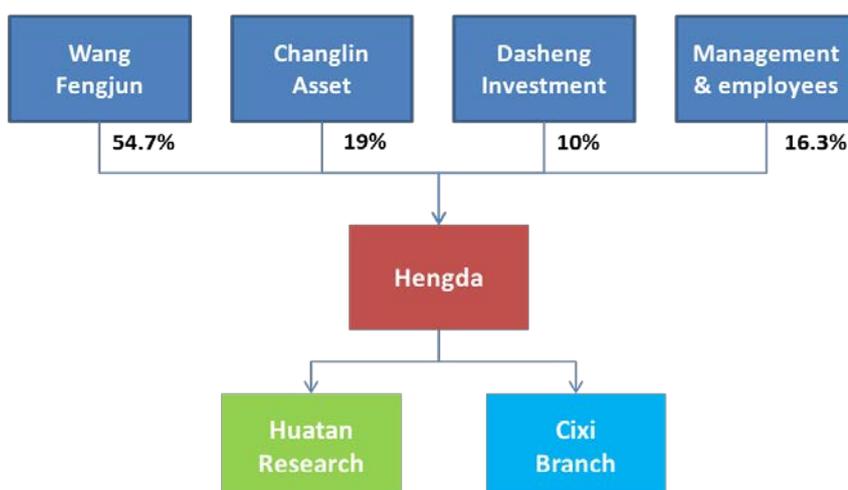
BDO Hong Kong is the Hong Kong member firm of BDO International Limited and has extensive experience in conducting financial due diligence on Chinese businesses.

Background on Hengda

Hengda was established in July 2009 at Yiling city, China, as a business focused on mining, processing, sales and production of graphite products. The company owns the mining rights of Jinchang and Jingying graphite mines, and the exploration rights for the Tanjiagou graphite mine area and the Tanjiahe graphite mine area.

Hengda was established by Yichang Three Gorges Mining Co., Ltd., a state-owned enterprise ("SOE") in the PRC, and Wang Fengjun (Mr Wang). Subsequent to several rounds of share transfers and capital increases, Mr Wang together with family and associates remain the major shareholder of Hengda with 54.7% equity interest as of 30 June, 2014. The remaining shareholders are Yichang Changlin Asset Management Co., Ltd. (19% - SOE), Wuhan Dasheng Entrepreneur Investment Centre (10% - a corporate investor) and a group of senior management and employees (16.3%).

Group Structure and Ownership



Source: Hengda Management and audit report

The company's key operating entity is Hengda, which also has a wholly-owned subsidiary, Huatan New Type Graphite Research Co., Ltd. and a branch office in Cixi dedicated to sales in Zhejiang province.



Hengda Operating Mines & Flake Graphite Deposits

RungePincocKMinarco Limited (RPM) was engaged by Lamboo to provide a technical review of the Jinchang and Jingying Flake Graphite Mine Projects of the Sanchaya and Erlangmiao Graphite areas of Hubei (the Projects). The Projects are owned by Hengda.

The Projects are located in the Hubei Province of China. There are two mining areas producing or earmarked for production; the Jinchang open cut mine and planned underground mine area in the Sanchaya Graphite Area and the Jingying underground mine in the Erlangmiao Graphite Area. Underground development has also commenced at Jinchang, with the first decline progressed to 20 metres at the time of inspection. The mines are designed to extract the high-grade flake graphitic schists developed in the Pre-Cambrian Kongling formation exposed in the core of the Huangling anticline.

The deposits are located approximately 65 km north-north-west of Yichang and about 320km west-north-west of Wuhan, China.



Location Map: Hengda Mining Operations

From its review, RPM confirmed that Hengda’s flake graphite mines and deposits include two operating mines (Jinchang Mine and Jingying Mine), and two late stage flake graphite exploration projects (Tanjiagou Mine and Tanjiahe Mine). RPM is also of an opinion that the majority of Hengda mines’ mineralisation is very regular in grade and mineralisation boundaries are sharp and well defined.

