
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of **China Mining Resources Group Limited**.

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中國礦業資源集團有限公司*
China Mining Resources Group Limited
(incorporated in Bermuda with limited liability)
(Stock code: 340)

**MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF
THE REMAINING INTEREST IN THE TARGET COMPANY
AND
NOTICE OF SPECIAL GENERAL MEETING**

Financial adviser in respect of the Acquisition



信溢投資策劃有限公司
CHALLENGE CAPITAL MANAGEMENT LIMITED

A notice convening the special general meeting of China Mining Resources Group Limited to be held at Room 1306, 13/F., Bank of America Tower, 12 Harcourt Road, Admiralty, Hong Kong on Wednesday, 16 November 2016 at 2:30 p.m. is set out on pages SGM-1 to SGM-2 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar and transfer office of the Company in Hong Kong, Union Registrars Limited of Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, as soon as possible and in any event not later than 48 hours before the time for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

31 October 2016

* For identification purposes only

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“Acquisition”	the proposed acquisition of the Sale Shares by the Purchaser from the Vendors pursuant to the Agreement
“Agreement”	the sale and purchase agreement entered into between the Purchaser, the Vendors and the Guarantors on 4 August 2016 in relation to the Acquisition (as amended and supplemented by the Supplemental Agreement)
“Announcements”	the announcements of the Company dated 4 August 2016 and 26 October 2016 in relation to the Acquisition
“Au”	gold
“Board”	the board of Directors of the Company
“Business Day(s)”	any day (except a Saturday, Sunday and public holiday) on which banks in Hong Kong are open to the general public for business
“BVI”	the British Virgin Islands
“Cash Consideration”	HK\$80,000,000, being the partial consideration for the Acquisition
“Company”	China Mining Resources Group Limited (中國礦業資源集團有限公司*), a limited company incorporated in Bermuda with limited liability and the Shares of which are listed on the main board of the Stock Exchange
“Completion”	the completion of the Acquisition contemplated under the Agreement
“Completion Date”	the fifth Business Day following the date on which the last condition precedent set out in the Agreement has been fulfilled (or otherwise waived) or such other date as the parties may agree in writing
“Connected Persons”	has the same meaning ascribed to it under the Listing Rules
“Consideration”	the consideration in respect of the Acquisition, comprising the Cash Consideration and the Consideration Shares

* *For identification purposes only*

DEFINITIONS

“Consideration Shares”	3,507,750,000 new Shares to be allotted and issued on the Completion Date to the Vendors at the Issue Price of HK\$0.08 per Share as partial consideration for the Acquisition
“CPS”	the convertible preference shares of the Company which are not listed on the Stock Exchange
“Director(s)”	the director(s) of the Company
“Enlarged Group”	the Group immediately after the Completion
“Exploration Licence”	the licence authorising the Project Company to conduct exploration activities at the Gold Mine
“First Loan”	a loan in the principal amount of HK\$100,000,000 provided by the Company to the Target Company under the First Loan Agreement
“First Loan Agreement”	the loan agreement entered into between the Company and the Target Company on 22 January 2016, particulars of which are stated in the Company’s announcement dated 22 January 2016
“Forever Success”	Forever Success Investments Limited (永成投資有限公司), an investment holding company incorporated in the Republic of Seychelles with limited liability, being ultimately and beneficially owned by Mr. Ma, which held 43% of the total issued share capital of the Target Company as at the Latest Practicable Date
“GCA”	Greater China Appraisal Limited, an Independent Third Party appointed by the Company as the independent valuer to prepare the Valuation Report
“Gold Mine”	陝西省潼關縣金礦(Shaanxi Province Tongguan County Gold Mine*) operated by the Project Company and located at Tongguan County of Shaanxi Province of the PRC
“Group”	the Company and its subsidiaries
“g/t”	gram(s) per tonne
“Guarantors”	Mr. Ma and Ms. Lin

* For identification purposes only

DEFINITIONS

“HK Company”	Champion Lucky Limited (福瑞有限公司), a company incorporated in Hong Kong with limited liability and is wholly-owned by the Target Company
“HKFRSs”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants as in effect from time of time
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Technical Report”	the independent technical report on the Gold Mine prepared by SRK
“Independent Third Party(ies)”	any person or company and their respective ultimate beneficial owner(s), to the best knowledge, information and belief of the Directors and having made all reasonable enquiries, are third parties independent of the Company and its Connected Persons
“Indicated Mineral Resource(s)”	part of a Mineral Resource for which quantity, grade (or quality), densities, shape and physical characteristics are estimated with sufficient confidence to allow the application of modifying factors in sufficient detail to support mine planning and evaluation of the economic viability of the deposit (as defined under the JORC Code)
“Inferred Mineral Resource(s)”	part of a Mineral Resource for which quantity and grade (or quality) are estimated on the basis of limited geological evidence and sampling. Geological evidence is sufficient to imply but not verify geological and grade (or quality) continuity. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes (as defined under the JORC Code)
“Issue Price”	the issue price of HK\$0.08 per Consideration Share
“Jinxing Mining”	潼關縣金星礦業有限責任公司(Tongguan County Jinxing Mining Co., Ltd.*), a limited company established in the PRC, and is the nominee holder of one of the Mining Licences for the Project Company

* For identification purposes only

DEFINITIONS

“JORC Code”	the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2012 Edition), as published by the Joint Ore Reserves Committee
“km”	kilometer(s)
“km ² ”	square kilometer(s)
“koz”	thousand ounces
“kt”	kilotonne(s)
“ktpa”	kilotonne(s) per annum
“Latest Practicable Date”	27 October 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mineral Resource(s)”	a concentration or occurrence of solid material of economic interest in or on the earth’s crust in such form, grade (or quality), and quantity that there are reasonable prospects for eventual economic extraction (as defined under the JORC Code). The location, quantity, grade (or quality), continuity and other geological characteristics of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge, including sampling. Mineral Resources are sub-divided, in order of increasing geological confidence, into inferred, indicated and measured categories
“Mining Licence(s)”	the licence(s) authorising the Project Company to conduct exploitation activities at the Gold Mine
“Mr. Ma”	Mr. Ma Dongsheng (馬東生), the ultimate beneficial owner of Forever Success
“Ms. Lin”	Ms. Lin Yuhua (林玉華), the ultimate beneficial owner of Supreme Success
“Placing”	the placing of 4,000,000,000 Shares by Guoyuan Capital (Hong Kong) Limited, pursuant to the terms of the Placing Agreement

DEFINITIONS

“Placing Agreement”	the placing agreement entered into between the Company and Guoyuan Capital (Hong Kong) Limited on 11 August 2015 in relation to the Placing (as amended and supplemented on 11 November 2015 and 7 December 2015), particulars of which are stated in the Company’s circular dated 8 December 2015
“PRC” or “China”	the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC Company”	渭南金東礦業有限公司 (Weinan Jindong Mining Co., Ltd.*), a company established in the PRC with limited liability and is wholly-owned by the WFOE
“Previous Acquisition”	the acquisition of 27% of the issued share capital of the Target Company by the Purchaser from Forever Success pursuant to the terms and conditions of the Previous Agreement
“Previous Agreement”	the share purchase agreement dated 7 December 2015 and entered into among the Purchaser and Forever Success in respect of the Previous Acquisition
“Previous Announcement”	the announcement of the Company dated 7 December 2015 in respect of the Previous Acquisition
“Processing Plant”	the ore-processing plant located at Beidong Village, Daiziying Town, Tongguan County, Shaanxi Province of the PRC which is owned and operated by the Project Company as at the Latest Practicable Date
“Project Company”	潼關縣祥順礦業發展有限公司 (Tongguan County Xiangshun Mining Development Co., Ltd.*), a company established in the PRC with limited liability which is owned as to 90% by the Target Group as at the Latest Practicable Date
“Purchaser” or “Combined Success”	Combined Success Investments Limited, a company incorporated in the BVI with limited liability and a wholly-owned subsidiary of the Company, which held 27% of the total issued share capital of the Target Company as at the Latest Practicable Date
“RMB”	Renminbi, the lawful currency of the PRC

* For identification purposes only

DEFINITIONS

“Sale Shares”	all the remaining issued share capital of the Target Company that the Company does not own, being 73% of the total issued share capital of the Target Company as at the Latest Practicable Date and at Completion
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Second Loan”	a loan in the principal amount of HK\$99,000,000 provided by the Company to the Target Company under the Second Loan Agreement
“Second Loan Agreement”	the loan agreement entered into between the Company and the Target Company on 13 April 2016, particulars of which are stated in the Company’s announcement dated 13 April 2016
“SGM”	the special general meeting of the Company to be convened to consider and approve, if thought fit, the Agreement and the transactions contemplated thereunder, including the allotment and issue of the Consideration Shares under the Specific Mandate
“Share(s)”	ordinary share(s) of HK\$0.01 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Specific Mandate”	the specific mandate to be granted to the Board by the Shareholders at the SGM for the allotment and issue of the Consideration Shares
“SRK” or “Independent Technical Consultant”	SRK Consulting (Hong Kong) Limited (斯羅柯礦業諮詢(香港)有限公司), an Independent Third Party commissioned by the Company to prepare the Independent Technical Report
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supreme Success”	Supreme Success Group Limited (卓成集團有限公司), an investment holding company incorporated in the BVI with limited liability, being ultimately and beneficially owned by Ms. Lin, which held 30% of the total issued share capital of the Target Company as at the Latest Practicable Date
“Supplemental Agreement”	the supplemental agreement dated 26 October 2016 entered into between the Purchaser, the Vendors and the Guarantors for the amendment and modification of certain terms of the Agreement

DEFINITIONS

“t”	tonne(s)
“Target Company”	One Champion International Limited (一冠國際有限公司), an investment holding company incorporated in the BVI with limited liability
“Target Group”	the Target Company and its subsidiaries from time to time, including without limitation, the HK Company, the WFOE, the PRC Company and the Project Company
“Tian Yuan”	Tian Yuan Law Firm, the legal adviser to the Company as to PRC law
“tpd”	tonne(s) per day
“United States”	United States of America
“VALMIN Code”	Australasian Code for Public Reporting of Technical Assessments and Valuation of Mineral Assets (2015 Edition) prepared by the VALMIN Committee
“Valuation”	a valuation on the 100% equity interests in the Target Group prepared by GCA in compliance with Chapter 18 of the Listing Rules and the VALMIN Code, as set out in the Valuation Report contained in Appendix VI to this circular
“Valuation Report”	has the meaning ascribed to it under Chapter 18 of the Listing Rules
“Vendors”	collectively, Forever Success and Supreme Success
“WFOE”	陝西福瑞永成礦業有限公司 (Shaanxi Furui Rongcheng Mining Co., Ltd.*), a company established in the PRC as a wholly foreign owned enterprise and is wholly-owned by the HK Company
“%”	per cent

Translation of RMB into Hong Kong dollars are based on the exchange rates of RMB0.80 to HK\$1.00 for information purpose only. Such translations should not be construed as a representation that the relevant amounts have been, could have been, or could be converted at that or any other rate or at all.

In this circular, if there is any inconsistency between the Chinese names of the entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail.

