

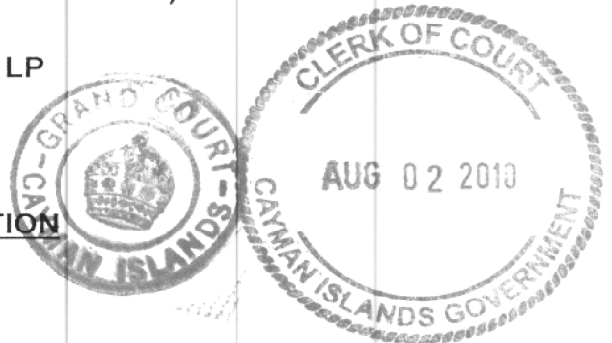
IN THE GRAND COURT OF THE CAYMAN ISLANDS
FINANCIAL SERVICES DIVISION

FSD 181 OF 2010 ()

IN THE MATTER OF THE COMPANIES LAW (2009 REVISION)

AND IN THE MATTER OF HMQ HARMONY FUND LP

WINDING UP PETITION



To the Grand Court

The humble petition of Pioneer Metals Group Holdings Corp. (the "**Petitioner**") shows that:

Background

1. HMQ Harmony Fund LP ("**the Fund**") is an exempted limited partnership, formed on 16 March 2006 in accordance with the Cayman Islands Exempted Limited Partnership Law (as amended) ("**the Law**").
2. The Fund's registered office is located at the offices of Appleby Corporate Services (Cayman) Limited, P.O. Box 1350 GT, Clifton House, 75 Fort Street, George Town, Grand Cayman, Cayman Islands.
3. At all relevant times, the principal place of business of the Fund was located at Room 4102, Two Grand Gateway, 3 Hong Qiao Road, Chu Hui District, Shanghai, in the People's Republic of China ("**the PRC**").
4. The parties interested in the Fund are the Petitioner, the only limited partner of the Fund, and HMQ Harmony Capital Partners Limited ("**HMQ**"), the general partner. The Fund is governed by a limited partnership agreement dated 16 March 2006 between the Petitioner and HMQ ("**the Partnership Agreement**").

5. The Petitioner is a company incorporated in the British Virgin Islands, and is ultimately owned by Ms Chen Ning Ning ("**Ms Chen**").
6. HMQ is a company incorporated on 7 March 2006 under the Cayman Islands Companies Law (2004 Revision) and is registered as an exempted company with registration number 163805. Mr Lee Haifeng ("**Mr Lee**") is a director of HMQ. HMQ is owned as to 51 per cent by Red Rock Capital Partners, a company ultimately owned by Mr Lee, and as to 49 per cent by the Petitioner.

Relationship of trust and confidence between Ms Chen and Mr Lee

7. Ms Chen is the ultimate shareholder of a large number of investment-related entities, many of which have a focus on growth opportunities in the People's Republic of China ("**PRC**") and a number of other jurisdictions throughout the world.
8. Ms Chen and Mr Lee met through mutual acquaintances in around 1998.
9. In September 2002, Ms Chen offered Mr Lee employment as the Finance Manager of Pioneer Metals Co., Ltd ("**PMC**"), a company incorporated in Hong Kong and controlled by Ms Chen, and of which Ms Chen was managing director. Mr Lee's responsibilities as Finance Manager included, among other things, business development and management of corporate finance of certain companies within the Pioneer group of companies ("**the Pioneer Group**").
10. In or around late 2002, Ms Chen, in her capacity as managing director of PMC, engaged Mr Lee to assist with PMC's acquisition of an interest in Hebei Jinxi Iron and Steel Company Limited, a company incorporated in the PRC.
11. Following this transaction, Ms Chen then began entrusting Mr Lee with the management of various private equity acquisition projects in the PRC and elsewhere. This included appointing Red Rock Capital Partners Limited, a company owned by Mr Lee, as financial advisor of PMC in relation to the acquisition of an interest in Portman Limited in February 2003.