RPM advised that, with additional drilling, inputting of historic data into computer databases and re-estimation, it would be possible to estimate a JORC-guideline compliant Resource suitable for disclosure and mine planning. RPM also advised that additional graphite mineralisation might be found or secured by arrangements in areas outside Hengda’s current Licences to extend or expand operations.

Hengda Processing Facilities

In reviewing Hengda's recently upgraded processing capabilities, RPM advised that Hengda's new (expansion) plant treated 22,400 tonnes of ore at a head grade of 10.65% Cg with a recovery of 90.5% to a combined concentrate grade of 93.4% Cg in March 2014. RPM also advises that only Hengda's new plant was operating during 2014 until July, with the intention of operating both new and old plants at close to full capacity from July 2014. RPM noted that historical production has demonstrated that the original plant exceeded its original nominal design capacity by 160% without any loss in metallurgical performance, maintaining the production of marketable products at reasonable carbon recoveries. It was estimated that ramp-up efforts would mean that the operation would have the capacity to process 400,000 tonnes per annum of ore to produce 38,000 tonnes per annum of product by July 2014.

RPM noted that there may be the ability for the production of the plant to exceed its design capacity, as seen in the original process plant, and that this would require further plant optimization and plant trials on the new plant. RPM inspected portions of the downstream facilities that produce a variety of products marketed by Hengda. The processing lines are housed in modern buildings and production equipment appeared to be well maintained. RPM advised that various production activities were underway at the time of inspection and there was no indication of build-up of unsold stock.

The company's Hi-Tech Industrial Park assets include facilities for production and processing of various graphite products such as graphite sheets, graphite yarn, graphite composites and gaskets. Production capabilities for the Hengda Basic Materials Industrial Park include production, processing, drying and storage of specialist input products including graphite anode materials, spherical graphite, expanded graphite powder and high purity carbon.

High Tech Industrial Park - Products	Capacity (tonnes per annum)
Standard Graphite Sheet	2,000
Ultra-thin Graphite Sheet	50
Graphite Sealing Materials	2,000
Graphite Powder	4,000
Graphene	50
Basic Materials Industrial Park - Products	
High-purity Graphite	5,000
Spherical Graphite	10,000
Expandable Graphite	3,000
Anode Material 818 Grade	8,000
Anode Material High Rate	3,000
Anode Material High Cap	3,000

Note: Capacity in tonnes per year; for spherical graphite and anode material production capacity, data refers to target after capacity up-grading (end 2015)

RPM was provided with Hengda's sales history of downstream products by the Hengda management. RPM concluded that, because Hengda has recently relocated and expanded the factory, this sales history was not a reliable predictor of future sales. RPM noted that Hengda had increased its production capacity with the move to new premises.

Research and Development & Analytical Laboratories

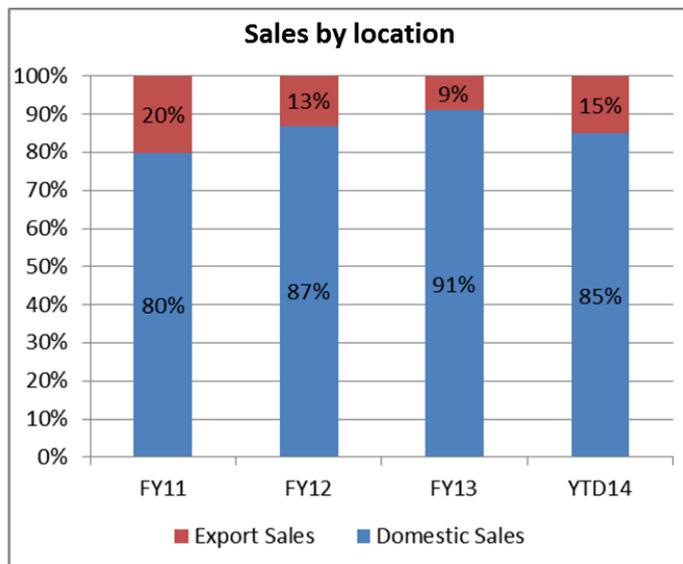
RPM advised that Hengda conducts R&D partnerships with leading Chinese universities, including Tsinghua University, Wuhan University of Technology, Shandong University of Technology and China Three Gorges University. Hengda currently holds 14 invention patents and 17 utility model patents.