* For identification purposes only

LETTER FROM THE BOARD



中國礦業資源集團有限公司*

China Mining Resources Group Limited

(incorporated in Bermuda with limited liability)

(Stock code: 340)

Executive Directors:

Mr. Wang Hui

Mr. Fang Yi Quan

Mr. Yeung Kwok Kuen

Registered Office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Independent Non-Executive Directors:

Mr. Chong Cha Hwa

Mr. Chu Kang Nam

Mr. Ngai Sai Chuen

*Head office and principal place of
business:*

Room 1306, 13th Floor,

Bank of America Tower,

12 Harcourt Road, Admiralty,

Hong Kong

31 October 2016

To the Shareholders

Dear Sir or Madam,

**MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF
THE REMAINING INTEREST IN THE TARGET COMPANY
AND
NOTICE OF SPECIAL GENERAL MEETING**

INTRODUCTION

Reference is made to the announcement of the Company dated 7 December 2015 relating to, among others, the acquisition of 27% of the issued share capital of the Target Company by the Purchaser (being a wholly-owned subsidiary of the Company) from Forever Success at the consideration of HK\$140,400,000 pursuant to the terms and conditions of the Previous Agreement.

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LETTER FROM THE BOARD

Reference is also made to the Announcements relating to, among others, the entering into of the Agreement on 4 August 2016 and the Supplemental Agreement on 26 October 2016 between the Purchaser, the Vendors and the Guarantors for the acquisition of the Sale Shares (being the remaining issued share capital of the Target Company that the Company does not own) by the Purchaser from the Vendors at the Consideration pursuant to the terms and conditions of the Agreement.

The purpose of this circular is to give you further details of the Agreement and the transactions contemplated thereunder, and to give you the notice of the SGM.

THE ACQUISITION

The Agreement

Date 4 August 2016 (after trading hours) (as varied by the Supplemental Agreement)

Parties

The Purchaser: Combined Success, a direct wholly-owned subsidiary of the Company, which as at the Latest Practicable Date holds 27% of the total issued share capital of the Target Company.

The Vendors:

- (1) Forever Success, an investment holding company wholly-owned by Mr. Ma, which as at the Latest Practicable Date holds 43% of the total issued share capital of the Target Company; and
- (2) Supreme Success, an investment holding company wholly-owned by Ms. Lin, which as at the Latest Practicable Date holds 30% of the total issued share capital of the Target Company.

The Guarantors:

- (1) Mr. Ma, being the ultimate beneficial owner of Forever Success; and
- (2) Ms. Lin, being the ultimate beneficial owner of Supreme Success.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the Latest Practicable Date, there is no relationship between the Vendors other than being the co-owners of the Target Company, the Vendors together with the Guarantors are Independent Third Parties, and the Vendors are independent from each other.

LETTER FROM THE BOARD

Asset to be acquired

Pursuant to the Agreement, the Purchaser agreed to purchase, and the Vendors agreed to sell the Sale Shares (being the remaining issued share capital of the Target Company that the Company does not own), representing 73% of the total issued share capital of the Target Company as at the Latest Practicable Date.

The 43% of the total issued share capital of the Target Company held by Forever Success is currently pledged to the Company pursuant to the First Loan Agreement and the Second Loan Agreement.

The entering into of the First Loan Agreement and Second Loan Agreement was to provide the Target Group additional funding for further development of the Gold Mine as contemplated in the Placing (including but not limited to the carrying out of further exploration and expansion of the capacity of the Processing Plant) and fulfillment of its financial commitments falling due shortly.

First Loan Agreement

On 22 January 2016, the Company has entered into the First Loan Agreement with the Target Company pursuant to which, the Company, as lender, has agreed to grant to the Target Company, as borrower, a secured loan in the amount of HK\$100,000,000 for a term of 24 months at an interest rate of 3% per annum. The First Loan is secured by the pledge of the 20% issued shares of the Target Company held by Forever Success.

Second Loan Agreement

On 13 April 2016, the Company has entered into the Second Loan Agreement with the Target Company pursuant to which, the Company, as lender, has agreed to grant to the Target Company, as borrower, a secured loan in the amount of HK\$99,000,000 for a term of 24 months at an interest rate of 3% per annum. The Second Loan is secured by the pledge of 23% of the issued shares of the Target Company held by Forever Success.

Completion is conditional upon, among other things, the Shareholder's approval at the SGM. Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company.

The Target Group is principally engaged in the exploration, mining, processing, and sale of gold and related products. As at the Latest Practicable Date, the Target Company, through the Project Company, (i) holds the Mining Licences in respect of the Gold Mine and (ii) owns and operates the Processing Plant. Detailed information on the Target Group is set out in the paragraph headed "Information on the Target Group" of this circular.

LETTER FROM THE BOARD

Consideration and payment terms

The Consideration shall be HK\$360,620,000, which will be settled by the Purchaser in the following manner:

- (i) HK\$80,000,000 paid in cash by the Purchaser to Forever Success (or its designated nominee) within five Business Days from the date of the Agreement as a refundable deposit for the Acquisition; and
- (ii) HK\$280,620,000 by the allotment and issue of an aggregate of 3,507,750,000 Consideration Shares by the Company at the Issue Price of HK\$0.08 per Consideration Share on the Completion Date, of which 1,655,250,000 new Shares shall be issued to Forever Success and 1,852,500,000 new Shares shall be issued to Supreme Success.

It is the intention of the Company to finance the Consideration by the internal resources of the Group, being existing cash obtained from proceeds of the Placing.

Consideration Shares

The Consideration Shares represent (i) approximately 20.74% of the existing issued share capital of the Company, and (ii) approximately 17.18% of the Company's issued share capital as enlarged by the issue of the Consideration Shares. The Consideration Shares will be allotted and issued under the Specific Mandate to be obtained by the Company in the SGM. The Consideration Shares when allotted and issued shall be credited as fully paid and rank *pari passu* with all other Shares in issue in the share capital of the Company.

Application will be made by the Company to the Stock Exchange for the approval for the listing of, and permission to deal in, the Consideration Shares. The issue price of HK\$0.08 per Consideration Share represents:

- (i) a discount of approximately 27.27% to the closing price of HK\$0.110 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 23.81% to the closing price of HK\$0.105 per Share as quoted on the Stock Exchange on 4 August 2016, being the date of the Agreement;
- (iii) a discount of approximately 25.65% to the average closing price per Share as quoted on the Stock Exchange for the last 5 consecutive full trading days immediately prior to and including the date of the Agreement on 4 August 2016, being approximately HK\$0.1076 per Share;
- (iv) a discount of approximately 25.79% to the average closing price per Share as quoted on the Stock Exchange for the last 10 consecutive full trading days immediately prior to and including the date of the Agreement on 4 August 2016, being approximately HK\$0.1078 per Share;

LETTER FROM THE BOARD

- (v) a discount of approximately 29.37% to the average closing price per Share as quoted on the Stock Exchange for the last 30 consecutive full trading days immediately prior to and including the date of the Agreement on 4 August 2016, being approximately HK\$0.1133 per Share; and
- (vi) a premium of approximately 116.49% over the audited consolidated net asset value attributable to the Shareholders per Share of approximately HK\$0.037 based on the published audited consolidated accounts of the Company for the year ended 31 December 2015 and the issued share capital of 16,914,972,211 Shares as at the Latest Practicable Date.

The Company considers the Issue Price, which was determined after arm's length negotiation between the Company and the Vendors, fair and reasonable having considered, among other things, (i) that the Shares had been trading at a lower price level for a relatively long period of time until the announcement by the Company on 19 March 2015 of its considering of the feasibility of a possible acquisition; (ii) that the issue of Consideration Shares as part of the Consideration would enable the Company to acquire the controlling interest in the Gold Mine without causing an undue burden on the Company's cash flow; (iii) that the Issue Price represents a significant premium over the audited net asset value attributable to the Shareholders per Share as of 31 December 2015; and (iv) the reasons for and benefits of the Acquisition as described in the paragraph headed "Reasons for and benefits of the Acquisition".

There will not be a change in control of the Company as a result of the Acquisition.

CHANGES IN THE SHAREHOLDING STRUCTURE OF THE COMPANY

For illustrative purpose only, set out below is a summary of the shareholdings in the Company (i) as at the Latest Practicable Date; and (ii) immediately after the allotment and issue of the Consideration Shares:

Shareholders	As at the Latest Practicable Date		Immediately after the allotment and issue of the Consideration Shares	
	No. of Shares	%	No. of Shares	%
Ms. Ho Ping Tanya	3,300,000,000	19.51	3,300,000,000	16.16
Vendors				
<i>Forever Success</i>	—	—	1,655,250,000	8.10
<i>Supreme Success</i>	—	—	1,852,500,000	9.07
Public Shareholders	13,614,972,211	80.49	13,614,972,211	66.67
Total	16,914,972,211	100.00	20,422,722,211	100.00

LETTER FROM THE BOARD

Basis of the Consideration

The Consideration was determined after arm's length negotiation between the Purchaser and the Vendors after taking into account the following factors:

- (i) the Valuation of 100% equity interests in the Target Group of approximately HK\$494 million; and
- (ii) the factors as set out in the section headed "Reasons for and benefits of the Acquisition".

The Company has appointed GCA as the independent valuer to prepare the Valuation in accordance with Chapter 18 of the Listing Rules and the VALMIN Code, the details of which are set out in the Valuation Report contained in Appendix VI to this circular. In determining the Valuation, GCA applied both the income approach and the market approach in accordance with the requirements under the VALMIN Code. As discussed in the section headed "XXII. Summary of result" in the Valuation Report, based on the information provided and the project specific factors, GCA considered the result of the income approach to be the preferred value as the income approach is commonly used in, and widely accepted for, valuation of mineral assets and resources at production stage. Major bases and assumptions applied in the income approach relate to the estimation of mining inventory of the Gold Mine, the forecast of gold price and the operating cost, capital expenditure and working capital requirement of the Gold Mine as well as the determination of discount rate adopted. Please refer to the section headed "XIX. Income approach – discounted cash flow method" in the Valuation Report contained in Appendix VI to this circular for further details regarding the major bases and assumptions applied. As set out in the Valuation Report, as at 1 June 2016, the Valuation of 100% equity interests in the Target Group was approximately HK\$494 million, and accordingly the valuation of 73% equity interests in the Target Group was approximately HK\$361 million, which is equal to the Consideration.

Conditions precedent

Completion is conditional upon the satisfaction (or waiver, if applicable) of all of the following conditions:

- (i) the Agreement, the allotment and issue of the Consideration Shares and all transactions contemplated thereunder having been approved by the Shareholders at the SGM;
- (ii) the Purchaser shall have completed, to its sole and absolute satisfaction, a due diligence review on the Target Group (in particular the Project Company) in respect of their business operation, financial status, asset/liabilities and other related issues to be determined by the Purchaser;

LETTER FROM THE BOARD

- (iii) the Purchaser having obtained from a qualified PRC legal adviser a legal opinion with respect to the Target Group (in particular the due establishment, valid existence, legality and shareholding structure of the Project Company and the legality of the business operations of the Project Company under PRC law), and that the Purchaser being satisfied with such legal opinion;
- (iv) the Purchaser shall have received the Independent Technical Report prepared by SRK on the Gold Mine which are in full compliance with the Listing Rules (if applicable) and in form and substance satisfactory to the Purchaser;
- (v) the Purchaser shall have received the Valuation Report on the Target Group issued by GCA which is in full compliance with the Listing Rules and the VALMIN Code and in form and substance satisfactory to the Purchaser;
- (vi) the Vendors shall provide evidence to the sole and absolute satisfaction of the Purchaser showing the mining licences which are material to the business operation of the Project Company will be obtained or renewed, in the event that the same are pending transfer or renewal;
- (vii) from the date of signing of the Agreement till Completion, there not being any abnormal operations or any material adverse changes in the business, prospects, operations, performance or finance in respect of the Target Group;
- (viii) the warranties given by the Vendors in the Agreement remaining true, accurate and not misleading at the date of the Agreement and up to and including the Completion Date in all material respects;
- (ix) the Vendors shall have performed and complied in all material respects with all undertakings and obligations required by the Agreement to be performed prior to the Completion Date;
- (x) the obtaining of all necessary consents and approvals in respect of the Acquisition from the relevant governmental or regulatory bodies, and no governmental or regulatory bodies has issued any orders, laws, regulations to disallow or restrain the Completion from taking place;
- (xi) the Stock Exchange granting the approval for the listing of, and the permission to deal in, the Consideration Shares;
- (xii) the Vendors shall at the request of the Purchaser provide any information or documents in relation to the transactions contemplated under the Agreement to the sole and absolute satisfaction of the Purchaser; and
- (xiii) the Project Company shall have obtained from relevant government authority the exploration licence covering the areas of exploration licence application as specified in the Independent Technical Report.