12. In addition, Ms Chen also made Mr Lee responsible for the negotiation of the following projects, some of which were successfully concluded and some of which were not:
 - (a) the acquisition of substantial interests in one or more "producing" or "near-to-production" iron ore companies and mines in Australia in 2003, which included being given responsibility for appointing PMC's financial advisers for such acquisitions;
 - (b) assisting (in or around early 2004) with the negotiation of the purchase of shareholdings in Anhui Gujing Distillery Group Co., Ltd, a PRC company listed on the Shenzhen Stock Exchange (Stock Code 596) involving a proposed investment of approximately RMB 1 billion; and
 - (c) the acquisition of Shougang Hierro Peru S.A.A and other iron ore companies in Australia by a company within the Pioneer Group, and for liaising with professional consultants and financial and legal advisors in Australia regarding due diligence investigations.
13. As a consequence of their good professional relationship, and of the trust and confidence which Ms Chen had in him, Mr Lee was appointed as a director of PMC on 25 March 2004, a position which he retained until his resignation on 28 February 2006.
14. During 2007, following his resignation as an employee of PMC, Mr Lee provided consulting services to the Petitioner in relation to a conditional offer to acquire all the issued shares of China Oriental Group Company Limited (a Hong Kong listed company, stock code: 581). Mr Lee was involved in negotiations with the various financial institutions and financial advisers connected with this acquisition, and was appointed as a director of the Petitioner from 8 March 2007 to 23 January 2008 for the purpose of those negotiations.
15. In September 2007, Mr Lee was appointed by Ms Chen to negotiate and conclude the purchase of majority interests in London Mining Plc (listed on Oslo

Axess), including the completion of share sale agreement for and on behalf of the Petitioner.

Mr Lee's proposal to establish a hedge fund

16. In or around mid-January 2006, Mr Lee approached Ms Chen with a proposal (the "**Proposal**") that she invest in a "special situations" fund as a vehicle for investing in and developing start-up companies with a view to selling them at a later date at a profit once their business had been enlarged by the fund, or reorganising the business with a view to potentially listing in either Hong Kong or the PRC at a future date.
17. On 25 January 2006, Mr Lee presented Ms Chen with a draft "terms sheet" explaining the purpose of the Fund and the terms on which the Petitioner would be invited to invest in it, as well as a spreadsheet specifying budgeted expenditure for the fund for 2006.
18. The Proposal was not initially thought to be commercially viable for the Petitioner: under the Proposal the Fund would invest in start-up companies in the PRC, a market in which Ms Chen already had significant exposure, and for which she already employed a specialist team of professionals in the PRC to manage on her behalf. Furthermore, the Petitioner would be providing all of the initial investment funds for the Fund, as well as assisting with meeting specific administrative costs.
19. During subsequent conversations between Ms Chen and Mr Lee in or around January 2006, Mr Lee made representations and undertakings to Ms Chen to the effect that:
 - (a) Mr Lee's intention was to market the fund as a USD100 million Fund, so as to attract investment from good quality third party investors;
 - (b) although the Petitioner was the provider of all of the initial capital, it would not be required to invest more than a few million dollars in the Fund;

- (c) within 6 to 12 months, Mr Lee would find other good quality third party investors who would subscribe to the Fund, broaden its investment capabilities, and share administrative costs;
- (d) Mr Lee would incorporate a company to act as general manager of the Fund, and the entity would be sufficiently independent from Pioneer so as to preserve Pioneer's limited liability;
- (e) Mr Lee would contribute money to the Fund based on a percentage of the investment made by the Petitioner;
- (f) Mr Lee would cause HMQ to render monthly and quarterly financial reports to the Petitioner to enable it to monitor the progress of the Fund and the performance of its investments;
- (g) the Fund would not make any investments without the approval of the Petitioner;
- (h) the management fees which would need to be paid by the Petitioner to HMQ would reflect the costs actually incurred by HMQ, and such costs would be approved in advance by the Petitioner as part of an approved budget;
- (i) the Petitioner could, at any time, seek the return of some or all of its investments in the Fund; and
- (j) a representative of the Petitioner would be appointed as a director of HMQ so as to ensure that HMQ, as General Partner, was run in a manner which was consistent with the representations and undertakings made to Ms Chen by Mr Lee enumerated in paragraphs (a) to (i), above, and that the Petitioner's interests were protected at all times.