RPM also noted that an onsite assaying laboratory is located adjacent to the Hengda processing plant.

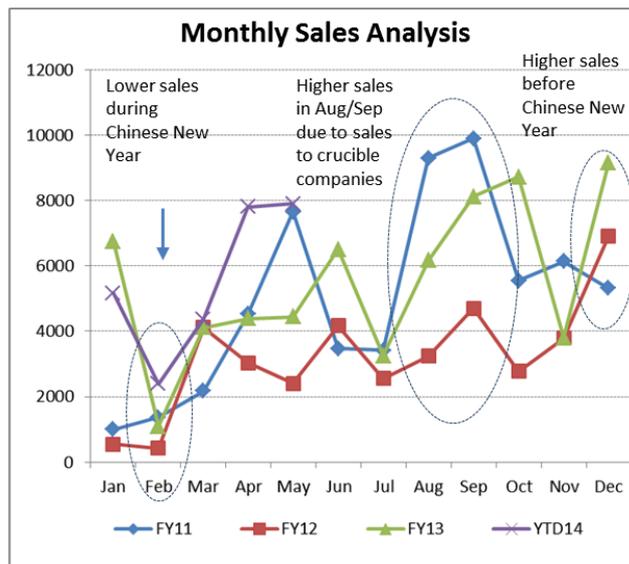


Group Sales and Customers

The Hengda management advised that the majority of its sales are domestic, with sales to provinces including Hubei, Sichuan, Zhejiang, Henan, Shandong, Guangdong and Shanxi. Export sales are around 9%-20% of total annual sales (refer below *Sales by Location* chart), with those sales primarily made to India, US, Taiwan, Korea, Italy and Brazil.



Source: Hengda management accounts



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According to management interviews, Hengda consistently receives enquiries and orders from new customers, primarily due to the Hengda’s reputation for providing high quality graphite in the China market. Besides, Hengda’s top 10 customers were found to contribute around 40% of Hengda’s total sales in FY2013, with 9 domestic customers and 1 overseas customer within the top 10 customers. Hengda management advised that there is no reliance on any one customer.

In addition, the Hengda management were confident that its quality graphite products within an open graphite market provide the attraction for new customers every year, resulting in differences in the composition of top 10 customers each year.

According to the Hengda management, there is generally no seasonality affecting the Target’s company’s sales every year. However, revenue is typically lower around February during the Chinese New Year holiday period as there are shorter working days in February. Prior to the slowdown in sales in February, Target Hengda would also typically receive slightly higher sales orders in December. Revenues in the summer periods are higher around August and September due to higher demand for flake graphite for crucible production customers (refer above Monthly Sales Analysis chart).

Hengda supplies more than 100 customers and that no long-term sales contracts are signed, with supply contracts instead in the form of purchase orders. Hengda management also advised that these arrangements are intended to avoid long-term commitment to delivery of its products at pre-determined prices, allowing more flexibility for the management of its sales. Hengda advised that its current sales contracts are generally valid for around 1 to 2 months, with delivery of products around 1 to 2 weeks after signing, with payments to be made within 1 to 2 months. In this regard, accounts receivable credit terms are typically 30 days, with the exception of new customers and customers purchasing flake graphite who are requested to pay in advance.



Additional Information Shareholder's Meeting

A Notice of Meeting is currently being prepared to convene a Shareholders' Meeting planned to seek approval of planned merger. The Notice of Meeting will include an Explanatory Memorandum that will provide shareholders with detailed additional information on Hengda and the transaction.

Subject to completion of documentation and regulatory review by ASX Limited and ASIC, it is anticipated that the Shareholders' Meeting will be held during late October 2014.

The Company will provide further updates as additional relevant information is received and as the transaction progresses towards shareholder approval and completion. In the meantime, shareholders are encouraged to view the Hengda corporate video available at the Lambooo Resources Website using the following link:

http://lambooresources.com.au/Corp_Videos.htm

Appendix