LETTER FROM THE BOARD

The Purchaser shall have the right to waive the conditions precedent above (save for the conditions (i), (iv) and (xi) which cannot be waived). Save as aforesaid, if the conditions precedent as set out in the Agreement have not been fulfilled (or, where applicable, waived by the Purchaser) on or before 31 March 2017, neither the Purchaser nor the Vendors shall be obliged to proceed with Completion. The Vendors shall refund the deposit without interest and any amount previously paid by the Purchaser to the Vendors within 10 Business Days once it is determined that Completion will not or cannot be proceeded.

As at the Latest Practicable Date, conditions (ii), (vi), (x) and (xii) had been fulfilled.

Completion

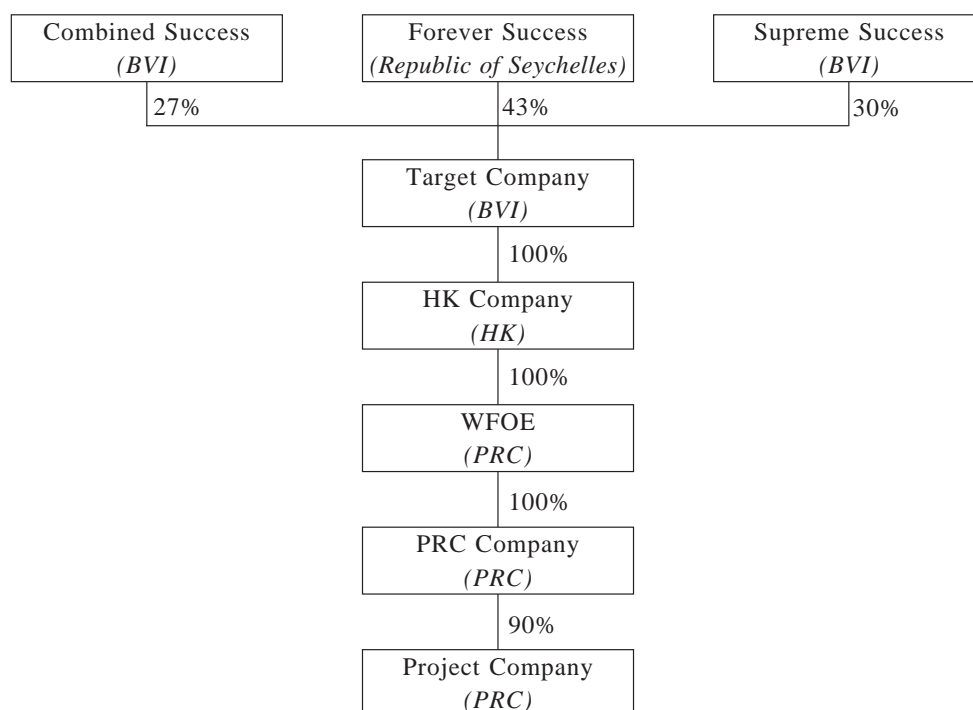
Completion shall take place on the Completion Date.

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company. The results and assets and liabilities of the Target Group will be consolidated with, and accounted for as subsidiaries using the acquisition method of accounting in the Company's consolidated financial statements.

INFORMATION ON THE TARGET GROUP

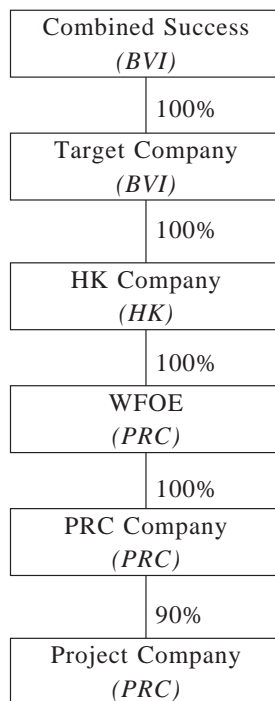
The Target Company is an investment holding company incorporated in the BVI with limited liability on 2 January 2015. As at the Latest Practicable Date, it is owned as to 27% by the Purchaser, 43% by Forever Success and 30% by Supreme Success. The principal asset of the Target Company is its indirect 90% equity interests in the Project Company.

Set out below is the shareholding structure of the Target Group immediately before Completion:



LETTER FROM THE BOARD

Set out below is the shareholding structure of the Target Group immediately following Completion:



The HK Company and the WFOE

The HK Company is an investment holding company incorporated in Hong Kong with limited liability on 18 February 2015, and is wholly-owned by the Target Company. The WFOE is established in the PRC as a wholly foreign owned enterprise by the HK Company on 17 April 2015, and is wholly-owned by the HK Company.

The PRC Company

The PRC Company was established in the PRC with limited liability on 22 April 2015 and the entire equity interests in which were acquired by the WFOE in November 2015. As at the Latest Practicable Date, the PRC Company holds 90% equity interests in the Project Company which were acquired by the PRC Company in October 2015.

The Project Company

The Project Company was established in the PRC with limited liability on 26 July 2006 and is principally engaged in the exploration, mining, processing, and sale of gold and related products. As at the Latest Practicable Date, the Project Company (i) holds the Mining Licences in respect of the Gold Mine; and (ii) owns and operates the Processing Plant.

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FINANCIAL INFORMATION ON THE TARGET GROUP

As disclosed above, each of the Target Company, the HK Company, the WFOE and the PRC Company was incorporated in 2015. While the Project Company was established in 2006, the 90% equity interests in the Project Company were acquired by the Target Group through the acquisition of the entire equity interests in the PRC Company in November 2015. Therefore, the results and assets and liabilities of the Project Company have only been consolidated into the financial statements of the Target Group since November 2015.

As advised by the management of the Target Company, the WFOE recorded revenue of RMB73.4 million from the sale of gold concentrates purchased from the Project Company during the six months ended 30 June 2016. As at 30 June 2016, (i) the WFOE had prepayments and account receivables of approximately RMB68.5 million, inter-company balances of approximately RMB55.0 million, investment in a subsidiary of approximately RMB35.0 million, and bank balances and cash of approximately RMB6.5 million; and (ii) the HK Company had inter-company balances of approximately HK\$150.0 million, investment in a subsidiary of approximately HK\$40.0 million, and bank balances and cash of approximately HK\$6.0 million.

Save for the above, neither the Target Company, the HK Company, the WFOE nor the PRC Company has (i) conducted any business activities since its incorporation and up to the Latest Practicable Date; and (ii) any other material assets as at the Latest Practicable Date.

Set out below is a summary of the financial information on the Project Company for the years ended 31 December 2013, 2014 and 2015, and for the six months ended 30 June 2015 and 2016 prepared in accordance with HKFRSs:

	For the year ended 31 December			For the six months ended 30 June	
	2013	2014	2015	2015	2016
	<i>RMB'000</i> (audited)	<i>RMB'000</i> (audited)	<i>RMB'000</i> (audited)	<i>RMB'000</i> (unaudited)	<i>RMB'000</i> (audited)
Revenue	91,002	83,092	90,651	9,938	106,481
Profit before taxation	26,501	33,049	24,564	2,608	25,288
Profit for the year/period	22,360	28,151	20,830	2,243	21,502
					As at
					30 June
	2013	2014	2015		2016
	<i>RMB'000</i> (audited)	<i>RMB'000</i> (audited)	<i>RMB'000</i> (audited)		<i>RMB'000</i> (audited)
Net assets	45,321	50,472	71,302		92,804

The accountant's reports containing the financial information on the Target Group and the Project Company are set out in Appendix II-A and Appendix II-B to this circular, respectively.

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THE GOLD MINE

The Gold Mine is located in Tongguan County, Shaanxi Province of the PRC, approximately 155 km east of Xi'an, the capital of Shaanxi Province. Access to the mining operations of the Gold Mine from Xi'an is through Freeway G65/G30 for 121 km, followed by paved provincial road (301) for approximately 34 km. The Processing Plant is located at Beidong Village, Daiziyang Town, Tongguan County, approximately 10 km northeast of the Gold Mine. According to the Independent Technical Report, the current infrastructure of the project area of the Gold Mine is considered adequate for its current and planned scale of operation and transportation between the Gold Mine and the Processing Plant.

As at the Latest Practicable Date, the Project Company has a portfolio of mineral tenements comprising four Mining Licences (Q401, Q4112, Q301 and Q198) and covering a total area of 7.7975 km². Based on the information provided by the management of the Project Company, an application for a new Exploration Licence, covering the adjoining area of Q401 and the area formerly covered under the exploration licence (Q4114) of the Project Company (which was expired on 2 August 2016) with a total area of 16.23 km², has been submitted to the relevant government authority on 13 January 2016, and the approval for the said application has been received by the Project Company on 29 July 2016. Set out below is the Mineral Resource statement for the Gold Mine as of 1 June 2016 as extracted from the Independent Technical Report:

Licence type	Project short name	Domain	Category	Inventory (kt)	Grade (g/t Au)	Contained metal (t)	Contained metal (koz)	
Mining	Q401	Q401-3ML	Indicated	98.9	7.25	0.72	23.1	
			Inferred	115.7	6.93	0.80	25.8	
	Q4112	Q4112	Indicated	149.8	5.31	0.80	25.6	
			Inferred	113.5	4.90	0.56	17.9	
	Q301	Q301	Inferred	16.4	5.10	0.08	2.7	
	Q198	Q198	Inferred	19.3	3.87	0.07	2.4	
	Total			Indicated	248.7	6.08	1.51	48.6
				Inferred	264.9	5.72	1.52	48.7
Exploration Licence Application	Q4114	Q4114	Indicated	75.8	6.01	0.46	14.6	
			Inferred	139.0	9.32	1.30	41.7	
		Q429	Indicated	7.8	7.81	0.06	2.0	
			Inferred	7.0	6.46	0.05	1.5	
	Q401 adjoining area	Q1403	Indicated	56.9	6.70	0.38	12.3	
			Inferred	52.8	7.03	0.37	11.9	
		Q401-3ELA	Indicated	40.4	7.88	0.32	10.2	
			Inferred	20.9	6.01	0.13	4.0	
		Q401-4	Indicated	420.0	7.60	3.19	102.6	
			Inferred	103.0	2.95	0.30	9.8	
	Total			Indicated	600.9	7.34	4.41	141.7
Inferred				322.7	6.64	2.14	68.8	

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Notes:

1. Differences may occur due to rounding.
2. 1.00 g/t Au cut-off grade applied for the resource block model.
3. Q401-3 ML and Q401-3 ELA domains refer to the portion of Mineral Resources within the mining licence and exploration licence application respectively.