The Partnership

20. Acting in reliance of these representations and undertakings, and in light of the close personal relationship and trust that had built up over the years between Ms Chen and Mr Lee, Ms Chen agreed that the Petitioner would invest in the Fund. Ms Chen delegated responsibility for the negotiation of the precise terms of the Petitioner's investment in the Fund to Mr Jeffrey McKenzie, the chief financial officer of the ultimate holding company of the Pioneer Group. The Partnership Agreement was entered into by the Petitioner and HMQ on 16 March 2006.
21. The objects for which the Fund was formed are as set out in clause 2.4 of the Partnership Agreement, and include investment in property that is real or personal, tangible or intangible, investment in equities, bonds, derivatives and real estate, mining interests and other financial assets and any other business necessary for or incidental to such investment.
22. Between 17 April 2006 and 29 October 2007, the Petitioner invested approximately USD5,000,000 in the Fund.
23. The Fund was initially conducted on the basis of the close personal relationship of trust between Ms Chen and Mr Lee in accordance with the representations and undertakings made by Mr Lee to Ms Chen, and in accordance with the provisions of the Partnership Agreement. Specifically:

Control of HMQ

- (a) Mr McKenzie was appointed as a director of HMQ in or around March 2006 and was named as one of the two compulsory signatories on the HMQ bank accounts;
- (b) Mr McKenzie was responsible for reviewing investment proposals, attending Investment Committee meetings, dealing with HMQ business issues as and when needed, and attending to all other matters concerning the Fund on behalf of Pioneer;

Reimbursement of management fees

- (c) Mr Lee, on behalf of HMQ, prepared an annual budget for expenditure on behalf of the Fund for 2006, which he submitted to Mr McKenzie and Ms Chen (on behalf of the Petitioner) for approval. The annual budgeted expenditure for 2006 included management fees payable to HMQ in its capacity as General Partner;
- (d) the Petitioner reimbursed HMQ for expenses incurred by HMQ on behalf of the Fund in accordance with an annual budget for expenditure approved by Mr McKenzie on behalf of the Petitioner, and the Petitioner also paid certain expenses incidental to the establishment of the Fund;
- (e) such approval was given by Mr McKenzie and Ms Chen on the understanding that notwithstanding the express terms of clause 9.1 of the Partnership Agreement, management fees payable to HMQ would be equal to and would cover all of the expenditure itemised in the annual budget, and that any expenditure in excess of the budgeted amount would not be reimbursed by the Petitioner to HMQ without the Petitioner's approval. This process was to continue for the term of the Fund. The objective underlying this process was that HMQ's business expenditure would initially be funded by the Petitioner, but that HMQ was not to profit from the arrangement with the Petitioner. If HMQ incurred expense in excess of its annual budget, it was expected that HMQ would seek the Petitioner's authorisation for additional payment, and this would be reflected in the annual budget for the following year. The budget included an allowance for a salary payable to HMQ. HMQ in turn paid a salary to Mr Lee. The intention behind the budget and management fee was to cover the reasonable expenses to be incurred and not meant for Mr Lee to make a profit;

- (f) Mr Lee sought the requisite approval from Mr McKenzie in his capacity as a compulsory signatory to the HMQ accounts for expenditure by HMQ on behalf of the Fund;

Investment

- (g) the Fund has made the following investments since the date of its inception:
- (i) USD2,000,000 in convertible preferred shares in Tone Rich Hong Kong Limited;
 - (ii) USD350,000 in preferred shares in Jet Yi Limited; and
 - (iii) USD3,000,000 in series A preferred shares in Medallion International Investments Limited (formerly known as BusyTrade.com Limited);
- (h) with the exception of the investment in Jet Yi Limited, for which the approval of the Investment Committee was not required in accordance with the Partnership Agreement because of the monetary value of the investment, the Investment Committee considered and authorised each of the investments enumerated at paragraph (g) above;

Investment by the General Partner

- (i) in or around November 2006, Mr Lee informed Ms Chen that Red Rock Capital Partners would subscribe to the Fund as its second limited partner, and would invest approximately USD500,000 in the Fund once the Fund had made three investments and on the basis that the Petitioner had invested USD7,000,000 in the Fund.

Grounds for winding up the Fund

24. In the past three years the Fund has consistently failed to adhere to a number of its financial reporting obligations to the Petitioner, there has been an irreconcilable breakdown in the relationship between Ms Chen and Mr Lee, and the Fund's ability to make any future meaningful investment is paralysed by the deadlock that exists between the parties.

Failure to meet financial reporting obligations

25. HMQ is contractually obligated under the Partnership Agreement to provide true and full information regarding the state of the business and financial condition of the exempted limited partnership on demand, and to provide each partner access to all of the Partnership's books, records and accounts; and prior to the commencement of the Fund Mr Lee represented to Ms Chen and the Petitioner that it would provide updates on the financial position and performance of the Fund to the Petitioner on a monthly basis and whenever required or necessary.
26. Despite a number of demands by the Petitioner to HMQ for financial information on the Fund's performance, HMQ consistently failed to adhere to its obligations in this regard, and indeed since 16 March 2006, HMQ has only produced two financial reports for the Fund (for the years ended 31 December 2007 and 31 December 2008), each of which contains inadequate financial information to enable the Petitioner to carry out meaningful assessment of the performance of the Fund.

Breakdown of the relationship between Ms Chen and Mr Lee

27. Mr McKenzie played a key role in overseeing the running of the General Partner and the Fund.
28. After Mr McKenzie resigned from the Pioneer Group on 8 February 2007, there followed a marked change in the approach adopted by Mr Lee and HMQ towards Ms Chen and the Petitioner, and specifically with regards to the adherence to the

representations and undertakings made to Ms Chen and the Petitioner prior to the formation of the Fund.

29. Following Mr McKenzie's departure, HMQ made requests of the Petitioner for payment of management fees of USD320,833 in accordance with the approved budget. This amount was paid on 29 January 2007.
30. Subsequently, HMQ made further demands for the payment of management fees by the Petitioner and were addressed to Ms Chen. When such demands were queried as not being in accordance with the approved budgets, Ms Chen was assured by Mr Lee that he expected to find additional investors for the Fund. Ms Chen was told by Mr Lee that the payment of the management fees was crucial to enabling the business to continue to function and to attracting these new investors. On this basis, Ms Chen authorised the Petitioner to pay HMQ the sum of USD275,000 on 24 July 2007, and the sum of USD149,984 on 2 November 2007.
31. On or about 17 January 2008, the Petitioner received a further demand for payment of additional management fees for 2008. By this stage it was becoming apparent to Ms Chen that Mr Lee was not going to be able to satisfy the undertakings and representations given at the inception of the fund, and specifically that:
 - (a) HMQ was no longer adhering to its undertaking to charge management fees in accordance with approved, budgeted expenses, but was demanding that the Petitioner pay it a fixed management fee of USD550,000 per annum. When Ms Chen asked why the Petitioner should pay such an amount without the agreed process having been first adhered to, Mr Lee replied that the payment of such fees were essential for the Fund's continuation, that HMQ needed an incentive (in the form of payment of management fees) in order to continue to look for new investors, and that once other parties invested in the Fund, the Petitioner's proportionate share of those fees would be reduced;