The Project Company has a portfolio of mineral tenements comprising four Mining Licences and covering a total area of 7.7975 km². Further, the Project Company is in the process of applying for a new Exploration Licence which will cover an area significantly larger than that of the Mining Licences and totalling 16.23 km². Please refer to page V-34 of the Independent Technical Report contained in Appendix V to this circular for the geological map showing the location of the respective Mining Licences and the Exploration Licence under application.

As shown in the Mineral Resource statement above, the Gold Mine is estimated to contain total Indicated Mineral Resources of 248.7 kt under the Mining Licences and 600.9 kt under the Exploration Licence under application. On the basis of the foregoing, the Directors consider that the Gold Mine consists of a portfolio of Indicated Mineral Resources that is meaningful and of sufficient substance.

For further details regarding the Mineral Resources estimation of the Gold Mine, please refer to the Independent Technical Report set out in Appendix V to this circular.

Licences, approvals and permits

According to the Mineral Resources Law of the PRC (中華人民共和國礦產資源法) issued by the Standing Committee of the National People's Congress, which became effective from 1 October 1986 and as amended on 29 August 1996 and 27 August 2009, the Administrative Measures on Registration of Tenement of Mineral Resources Exploration and Survey (礦產資源勘查區塊登記管理辦法) issued by the State Council, which became effective from 12 February 1998 and as amended on 29 July 2014 and the Administrative Measures on Registration of Mineral Resources Exploitation (礦產資源開採登記管理辦法) issued by the State Council, which became effective from 12 February 1998 and as amended on 29 July 2014, enterprises engaged in the mining of mineral resources shall obtain a mining licence and enterprises engaged in exploration of mineral resources shall obtain an exploration licence. A mining licence holder has the right to conduct mining activities and to construct structures that are related to its mining activities within the licensed mining area, whereas an exploration licence holder has the right to explore mineral resources within the area covered under the licence. Furthermore, according to Tian Yuan, under the current PRC laws, holders of an exploration licence are entitled to explore mineral resources within the area covered by the relevant exploration licence, and have the rights to apply for the mining licence to carry out mining activities within the said area upon demonstrating the existence of minable resources and undertaking the necessary application procedures.

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The Gold Mining Approval

The Project Company has obtained the Gold Mining Approval with a validity period from 24 November 2015 to 24 November 2018 for the mining of gold at the Gold Mine. Tian Yuan is of the view that, such Gold Mining Approval was issued by the competent authorities and remains valid and effective as at the Latest Practicable Date.

According to the Decision of the State Council on Cancelling 13 Administrative Licensing Items of the Departments under the State Council (國務院關於取消13項國務院部門行政許可事項的決定) issued by the State Council which became effective from 3 February 2016, enterprises engaging in mining activities involving gold resources are no longer required to obtain Gold Mining Approvals. As such, as advised by Tian Yuan, the Project Company will not be required under the current PRC laws to apply for renewal upon the expiration of its Gold Mining Approval to carry out its gold mining activities.

The Mining Licences

Details of the Mining Licences held by the Project Company are summarised below:

Licence number	Project area	Area (<i>km</i>²)	Mining capacity (<i>ktpa</i>)	Validity period
C6100002009084120031621	Q301	5.2002	15	30 May 2016 — 30 May 2018
C6100002011044120110592	Q401	1.8765	15	6 May 2015 — 6 May 2018
C6100002010034120059580	Q198	0.3328	15	9 July 2015 — 9 July 2017
C6100002013064110130335 (<i>Note</i>)	Q4112	0.3880	30	22 June 2016 — 22 June 2019

Note:

As at the Latest Practicable Date, such Mining Licence is held by Jinxing Mining, a nominee holder for the Project Company, and the Project Company is in the process of applying for the change of name of holder of such Mining Licence.

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According to the Administrative Measures on Registration of Mineral Resources Exploitation (礦產資源開採登記管理辦法), the Project Company should apply to the relevant authorities for the renewal of the Mining Licences not less than 30 days before their respective expiry dates. As advised by Tian Yuan, based on the enquiry made by Tian Yuan with the Tongguan Land and Resources Bureau (as defined below) (i) the examination of the relevant legal documents of the Project Company; and (ii) the fact that the Mining Licences had been granted to the Project Company as at the Latest Practicable Date; and (iii) the Confirmation Letter (as defined below) which indicated that there was no material breach of the conditions of the Mining Licences in the past and as at 8 August 2016 (that is, the date of the Confirmation Letter), there was no circumstance under which the Project Company would be imposed penalties, there shall not be practical legal impediments in respect of the renewal of the Mining Licences provided that the Project Company has (a) demonstrated the reserves available within the mining area under the relevant Mining Licence is sufficient to justify the carrying out of further exploitation; (b) submitted the required application documents and undertaken the necessary procedures in a timely manner.

As at the Latest Practicable Date, the Mining Licence #C6100002013064110130335 was held by Jinxing Mining. Pursuant to an agreement entered into between Jinxing Mining and the Project Company on 20 October 2010, the Project Company acquired the exploration licence for the exploration of gold vein Q4112 from Jinxing Mining. As advised by the management of the Project Company, the Project Company subsequently applied for the Mining Licence #C6100002013064110130335 for the mining of gold vein Q4112 under the name of Jinxing Mining, with a view to speed up and simplify the application process. The management of the Project Company confirmed that it had already applied for the change of name of holder of such Mining Licence as at the Latest Practicable Date. As confirmed by the Bureau of Land and Resources of Tongguan (潼關縣國土資源局) (“**Tongguan Land and Resources Bureau**”), being the competent authority to monitor the daily mining activities of the Project Company, in its letter issued on 8 August 2016 (the “**Confirmation Letter**”), (i) the Project Company has already applied for the change of name of holder of such Mining Licence; (ii) Tongguan Land and Resources Bureau was not aware of any practical impediments in relation to the processing of such application; (iii) the carrying out of the mining and operating activities by the Project Company between the dates on which such change was required, and will be completed (the “**Transition Period**”), is lawful and effective; (iv) the rights of the Project Company under such Mining Licence will not be affected during the Transition Period; and (v) Tongguan Land and Resources Bureau had no objection to the carrying out of the production and operating activities by the Project Company. Tian Yuan is of the view that, based on (i) the Confirmation Letter that the Tongguan Land and Resources Bureau is not aware of any practical obstacles with respect to the change of name of holder application; and (ii) the enquiry made by Tian Yuan with the Tongguan Land and Resources Bureau, upon undertaking the necessary procedures and submitting the necessary documents, there shall not be practical legal impediments in relation to the change of name of holder of such Mining Licence and risk of the Project Company not being able to carry out mining activities during the Transition Period is very remote.

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Tian Yuan is of the view that, the Mining Licences for the Gold Mine were issued by the competent authorities and remain valid and effective as at the Latest Practicable Date.

Exploration Licence Application

Based on the information provided by the management of the Project Company, an application for a new Exploration Licence, covering the adjoining area of Q401 and the area formerly covered under the exploration licence (Q4114) of the Project Company (which was expired on 2 August 2016) with a total area of 16.23 km², has been submitted to the relevant government authority on 13 January 2016, and the approval for the said application has been received by the Project Company on 29 July 2016. Tian Yuan is of the view that, the Project Company has completed the critical approval procedures for the obtaining of the said Exploration Licence, and there shall not be practical legal impediments for the Project Company to obtain the same from the relevant government authority.

The Production Safety Permits

According to the Regulations on Production Safety Permit (安全生產許可證條例) issued by the State Council, which became effective from 13 January 2004 and as amended on 18 July 2013 and 29 July 2014 and the Measures for Implementation of Production Safety Permit for Non-coal Mining Enterprises (非煤礦礦山企業安全生產許可證實施辦法) issued by the State Administration of Work Safety, which became effective from 8 June 2009 and as amended on 26 May 2015, no enterprises engaging in the mining and processing of non-coal mineral resources may carry out production activities without holding a valid production safety permit (the “**Production Safety Permit**”).

Details of the Production Safety Permits held by the Project Company are summarised below:

Gold vein	Validity period
Q301	13 October 2014 — 31 December 2016
Q401	19 December 2014 — 23 April 2017
Q198	9 October 2015 — 7 May 2018
Q4112 (<i>Note</i>)	16 May 2016 — 15 May 2019
Tailings storage facility	19 December 2014 — 18 December 2017

Note:

As at the Latest Practicable Date, such Production Safety Permit is held by Jinxing Mining, a nominee holder for the Project Company.

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According to the Measures for Implementation of Production Safety Permit for Non-coal Mining Enterprises (非煤礦礦山企業安全生產許可證實施辦法), the Project Company should apply to the relevant authorities for the renewal of the Production Safety Permits not less than 3 months before their respective expiry dates. As advised by Tian Yuan, based on the enquiry made by Tian Yuan with the Tongguan Administration of Work Safety, there shall not be practical legal impediments in respect of the renewal of the Production Safety Permits provided that the Project Company has submitted the required application documents and undertaken the necessary procedures in a timely manner.

As at the Latest Practicable Date, the Production Safety Permit for gold vein Q4112 is held by Jinxing Mining, a nominee holder for the Project Company. As advised by the management of the Project Company, upon completion of the change of name of holder of the Mining Licence #C6100002013064110130335 as discussed above, the Project Company will apply to the relevant government authority for the change of name of holder of such Production Safety Permit. Based on the enquiry made by Tian Yuan with the Tongguan Administration of Work Safety, Tian Yuan is of the view that, such Production Safety Permit is currently valid for production activities to be carried out by the Project Company in gold vein Q4112, and there shall not be practical legal impediments for the Project Company to complete the change of name of holder of such Production Safety Permit upon undertaking the necessary regulatory procedures and submitting the relevant application documents as required.

Tian Yuan is of the view that, the Production Safety Permits for the Gold Mine were issued by the competent authorities and remain valid and effective as at the Latest Practicable Date.

Based on the fact that (i) the Project Company had applied for the Exploration Licences, and obtained Mining Licences and Production Safety Permits which are valid and effective from the relevant competent authorities as discussed above; (ii) the Project Company had received the approval for the Exploration Licence application from the relevant government authority as mentioned above; and (iii) Tian Yuan is of the view that there are no practical legal impediments in respect of the renewal of the abovementioned licences provided that the Project Company submits the requisite application documents to the relevant competent authorities within the timeframe stated above and undertakes the necessary procedures for renewal, as well as demonstrating to the relevant authorities that (a) the reserves available within the mining area under the relevant Mining Licence is sufficient to justify the carrying out of further exploitation; (b) there are no prior breaches of the conditions of the Mining Licences; and (c) the Project Company had paid all relevant fees in full and on time, the Company is of the view that the Project Company has adequate rights over the extraction and exploitation of the Mineral Resources within the Gold Mine.

Mining and production

Set out below is the mining production record of the Gold Mine from 2013 to May 2016 as shown in the Independent Technical Report:

	2013	2014	2015	January to May 2016
Mined ore (<i>t</i>)	46,536	51,699	51,253	32,529
Grade (<i>g/t Au</i>)	6.15	5.93	6.20	5.08

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Set out below is the production schedule of the Gold Mine based on the available ore reserves, approved production capacity and mining technical conditions as shown in the Independent Technical Report:

	June to December					
	2016	2017	2018	2019	2020	Total
Mined ore (<i>kt</i>)	25.2	45.7	45.3	42.7	30.3	189.2
Grade (<i>g/t Au</i>)	4.7	5.9	5.5	5.5	5.7	5.5

For further details regarding the mining and production of the Gold Mine, please refer to the Independent Technical Report set out in Appendix V to this circular.

The Processing Plant

The Project Company also owns and operates the Processing Plant with a total production capacity of 475 tpd, which consists of two production lines with processing capacity of 300 tpd and 175 tpd respectively. As summarised from the Independent Technical Report, the simple and conventional crushing, grinding and flotation processing flowsheet is adopted to produce gold concentrate, which has a grade of 60 g/t Au and a recovery rate higher than 96%. The processing flowsheet also allows other economically recoverable minerals within the gold concentrate to be recovered. As mentioned in the Independent Technical Report, the technical parameters of the gold processing, such as recovery and reagent consumption, are favourable. In addition to processing ores that are extracted from the Gold Mine, the Processing Plant has also toll treated or purchased third party ores for processing since 2015 to make optimal use of its equipment.

Below is the key production performance parameters of the Processing Plant from 2013 to May 2016 as extracted from the Independent Technical Report:

Parameters	Unit	2013	2014	2015	January to May 2016
Ore feed	t	50,889	69,913	99,185	55,952
Ore grade	g/t Au	6.25	6.58	5.85	5.51
Concentrate output	t	2,873	7,466	8,993	5,101
Gold grade of the concentrate	g/t Au	46.77	59.71	62.24	58.11
Metal in the concentrate	kg	134.38	445.77	559.78	296.40
Metal in the alloy	kg	171.34	—	—	—
Ore feed/concentrate	t/t	17.71	9.36	11.03	10.97
Gold recovery rate	%	96.18	96.86	96.41	96.47

For further details regarding the Processing Plant, please refer to the Independent Technical Report set out in Appendix V to this circular.

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Estimate of cash operating cost of the Gold Mine

The operating cost of the Gold Mine includes the mining cost, environmental and backfilling charge, operating development cost, direct milling cost of the processing plant, labour, management and administrative cost, transportation cost, site services cost and other administrative cost.

Set out below is the estimate of the cash operating cost of the Gold Mine from June 2016 to 2020 as extracted from the Valuation Report, which was estimated by GCA based on the actual historical operating cost of the Gold Mine provided by the management of the Project Company:

Items	Unit	Amount
Direct mining cost	RMB/tonne of ore	400.00
Operating development cost	RMB/tonne of ore	85.60
Milling cost of Processing Plant	RMB/tonne of ore	97.10
Transportation cost	RMB/tonne of ore	16.53
Site services cost	RMB/tonne of ore	3.60
Management and administrative cost	RMB/tonne of ore	26.90
Environmental and backfilling charge	RMB/tonne of ore	<u>26.58</u>
Subtotal	RMB/tonne of ore	656.30
Non-income taxes, royalties and other governmental charges	RMB/tonne of ore	<u>160.20</u>
Total (including taxes and governmental charges)	RMB/tonne of ore	<u><u>816.50</u></u>

For further details regarding the basis of the operating cost above, please refer to the section headed “XIX. Income Approach — Discounted Cash Flow Method — 1.5 Basis of Operating Cost” in the Valuation Report contained in Appendix VI to this circular.

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Estimate of capital expenditure of the Gold Mine

Set out below is the estimate of the capital expenditure of the Gold Mine from June 2016 to 2020 as extracted from the Valuation Report, which was prepared by GCA based on the Independent Technical Report:

RMB' million	Jun-Dec					
	2016	2017	2018	2019	2020	2021
Capital expenditure	13.2	12	14.7	38.5	26.3	2.3

Based on the scale of operation and scheduled production of the Gold Mine, it is expected that no external funding is required to meet the above capital expenditure.

For further details regarding the basis of the capital expenditure above, please refer to the section headed “XIX. Income Approach — Discounted Cash Flow Method — 1.6 Basis of Capital Expenditure” in the Valuation Report contained in Appendix VI to this circular.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in production and sale of tea products and investment in mining companies. The Company began engaging in the mining business in 2006 when it acquired the 57% interests in a company which was principally engaged in the exploration and exploitation of natural rutile and processing and trading of rutile and titanium related products in the PRC (the “**Rutile Business**”). Subsequently in 2007, the Company acquired the 75.08% interests in Harbin Songjiang Copper (Group) Company Limited (“**Harbin Songjiang**”) which was mainly specialised in the mining, processing and sale of molybdenum in the PRC (the “**Molybdenum Business**”). The Group’s interests in the Rutile Business and the Molybdenum Business were disposed of in 2009 and 2014, respectively. Since the disposal of its interest in the Molybdenum Business in 2014, the Group has been actively exploring potential investment opportunities in the mining industry with a view to broaden its revenue base and maximize return to its Shareholders. In this respect, the Group had on 7 December 2015 entered into the Previous Agreement for the Previous Acquisition, that is, the acquisition of 27% equity interest in the Target Company, details of which were disclosed in the Previous Announcement. Furthermore, the Group also holds investments in various equity securities listed in the Toronto Stock Exchange which are involved in the mining of gold, silver, copper, zinc, lead, etc, as at the Latest Practicable Date.

Since the Group’s involvement in the Molybdenum Business in 2007, the Company has been led by substantially the same management team. Furthermore, Mr. Wang Hui (“**Mr. Wang**”), an executive Director who was appointed to the Board in 2007, had been acting as the chief adviser of Harbin Songjiang since 2002 and responsible for assessing and procuring exploration and mining projects, as well as evaluating the scale of mining operations and enhancing the corporate governance of Harbin Songjiang. In 2005, Mr. Wang extended his responsibilities in Harbin Songjiang to the formulation and execution of its overall business strategies and policies as well as spearheading the growth of its

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business. Mr. Wang was a director of Harbin Songjiang for the period from 2008 to 2014. Having considered the above, the Company is of the view that the Board possesses extensive experience and expertise in the mining industry to manage the business of the Target Group.

When assessing a potential acquisition or investment opportunity, the Board would take into consideration, among other things, the operating environment, prospects and growth potential of the industry in which the target company operates as well as the financial track record of the target company and its capability of providing a stable and visible income stream to enhance the profitability of the Group. Based on the selection criteria as described above, the Company considers that the Acquisition represents a good investment opportunity for the long-term development of the Group for reasons as further discussed below.

As described in the sections headed “Information on the Target Group” and “The Gold Mine” in this circular, the Target Group is principally engaged in the exploration, mining, processing and sale of gold and related products through its indirect 90% equity interests in the Project Company, which holds the Mining Licences in respect of the Gold Mine located in Tongguan County, Shaanxi Province of the PRC. Tongguan County has long been regarded as a traditional and resourceful gold mining area in the PRC where the gold mining industry has been the pillar industry of the county. According to the Independent Technical Report, the Gold Mine forms part of the Xiaoqinling gold field, which is located in the northernmost Qinling Terrance and represents the second largest gold belt in China and is highly prospective for high-grade, narrow-vein gold deposits.

As disclosed in the Previous Announcement, upon completion of the Previous Acquisition, the Company would be able to obtain first-hand information on the operations of the Gold Mine and make further assessment on the prospects of the Target Group which, subject to satisfactory assessment results on the Target Group, it was the intention of the Company to acquire further equity interest in the Target Company as and when appropriate in the future.

As at the Latest Practicable Date, the Project Company has a portfolio of mineral tenements comprising four Mining Licences (Q401, Q4112, Q301 and Q198) which, according to the Independent Technical Report, is estimated to contain total Mineral Resources of 513.6 kt (including Indicated Mineral Resources of 248.7 kt and Inferred Mineral Resources of 264.9 kt). As advised by the management of the Project Company, after completion of the Previous Acquisition, the Project Company has on 13 January 2016 applied to the relevant government authority for a new Exploration Licence covering the adjoining area of Q401 and the area formerly covered under the exploration licence (Q4114) of the Project Company (which was expired on 2 August 2016) with a total area of 16.23 km² which, according to the Independent Technical Report, is estimated to contain additional Mineral Resources of 923.6 kt (including Indicated Mineral Resources of 600.9 kt and Inferred Mineral Resources of 322.7 kt). The approval for the said application has been received by the Project Company on 29 July 2016. Tian Yuan is of the view that, the Project Company has completed the critical approval procedures for the obtaining of the

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said Exploration Licence, and there shall not be practical legal impediments for the Project Company to obtain the same from the relevant government authority. Upon obtaining of such Exploration Licence, the estimated total Mineral Resources of the Gold Mine will be 1,437.2 kt (including Indicated Mineral Resources of 849.6 kt and Inferred Mineral Resources of 587.6 kt).

Furthermore, based on the audited financial information of the Project Company, the Project Company recorded revenue of approximately RMB83.1 million, RMB90.7 million and RMB106.5 million, and net profit of approximately RMB28.2 million, RMB20.8 million and RMB21.5 million for the years ended 31 December 2014, 31 December 2015, and the six months ended 30 June 2016, respectively. Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company. The results and assets and liabilities of the Target Group will be consolidated with, and accounted for as subsidiaries using the acquisition method of accounting in the Company's consolidated financial statements.

Taking into account (i) the strategic location of the Gold Mine; (ii) the resources under the existing mineral tenements of the Project Company; (iii) the additional resources upon obtaining of the new Exploration Licence; and (iv) the relatively stable revenue stream and the profit-making track record of the Project Company, the Directors are of the view that the Acquisition will enable the Group to broaden its revenue base and enhance its financial conditions, as well as provide growth potential to the Group.

In respect of the overall gold industry in China, the Directors remain optimistic over its long-term development and outlook in view of the intrinsic value of gold as a cornerstone of a country's currency, credit and global strategic reserves. According to the World Gold Council, China's official gold holdings was estimated at approximately 1,834 tonnes, representing approximately 5.6% of the world's total, and ranked sixth after the United States, Germany, the International Monetary Fund (the "IMF"), Italy and France, with the United States' official gold holdings being estimated at approximately 8,134 tonnes, representing approximately 24.7% of the world's total as of August 2016. However, as a percentage of a country's foreign reserves, China's official gold holdings accounted for approximately 2.4% of its foreign reserves only, as compared to the United States of approximately 75.8%, Germany of approximately 69.6%, Italy of approximately 69.2% and France of approximately 66.6% of their respective foreign reserves.

According to the United States Geological Survey, China's gold mine reserves was estimated at approximately 1,900 tonnes with an annual gold mine production of approximately 490 tonnes in 2015, while the gold mine reserves of the world and the United States were estimated at approximately 56,000 tonnes and 3,000 tonnes, respectively, with annual gold mine production of approximately 3,000 tonnes and 200 tonnes, respectively. China's gold mine production represents approximately 16.3% of the world's total, making China the world's largest producer. The above figures also indicate a notably higher rate of annual gold mine production to reserves for China as compared to the world's total and the United States.

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Furthermore, the Shanghai Gold Exchange has on 19 April 2016 launched the first ever yuan-denominated gold benchmark price in history — the “Shanghai Gold Benchmark Price” which is seen to be a milestone in the internationalisation of China’s gold industry and a stepping stone to a new multi-axis trading market consisting of London, New York and Shanghai, signalling the increasing influence of China in the global gold market.

Having considered the above, the Directors are of the view that the Acquisition is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

POSSIBLE FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company. The results and assets and liabilities of the Target Group will be consolidated with, and accounted for as subsidiaries using the acquisition method of accounting in the Company’s consolidated financial statements.

Effect on assets/liabilities

As extracted from the interim report of the Company for the six months ended 30 June 2016 (the “**Interim Report**”), the consolidated total assets and total liabilities of the Group were approximately HK\$786.0 million and HK\$163.6 million, respectively as at 30 June 2016.