- (b) Mr Lee's intention of creating a USD100 million fund with a multitude of third party financial investors was unrealistic;
 - (c) there were seemingly no genuine prospects of any third party investors providing such financing. Nearly two years after the commencement of the Partnership the Petitioner remained the sole third-party investor in the Fund, and
 - (d) the investments made by the Fund were simply equity holdings in Tone Rich Hong Kong Limited, Jet Li Limited, and Busytrade.com Limited, as opposed to being for the purpose set out in the Proposal. This made little commercial sense for the Petitioner who could easily have managed such projects using existing specialist companies, resources and staff from within the Pioneer Group.
32. The Petitioner refused to pay the funds demanded by HMQ, following which HMQ appointed legal advisors to make formal demand for management fees it claimed from Pioneer. On 11 August 2008, HMQ served a statutory demand for payment of management fees on the Petitioner by HMQ, and threatened to commence winding up proceedings against the Petitioner if these amounts were not paid.
33. Since August 2008, Ms Chen and Mr Lee have not corresponded directly with each other at all. Instead, any correspondence between them has been via their legal representatives. Their relationship, which was once based on mutual trust and respect, has been entirely and irretrievably eroded.

Deadlock in the Investment Committee

34. The Partnership Agreement provides that an investment committee, being the ultimate decision-making body for the Fund (the "**Investment Committee**"), is to be responsible for the setting of the overall investment strategy (including the setting of the strategy and the determination of special situations, and its approval is necessary in order for the Fund to make a single investment

commitment of over USD1.5 million, for all investments after the first eight separate investments, and for all investments after the total invested capital reaches USD25 million.

35. Mr McKenzie ceased to be a member of the Investment Committee as of 8 February 2007 when he resigned his employment with the Petitioner. The remaining members of the Investment Committee are Ms Chen and Mr Lee.
36. Resolutions of the Investment Committee are required to be passed by a unanimous vote of all of the members who are present at the meeting, whether in person or via teleconference, the Investment Committee is due to meet at least once every six months or when called by any member of the Investment Committee, and requires two members to be present in order to constitute a quorum.
37. As a consequence of the total breakdown in the relationship between Ms Chen and Mr Lee, the Investment Committee has not met since in or around October 2007. Furthermore, and as a consequence of the complete loss of faith and trust which Ms Chen once had in Mr Lee, the Petitioner will not give its consent to any further investments which require Investment Committee approval. Consequently the Investment Committee is deadlocked.

Orderly winding up of the Fund

38. The Partnership Agreement provides (relevantly, inter alia) that the Partnership shall continue in existence until it is wound up following dissolution which, pursuant to clause 11.1.1 thereof, may take place via an extraordinary resolution of the limited partner, and only with the consent of the General Partner.
39. By letter dated 16 October 2008, the Petitioner requested, in light of the events described in this petition, that HMQ consent to the dissolution of the Fund in accordance with clause 11.1 of the Partnership Agreement. Appended to the Petitioner's letter was an extraordinary resolution of the Petitioner passed in pursuance of clause 11.1.1 of the Partnership Agreement.

40. By letter dated 23 October 2008, HMQ refused its consent to the dissolution of the Fund, notwithstanding that:
- (a) the Petitioner is the sole limited partner of the Fund and has contributed all but a small portion of the capital of the Fund;
 - (b) the Fund has not made, and the Investment Committee met to consider, any investments since October 2007;
 - (c) there is seemingly no prospect of the Fund attracting third party investors;
 - (d) the Fund is simply a holding vehicle for equity investments in three portfolio companies of which one, Jet Yi, has apparently no prospects of trading because it lacks the necessary PRC governmental approvals;
 - (e) the fact that Ms Chen and Mr Lee have not been on speaking terms since around early 2008;
 - (f) the Fund is illiquid and is unable to make any further investments due to a lack of funding;
 - (g) even if funding were available, the deadlock in the Investment Committee prevents further meaningful investments and effectively renders the Fund inoperable.
41. This request by the Petitioner for the Fund to be dissolved has been repeatedly made between October 2008 and the date hereof, and on each occasion such request has been rejected by HMQ without any substantive reasons for such rejection having been provided.
42. In the premises, by refusing its consent to the dissolution of the Fund, HMQ has breached its duty to act in the Fund's best interests in accordance with section 4(3) of the Law.