With reference to the unaudited pro forma financial information on the Enlarged Group as contained in Appendix IV to this circular, the Enlarged Group’s total assets and total liabilities would be increased to approximately HK\$1,215.6 million and HK\$293.9 million, respectively upon Completion, assuming Completion took place on 30 June 2016.

Effect on earnings

In light of the potential future prospects of the Target Group, as well as the Project Company’s track record in generating revenue and profits, the Directors are of the view that the Acquisition would likely have a positive impact on the future earnings of the Enlarged Group.

Effect on gearing

As extracted from the Interim Report, the Group’s gearing level (being calculated as total borrowings over equity attributable to owners of the Company) was approximately 13.1% as at 30 June 2016. Upon Completion, according to the unaudited pro forma financial information on the Enlarged Group as contained in Appendix IV to this circular, the total borrowings of the Enlarged Group would remain the same while the Enlarged Group’s equity attributable to owners of the Company would be increased to approximately HK\$897.7 million. The Enlarged Group’s gearing level would thus become approximately 9.1% upon Completion, assuming Completion took place on 30 June 2016.

It should be noted that the aforesaid estimations are for illustrative purpose only and do not purport to represent how the financial position of the Enlarged Group will be after the Completion.

LETTER FROM THE BOARD

INDUSTRY OVERVIEW

Gold is a precious metal that is commonly used as a commodity and a monetary asset. As a commodity, gold is primarily used in the production of jewellery, coinage, electronics and other industrial and decorative applications. As a monetary asset, gold is primarily used for monetary exchange and investment purposes.

Global supply of gold

The world's supply of gold mainly comes from mine supply and recycled gold, with mine supply being the largest source of gold supply and accounting for approximately 73.0% and 74.2% of the global total supply of gold in 2014 and 2015 respectively, according to the World Gold Council (the "WGC").

The following table sets out the global gold supply by sources for the years indicated:

	2014 <i>(tonnes)</i>	2015 <i>(tonnes)</i>
Total mine supply	3,257	3,235
Mine production	3,153	3,221
Net producer hedging	105	14
Recycled gold	<u>1,202</u>	<u>1,123</u>
Total supply	<u>4,459</u>	<u>4,358</u>

Source: "Gold Demand Trends: Second quarter 2016", published by the WGC in August 2016

Note: Numbers may not add up to the total due to rounding.

According to the data and estimates from the United States Geological Survey (the "USGS"), China, Australia, Russia, the United States, Canada, and Peru are the major gold producing countries in the world, which collectively contributed approximately 51.1% of the global gold mine production in 2015. China remained the world's largest producer of gold in 2015. China's gold mine production increased from approximately 450 tonnes in 2014 to approximately 490 tonnes in 2015, representing an increase of approximately 8.9%. China's gold mine production accounted for approximately 16.3% of the world's total in 2015.

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The following table sets out the global gold mine production by major producing countries for the years indicated:

Country	Gold mine production	
	2014 (tonnes)	2015 (tonnes)
Australia	274	300
Brazil	80	80
Canada	152	150
China	450	490
Ghana	91	85
Indonesia	69	75
Mexico	118	120
Papua New Guinea	53	50
Peru	140	150
Russia	247	242
South Africa	152	140
United States	210	200
Uzbekistan	100	103
Other countries	858	855
World total (rounded)	2,990	3,000

Source: "Mineral Commodity Summaries 2016", published by the USGS in January 2016

Notes:

1. The 2015 figures are based on estimation made by the USGS.
2. The global mine production amounts from the USGS are slightly different from those of the WGC.
3. Numbers may not add up to the total due to rounding.

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World official gold holdings

According to the WGC, the world's total official gold holdings was approximately 32,978 tonnes as of August 2016. China ranked sixth in the world in terms of official gold holdings (in tonnes), though, China's official gold holdings (in value) only represented 2.4% of its total foreign reserve. The following table sets out the top 10 reported official gold holdings held by central banks and the IMF as of August 2016:

	Official gold holdings (tonnes)	% of the country's foreign reserves
United States	8,134	75.8%
Germany	3,378	69.6%
IMF	2,814	—
Italy	2,452	69.2%
France	2,436	66.6%
China	1,834	2.4%
Russia	1,526	16.3%
Switzerland	1,040	6.4%
Japan	765	2.6%
Netherlands	613	64.1%
World total	32,978	—

Source: "World Official Gold Holdings", published by the WGC in October 2016

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Global demand for gold

World gold demand can be divided into the following categories: (i) fabrication; (ii) bar and coin demand; (iii) exchange traded funds (“ETFs”) and similar products; and (iv) central banks and other institutions. According to the WGC, the global demand for gold amounted to approximately 4,288 tonnes and 4,260 tonnes in 2014 and 2015 respectively.

The following table sets out the global gold demand by sources for the years indicated:

	2014 <i>(tonnes)</i>	2015 <i>(tonnes)</i>
Fabrication	2,851	2,772
Jewellery	2,503	2,439
Technology	348	333
Total bar and coin demand	1,038	1,050
ETFs and similar products	(184)	(128)
Central banks and other institutions	584	567
Gold demand	4,288	4,260
Surplus	171	98
Total demand	4,459	4,358

Source: “Gold Demand Trends: Second quarter 2016”, published by the WGC in August 2016

Note: Numbers may not add up to the total due to rounding.

The term “consumer demand” is generally used by the WGC to describe the amount of gold purchased directly by individuals, being the sum of jewellery consumption and total bar and coin investment occurring within a country. According to the WGC, China ranked first in terms of consumer demand for gold, which amounted to approximately 982 tonnes and accounted for approximately 28.5% of the world’s total of approximately 3,447 tonnes in 2015. Other countries with the highest consumer demand for gold include India, the United States and Germany, according to the data from the WGC.

LETTER FROM THE BOARD

The following table sets out the world consumer demand for gold by countries for 2015:

Country	2015 <i>(tonnes)</i>
India	864
China	982
Hong Kong	53
Japan	33
Indonesia	59
Thailand	90
Vietnam	63
Saudi Arabia	86
Egypt	43
UAE	60
Turkey	72
Russia	46
United States	191
United Kingdom	35
Germany	126
Switzerland	49
Others	594
World total	<u><u>3,447</u></u>

Source: “Gold Demand Trends: Second quarter 2016”, published by the WGC in August 2016

Note: Numbers may not add up to the total due to rounding.

Gold prices

The gold markets include gold spot and gold futures markets. Market forces, based on over-the-counter transactions and global trading on a number of exchanges, determine the price of gold.

The following graph sets out the international daily closing spot price of gold from 2 January 2006 to the Latest Practicable Date:



Source: Bloomberg

LETTER FROM THE BOARD

Gold prices have experienced a substantial increase over the past decade. The closing spot price of gold as at the Latest Practicable Date of US\$1,268.40 per troy ounce was nearly 2.5 times higher than that of US\$516.88 per troy ounce on 2 January 2006. From 2006, gold prices saw a continuous rising trend until reaching its all-time record price of US\$1,900.20 per troy ounce in 5 September 2011. In 2012, gold prices began experiencing fluctuations due to the global economic downturn and the uncertainties arising from the European debt crisis. The downward trend in gold prices continued until the end of 2015 due to a number of factors including, among others, the strengthening of the U.S. dollar and the interest rate hike by the U.S. Federal Reserve. Since the beginning of 2016, gold prices have experienced an increasing trend and was further boosted by the result of the United Kingdom's referendum to leave the European Union on 24 June 2016. Gold prices have rebounded from its six-year low of US\$1,051.10 per troy ounce on 17 December 2015 to reach its two-year high of US\$1,366.33 per troy ounce on 8 July 2016, representing an increase of approximately 30%.

RISK FACTORS

Set out below are the risk factors which may be associated with the Acquisition:

Fluctuation in the price and demand of gold

The price of gold in the PRC is highly influenced by the price of gold in the international market. The Directors consider that there are many factors that may influence the price and demand of gold in the international market, including but not limited to the stability of the international economic situation and the fluctuation of the global political and social condition and the global gold reserves, all of which are beyond the control of the Enlarged Group. Moreover, there is a possibility that the prices of commodities may fall to lower levels and the future price movement of gold (whether upward or downward) are unpredictable at this moment.

The PRC government regulations on the gold mining industry

The gold mining industry is subject to various government policies and regulations, including but not limited to exploitation, development, production, taxation, labour standard, vocational health and safety, waste treatment, environment monitoring, protection and control, operation management and other issues. Any changes to those policies and local government requirements may affect or cause suspension in the operation of the Project Company or increase the operating costs of the Project Company and hence, adversely affect the operating results of the Enlarged Group.

There is no assurance that the Target Group will be able to comply with all government policies, regulations and requirements that are adopted or amended in the future. Failure to comply with such laws, regulations and requirements could lead to punitive governmental measures, including forced suspension of operations, which may have a material adverse effect on the financial condition and results of the Target Group.

LETTER FROM THE BOARD

Uncertainties associated with the licences, approvals and permits required for the business operations of the Project Company

The carrying out of the Project Company's exploration, mining and relevant production activities requires the obtaining of certain licences, approvals and permits, including, but not limited to, the Mining Licences, the Exploration Licence, the Gold Mining Approval and the Production Safety Permits under the relevant laws and regulations in the PRC. The Project Company must comply with the restrictions and conditions imposed by various levels of governmental authorities to obtain and/or maintain such licences, approval, permits and qualifications.

As at the Latest Practicable Date,

- (i) a new Exploration Licence, covering the adjoining area of Q401 and the area formerly covered under the exploration licence (Q4114) of the Project Company (which was expired on 2 August 2016) with a total area of 16.23 km², has been submitted to the relevant government authority on 13 January 2016. While the approval for the said application has been received by the Project Company on 29 July 2016 and Tian Yuan is of the view that, the Project Company has completed the critical approval procedures for the obtaining of the said Exploration Licence, and there shall not be practical legal impediments for the Project Company to obtain the same from the relevant government authority, there is no assurance that such licence would be obtained from the relevant governmental authority;
- (ii) Mining Licence for Q4112 gold vein (#C6100002013064110130335) was held by Jinxing Mining, a nominee holder for the Project Company, and the Project Company was in the process of applying for the change of name of holder of such Mining License. While Tian Yuan is of the view that, upon undertaking the necessary procedures and submitting the necessary documents, there shall not be practical legal impediments in relation to the change of name of holder of such Mining License, there is no assurance that such approval would be obtained from the relevant governmental authority; and
- (iii) Production Safety Permit for Q4112 is held by Jinxing Mining, a nominee holder for the Project Company. Upon completion of the change of name of holder of the Mining Licence #C6100002013064110130335 as discussed above, the Project Company will apply for the change of name of holder of such Production Safety Permit. While the Tian Yuan is of the view that there shall not be practical legal impediments for the Project Company to complete the change of name of holder of such Production Safety Permit upon undertaking the necessary regulatory procedures and submitting the relevant application documents as required, there is no assurance that such approval would be obtained from the relevant governmental authority.

Please refer to the sections headed "Licences, Approvals and Permits" in this Letter from the Board for further details.

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There is also no assurance that the relevant governmental authorities would not have any objection to the carrying out of the production and operating activities by the Project Company or impose any penalties on the Project Company for not holding such licences, approvals and permits in future. Further, if the Project Company fails to comply with applicable regulations or satisfy any of the conditions required for the maintenance of its licences, approvals, permits, such licences, approvals and permits could be downgraded, suspended or even revoked, or the renewal thereof, upon expiry of their original terms, may be delayed or rejected, which could materially and adversely impact the business, financial condition and results of operations of the Target Group.

In order to ensure the compliance with the restrictions and conditions required for maintaining such licences, approvals and permits for the business operations of the Project Company, the PRC governmental authorities at various levels conduct routine or special inspections, examinations, inquiries and audits on it. The Project Company may be subject to suspension or revocation of the relevant licences, approvals or permits, fines or other penalties due to any non-compliance discovered as a result of such inspections, examinations, inquiries and audits. There is no assurance that the Project Company will be able to maintain or renew its existing licences, approvals and permits or obtain future licences, approvals and permits required for its future continued operation on a timely basis or at all. In the event that the Project Company fails to comply with applicable laws and regulations or fails to maintain, renew or obtain the necessary updated licences, approvals and permits, its qualification to conduct its business and hence, its business, financial condition and results of operations may be adversely impacted.

Reliance on the processing of third party ores

The Processing Plant may not be able to maintain its existing operation at its current cost, processing route and capacity utilisation as it is dependent on the gold veins of the Gold Mine as well as other third party ores for ore feed. Despite that the Project Company has entered into long-term supply contracts with third parties for the supply of gold ores which are legally binding, there is no assurance that the signed contracts with third parties for the supply of gold ores will be executed with the minimum quantity stated in the contracts secured or such contracts will be renewed or renewed at a similar cost or quantity. There is also no assurance that the Processing Plant can secure a long term and stable source of supply of third party ore for processing so as to allow it to run at its full capacity and to continue the toll treatment of the third party ores. If the Project Company is unable to secure the said contracts with third parties or there is any breach of contracts or failure in performance by the third parties of their obligations under such contracts, there may be a material adverse effect on the business, prospects, financial condition and results of operations of the Target Group.

Production safety and environmental protection

As a company engaging in mining and processing of mineral resources in the PRC, production safety and environmental protection are crucial areas affecting the operations of the Project Company. The PRC government continues to strengthen the enforcement of safety and environmental protection regulations in relation to the mining industry. No assurance can be given that more stringent laws, regulations or policies in these two respects will not be implemented or that the existing laws, regulations or policies will

LETTER FROM THE BOARD

not be more stringently enforced. Should the Project Company fail to comply with any production safety as well as environmental protection laws or regulations, it would be required to rectify those problems within a limited period, failing to do so will result in suspension of operations. In addition to rectification or operation suspension, fines may also be imposed in accordance with the PRC laws.

Uncertainties associated with gold reserves and certain other data

The estimated amount of gold reserves, projected production volumes, turnover and capital expenditures of the Gold Mine are based on a number of professional estimates and assumptions on principal factors and variables, which may deviate from the actual conditions of the Gold Mine, and which may be beyond the Company's control. The actual amount of gold reserves of the Gold Mine may deviate from the amounts estimated by the Independent Technical Consultant, and there is no assurance that the exploitation work to be performed by the Enlarged Group can lead to discovery of economically feasible reserves. The production volumes, turnover and capital expenditures of the Gold Mine may also differ from the estimated amount.

In addition, the Valuation which involves various assumptions may or may not effectively reflect the true value of the Target Group and the Enlarged Group may not be able to expand the production capacity of the Gold Mine to ascertain the assumed daily production capacity of 475 tonnes under the Valuation.

In addition, the Mineral Resource estimates are based on a number of assumptions that have been made by the Independent Technical Consultant in accordance with the JORC Code. For details, please refer to the Independent Technical Report set out in Appendix V to this circular. Mineral Resource estimates stated in this circular involve an element of judgement based on industry knowledge, experience and industry practice, while the accuracy of such estimates may be affected by factors such as quality of geological exploration results, drilling and analysis of gold samples, and the procedures adopted by and the experience of the person making the estimates.

Although the estimates on Mineral Resource described in this circular are in accordance with standard evaluation methods generally used in the international mining industry and the JORC Code, these estimates may need to be revised from time to time to take into account new information and new interpretations on which the estimate are based on. Should the actual Mineral Resource levels and quality differ substantially from that predicted by past drilling, sampling and similar examination, the Mineral Resource estimates may require a downward adjustment which could materially and adversely affect the business, financial condition, results of operation and future prospect of the Target Group.

The properties of the gold ultimately mined may differ from those indicated by drilling results. Should the gold ore mined be of a lower quality than expected, the demand for, and the realizable price of the gold ore may decrease, which could materially and adversely affect the business, financial condition, results of operation and future prospect of the Target Group.

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There is no guarantee that the Mineral Resource disclosed in this circular can be economically exploited in the future and nothing contained herein should be interpreted as in assurance of the economic value of the Mineral Resource or the profitability of the future operations.

Uncertainties associated with the ability of the Gold Mine and the Processing Plant to produce revenue

The Gold Mine has been in production and profit making for each of the three years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2016. However, there is no assurance that significant additional resources will be discovered within, below and adjacent to the currently defined mineral resources. Please refer to the section headed “Mineral Resource Statement” in the Independent Technical Report for further details.

Moreover, the Processing Plant is not wholly dependent on the gold veins of the Gold Mine of the Target Group but also third party ores for ore feeds and consequent revenue. The overall processing capacity utilisation is therefore subject to, among other things, the supply of third party ore to the Processing Plant, which is contingent on the ore supply agreements between the Target Group and the third parties.

Reliance on senior management and technical staff

In the event that members of the senior management or technical staff cease to serve the Target Group or fail to perform their duties as expected in the future, or the Enlarged Group is unable to recruit and train up key and management personnel and technical staff, the Target Group’s operations may be materially adversely affected.

Significant and continuous capital investment

The mining business requires significant and continuous capital investment. Natural resources production projects may not be completed as originally planned or scheduled, may exceed the original budgets and may not achieve the intended economic results or commercial viability. Thus, the actual capital investment for operations and development of the Project Company may significantly exceed the Enlarged Group’s budgets because of factors beyond the Enlarged Group’s control.

Operation risks

The Project Company’s exploration, mining and processing businesses are subject to a number of risks and hazards, including but not limited to environmental pollution, accidents or spills, industrial and transportation accidents, unexpected labour shortages and compensatory claims, disputes or strikes, cost increases for contracted and/or purchased goods and services, shortages of required materials and supplies, water supply or electrical power interruptions, mechanical and electrical equipment failure, changes in the regulatory environment, natural phenomena such as inclement weather conditions, floods, earthquakes, pit wall failures, tailings dam failures and cave-ins, parallel structure unusual

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or unexpected climatic conditions which may or may not result from global warming, and parallel structure unusual or unexpected geological conditions. The occurrence of the above risks and hazards may disrupt or result in a suspension of operations of the Project Company, increase production costs, result in liability to the Project Company and/or harm its reputation. Such risks and hazards may also result in a breach of the conditions of its mining licences and exploration rights, or any other consents, approvals or authorisations, with consequent exposure to enforcement procedures or even possible revocation of its mining licences and/or exploration rights. Any one or a combination of the factors above may materially and adversely affect the financial condition and results of operations of the Project Company.

The Acquisition will increase the level of risk exposure of the Enlarged Group. Shareholders should be aware of the aforementioned risk factors, which may not be exhaustive, when considering the Acquisition.

No assurance for the accuracy of facts, projections, other statistics and information derived from various official government publications referred to in this circular.

Facts, projections, other statistics and information in this circular relating to the gold industry have been derived from various official government publications or industry sources or obtained from the World Gold Council. The Company believes that these publications are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. The Company has no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. However, there is no guarantee of the quality or reliability of the source materials. They have not been prepared or independently verified and, therefore, the Company makes no representation as to the accuracy of such facts, forecasts, statistics and information, which may not be consistent with other information compiled elsewhere. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, the facts, forecasts, statistics and information in this circular may be inaccurate or may not be comparable to facts, forecasts, statistics and information produced with respect to other economies. Furthermore, there is also no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. Hence, Shareholders and public investors of the Company should not unduly rely upon the facts, forecasts, statistics and information with respect to the gold industry contained in this circular.

IMPLICATIONS UNDER THE LISTING RULES

Pursuant to Rule 14.22 of the Listing Rules, the Acquisition was aggregated with the Previous Acquisition so that the two transactions thereunder were treated as if they were one transaction. As the applicable percentage ratios (as defined under the Listing Rules) in respect of the Acquisition, aggregated with the Previous Acquisition, are more than 25% and less than 100%, the Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement, circular and Shareholders' approval requirements under the Listing Rules.

LETTER FROM THE BOARD

The SGM will be held to consider and, if thought fit, pass the ordinary resolution(s) to approve the Agreement and the transactions contemplated thereunder, including the allotment and issue of the Consideration Shares under the Specific Mandate. Given no Shareholder has any material interest in the Acquisition, no Shareholder is required to abstain from voting at the SGM in respect of the resolution(s).

As Completion is subject to the fulfillment of a number of conditions precedent which are detailed in this circular, the Acquisition may or may not be completed. Shareholders and potential investors should exercise caution when dealing in the Shares.

THE SGM

A form of proxy for use by the Shareholders at the SGM is enclosed with this circular. To be valid, the form of proxy must be completed in accordance with the instructions printed thereon and returned, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of that power of attorney or authority, to the Company's branch share registrar in Hong Kong, Union Registrars Limited of Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, 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 or any adjournment thereof. Completion and delivery of the form of proxy will not preclude you from attending and voting at the SGM or any adjournment thereof if you so wish.

RECOMMENDATION

Having taken into account of the information set out above, the Board considers that the terms of the Agreement are on normal commercial terms and were negotiated on an arm's length basis between the parties involved and are fair and reasonable so far as the Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the ordinary resolutions relating to the Agreement and the transactions contemplated thereunder at the SGM.

ADDITIONAL INFORMATION

Your attention is drawn to the information set out in the appendices and the notice of the SGM set out in this circular.

By Order of the Board
China Mining Resources Group Limited
Yeung Kwok Kuen
Executive Director

A. THREE-YEAR FINANCIAL INFORMATION

Financial information of the Group for each of the three financial years ended 31 December 2013, 2014 and 2015 are disclosed in the annual reports of the Company for the years ended 31 December 2013 (pages 36 to 130), 2014 (pages 41 to 140) and 2015 (pages 39 to 123), respectively. The auditors of the Company have not issued any qualified opinion on the Group's financial statements for the financial years ended 31 December 2013, 2014 and 2015.

Quick links

Annual reports of the Company for the financial years ended 31 December 2013, 2014 and 2015 are available at the following internet links:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0416/LTN20140416779.pdf>

<http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0423/LTN201504231366.pdf>

<http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0420/LTN20160420539.pdf>

B. INDEBTEDNESS OF THE ENLARGED GROUP

As at the close of business on 31 August 2016, being the latest practicable date for the purpose of this indebtedness statement, the Enlarged Group had secured bank loans of approximately HK\$80,698,000 with interest bearing at 5.00% — 5.46% per annum. The Enlarged Group's certain buildings, prepaid lease payment and a forest use right with an aggregated carrying value of approximately HK\$Nil and approximately HK\$15,041,000, and approximately HK\$5,789,000, respectively as at 31 August 2016 are pledged to banks to secure general banking facilities granted to the Enlarged Group.