Grounds upon which the winding up order is sought

43. The winding up of the Fund is sought on the grounds that it is just and equitable by reason of the following:
- (a) The Partnership between the Petitioner and HMQ is based upon the relationship between Ms Chen and Mr Lee. This relationship has completely and irretrievably broken down as a consequence of the manner in which Mr Lee has conducted HMQ, and there is no prospect of any professional relationship continuing in the future whatsoever. All of the trust and confidence that Ms Chen once had in Mr Lee has been eroded;
 - (b) The Partnership is no longer being run in accordance with the undertakings and representations made by Mr Lee to Ms Chen at the outset, such undertakings and representations being the reason why the Petitioner agreed to invest in the Fund at the outset. The Partnership Agreement is being continually breached, and no longer provides an accurate reflection of the parameters in which the Partnership is being operated;
 - (c) The Fund is not seeking to carry out investment activity, and is merely a holding vehicle for equity investments in which the Fund has minimal operational involvement. The Fund has no further capital to invest and no money for its day-to-day running expenses and on-going activities;
 - (d) The Investment Committee has not met since October 2007 and is deadlocked. Even if HMQ can find sufficient funds to make further investments, the Partnership Agreement will allow it to make a maximum of five further investments, each of which must be under USD1.5 million. Thereafter, all future investments will require Investment Committee consent irrespective of the size of those investments; and

(e) The Petitioner is the sole limited partner in the Fund and has provided at least ninety-five per cent of the Fund's capital. It has made numerous requests for the dissolution of the Fund, but on each occasion HMQ has refused to agree to such dissolution, and comply with its duties to act in the best interests of the Fund for the benefit of its sole limited partner.

Your Petitioner therefore humbly prays that:

1. The Fund be wound up in accordance with the Companies Law (2009 Revision).
2. The assets of the Fund be distributed in accordance with clause 11.2 of the Partnership Agreement.
3. Cosimo Borrelli of Borrelli Walsh, Level 17, Tower 1, Admiralty Centre, 18 Harcourt Road, Hong Kong, and Hugh Dickson of Grant Thornton Specialist Services (Cayman) Limited, Commerce House, 2nd Floor, 7 Dr. Roy's Drive, Grand Cayman, Cayman Islands, be appointed as joint and several official liquidators of the Fund (the "**Official Liquidators**").
4. The Official Liquidators shall not be required to give security for their appointment.
5. In addition to their powers prescribed in Part II of the Third Schedule to the Companies Law which are exercisable without sanction of this Court, the Official Liquidators may also without further sanction or intervention from this Court:
 - (a) exercise the powers set out in Part I of the Third Schedule to the Companies Law; and
 - (b) take any such action as may be necessary or desirable to obtain the recognition of their appointment in any other relevant jurisdictions and to make applications to the Courts of such jurisdiction for that purpose,and for the avoidance of doubt the powers granted to the Official Liquidators may be exercised by them within and outside the Cayman Islands.

6. The Petitioner's costs shall be paid out of the assets of the Fund as an expense of the liquidation. Such costs to be taxed if not agreed with the Official Liquidator.

7. Any further order that the Court shall deem fit to make.

AND your Petitioner will ever pray etc.

Dated the 2nd day of August 2010

Walkers

Walkers, Attorneys-at-Law

NOTE: This petition is intended to be served on HMQ Harmony Fund L.P., care of Appleby Trust (Cayman) Ltd, Clifton House, 75 Fort Street, PO Box 1350, George Town, Grand Cayman, Cayman Islands and on HMQ Harmony Capital Partners Limited, care of Offshore Incorporations (Cayman) Limited, Scotia Centre, 4th Floor, PO Box 2804, George Town, Grand Cayman, Cayman Islands.

This Petition was presented by Pioneer Metals Group Holdings Limited, whose address for service is care of Walkers, Attorneys-at-Law, Walker House, 87 Mary Street, PO Box 265, George Town, Grand Cayman KY1-9001, Cayman Islands.