Save as otherwise disclosed above, and apart from intra-group liabilities and normal trade payables in the ordinary course of business, the Enlarged Group did not have, at the close of business on 31 August 2016, any other debt securities issued and outstanding, or authorised or otherwise created but unissued, any other term loans, any other borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptance (other than normal trade bills) or acceptance credits or hire purchase commitments, any other mortgages and charges or any guarantees or any finance lease commitments or material contingent liabilities, other than the litigation disclosed in Appendix VII to this circular.

Save as disclosed above, the Directors were not aware of any material changes in the indebtedness and contingent liabilities of the Enlarged Group after 31 August 2016 and up to the Latest Practicable Date.

C. WORKING CAPITAL STATEMENT OF THE ENLARGED GROUP

After taking into account the financial resources available to the Enlarged Group, including internally generated funds and available banking facilities of the Enlarged Group, the Directors after due and careful enquiry are of the opinion that the Enlarged Group will have sufficient working capital for at least 125% of its present requirements for at least the 12 months from the date of publication of this circular, in the absence of unforeseeable circumstances.

D. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2015, being the date on which the latest published audited consolidated financial statements of the Group were made up.

E. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

Upon Completion, the Group will be principally engaged in (i) the production and sale of tea products; and (ii) the exploration, mining, processing and sale of gold and related products.

As stated in the annual report of the Company for the year ended 31 December 2015, the pessimistic spending sentiment has been affecting the tea business market and the overall economy in the PRC. The Company anticipates that the economic outlook for 2016 will be ever more challenging, especially for premium branded products. Looking ahead, the operating environment of the tea industry in the PRC would remain tough and be surrounded by uncertainties. Notwithstanding the unfavourable market conditions currently facing the tea business, the Group will continue to devote its efforts to further strengthen its existing tea products under “Wuyi star” and “Wuyi” brands, to develop and launch new and exclusive tea products, to optimize its distribution network and coverage so that its products can be more easily reached by the niche population that are looking for quality tea products, and to explore new sales platforms and channels to broaden its customer base.

In view of the challenging market conditions currently facing the tea business, the Group has been exploring potential investment opportunities with a view to broaden its revenue base and increase Shareholders’ value. Taking into account the factors as discussed in the section headed “Reasons for and benefits of the Acquisition” in this circular, the Company is optimistic over the future development and prospects of the Project Company and the gold mining industry in China as a whole. It is the intention of the Group to devote sufficient resources to the development of the Gold Mine and the Processing Plant including, but not limited to, to conduct further exploration work as well as to expand the mining and processing capacity. Based on the above and leveraging on the Group’s expertise and experience in the natural resources industry, the Company believes that the Acquisition will enhance the financial conditions of the Group as well as provide the Group with growth potential.

As at the Latest Practicable Date, the Company does not have any intention, arrangement, agreement, understanding or negotiation on any disposal, termination or scaling down of its existing business of production and sale of tea products. Nonetheless, the Directors will from time to time review the strategic direction of the Group and explore options to make further acquisitions or disposal of the Group's businesses for the benefits of the Shareholders.

Going forward, the Group will continue to explore possible new investment opportunities including opportunities in the mining sector as well as other opportunities with business potential that are in line with the Group's long-term development strategy to diversify the Group's business streams, thereby to further expand the Group's source of revenue and improve its profitability so as to enhance the long-term benefits of the Company and the Shareholders as a whole. More particularly, when assessing a potential acquisition or investment opportunity, the Board will take into consideration, among other things, the operating environment, prospect and growth potential of the industry in which the potential target operates, and the financial track record of the potential target and its capability of providing a stable and visible income stream to enhance the profitability of the Group. As at the Latest Practicable Date, no acquisition or investment opportunity has been identified by the Company save for the Acquisition.



31 October 2016

The Board of Directors
China Mining Resources Group Limited
Room 1306, 13/F
Bank of America Tower
12 Harcourt Road
Admiralty
Hong Kong

Dear Sirs/Madams,

We set out below our report on the financial information (the “Financial Information”) of One Champion International Limited (“One Champion”) and its subsidiaries (collectively referred to as the “One Champion Group”) which comprises the consolidated statements of financial position of the One Champion Group as at 31 December 2015 and 30 June 2016, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the One Champion Group for the period from 2 January 2015 (date of incorporation) to 31 December 2015 and the six months ended 30 June 2016 (the “Relevant Periods”) and a summary of significant accounting policies and other explanatory information. This Financial Information has been prepared by the sole director of One Champion for inclusion in Appendix II-A to the circular dated 31 October 2016 (the “Circular”) issued by China Mining Resources Group Limited (the “Company”) in connection with its proposed acquisition of the remaining 73% of the total issued share capital of One Champion (the “Transaction”).

One Champion was incorporated in the British Virgin Islands (the “BVI”) with limited liability on 2 January 2015. The addresses of One Champion’s registered office and principal place of business are OMC Chambers, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands and Unit A, 20/F., Eton Building, 288 Des Voeux Road Central, Hong Kong, respectively. One Champion is principally engaged in investment holding.

As at the date of this report, no statutory financial statements have been prepared for One Champion, as it is not subject to statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation.

APPENDIX II-A FINANCIAL INFORMATION OF THE TARGET GROUP

As at the end of the Relevant Periods, One Champion had direct and indirect interests in the subsidiaries as set out in Note 1 to the Financial Information. All companies now comprising the One Champion Group have adopted 31 December as their financial year end dates. The statutory financial statements of the companies now comprising the One Champion Group were prepared in accordance with the relevant accounting principles applicable to these companies in the countries in which they were incorporated and/or established. Details of their statutory auditors during the Relevant Periods are set out in Note 1 to the Financial Information.

For the purpose of this report, the sole director of One Champion has prepared the consolidated financial statements of the One Champion Group for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (collectively the “Underlying Financial Statements”).

We have undertaken an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements. No adjustments have been made by us to the Underlying Financial Statements in preparation of this report for inclusion in the Circular. The preparation of the Underlying Financial Statements is the responsibility of the sole director of One Champion. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

OPINION

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the financial position of the One Champion Group as at 31 December 2015 and 30 June 2016, and of its financial performance and cash flows for the Relevant Periods.

COMPARATIVE FINANCIAL INFORMATION

The unaudited comparative consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the One Champion Group for the period from 2 January 2015 (date of incorporation) to 30 June 2015 together with the notes thereon have been extracted from the unaudited financial information of the One Champion Group for the same period (the “**30 June 2015 Financial Information**”) which was prepared by the sole director of One Champion solely for the purpose of this report. We have reviewed the 30 June 2015 Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. Our review of the 30 June 2015 Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion on the 30 June 2015 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the 30 June 2015 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with HKFRSs.

APPENDIX II-A FINANCIAL INFORMATION OF THE TARGET GROUP

(A) FINANCIAL INFORMATION OF ONE CHAMPION INTERNATIONAL LIMITED AND ITS SUBSIDIARIES

The following is the financial information of One Champion International Limited (“One Champion”) and its subsidiaries (collectively referred to as the “One Champion Group”) prepared by the sole director of One Champion as at 31 December 2015 and 30 June 2016 and for the period from 2 January 2015 (date of incorporation) to 31 December 2015 and the six months ended 30 June 2016 (the “Relevant Periods”) (collectively known as the “Financial Information”).

Consolidated Statements of Profit or Loss and Other Comprehensive Income

		For the period from 2 January 2015 (date of incorporation) to 31 December 2015	For the period from 2 January 2015 (date of incorporation) to 30 June 2015	Six months ended 30 June 2016
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i>
Revenue	7	16,298	—	126,121
Cost of sales		<u>(22,807)</u>	<u>—</u>	<u>(94,908)</u>
Gross (loss) profit		(6,509)	—	31,213
Other income	9	24	4	15
Gain on bargain purchase	29	35,693	—	—
Administrative expenses		(3,360)	(728)	(6,783)
Finance costs	10	<u>(291)</u>	<u>—</u>	<u>(1,933)</u>
Profit (loss) before tax		25,557	(724)	22,512
Income tax credit (expenses)	11	<u>1,179</u>	<u>—</u>	<u>(3,844)</u>
Profit (loss) for the period	12	<u>26,736</u>	<u>(724)</u>	<u>18,668</u>

APPENDIX II-A FINANCIAL INFORMATION OF THE TARGET GROUP

	For the period from 2 January 2015 (date of incorporation) to 31 December 2015 HK\$'000	For the period from 2 January 2015 (date of incorporation) to 30 June 2015 HK\$'000 (Unaudited)	Six months ended 30 June 2016 HK\$'000
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of financial statements of foreign operations	(1,833)	—	(4,947)
Total comprehensive income for the period	<u>24,903</u>	<u>(724)</u>	<u>13,721</u>
Profit (loss) for the period attributable to:			
Owners of One Champion	27,446	(724)	16,495
Non-controlling interests	(710)	—	2,173
	<u>26,736</u>	<u>(724)</u>	<u>18,668</u>
Total comprehensive income attributable to:			
Owners of One Champion	26,233	(724)	11,898
Non-controlling interests	(1,330)	—	1,823
	<u>24,903</u>	<u>(724)</u>	<u>13,721</u>

APPENDIX II-A FINANCIAL INFORMATION OF THE TARGET GROUP

Consolidated Statements of Financial Position

	<i>Notes</i>	At 31 December 2015 HK\$'000	At 30 June 2016 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	99,320	104,190
Prepaid lease payments — non-current portion	16	4,529	4,375
Intangible assets	17	85,668	112,117
Deferred tax assets	26	837	1,148
		190,354	221,830
CURRENT ASSETS			
Inventories	18	12,635	2,641
Trade and other receivables	19	24,874	59,779
Prepaid lease payments	16	113	111
Amounts due from shareholders	20	390	390
Bank balances and cash	21	5,715	86,443
		43,727	149,364
CURRENT LIABILITIES			
Trade and other payables	22	113,026	82,054
Amount due to the sole director	23	50,332	1,744
Provisions	24	3,978	4,479
Tax liabilities		13,493	15,892
		180,829	104,169
NET CURRENT (LIABILITIES) ASSETS		(137,102)	45,195
TOTAL ASSETS LESS CURRENT LIABILITIES		53,252	267,025
NON-CURRENT LIABILITIES			
Loan and loan interest payables	25	—	200,933
Deferred tax liabilities	26	11,564	10,683
		11,564	211,616
NET ASSETS		41,688	55,409
CAPITAL AND RESERVES			
Share capital	27	390	390
Reserves		26,233	38,131
		26,623	38,521
Equity attributable to owners of One Champion		26,623	38,521
Non-controlling interests		15,065	16,888
TOTAL EQUITY		41,688	55,409

APPENDIX II-A FINANCIAL INFORMATION OF THE TARGET GROUP

Consolidated Statements of Changes In Equity

	Attributable to owners of One Champion							Total HK\$'000
	Share capital HK\$'000	Statutory surplus reserve HK\$'000 (Note a)	Other reserves HK\$'000 (Note b)	Translation reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000	Non- controlling interests HK\$'000	
Issue of shares upon incorporation	390	—	—	—	—	390	—	390
Profit (loss) for the period	—	—	—	—	27,446	27,446	(710)	26,736
Other comprehensive income, net of income tax Exchange differences arising on translation of financial statements of foreign operations	—	—	—	(1,213)	—	(1,213)	(620)	(1,833)
Total comprehensive income for the period	—	—	—	(1,213)	27,446	26,233	(1,330)	24,903
Acquisition of subsidiaries (Note 29)	—	—	—	—	—	—	16,395	16,395
Appropriation of safety production fund Safety production fund utilised in the current period	—	—	231	—	(231)	—	—	—
	—	—	(231)	—	231	—	—	—
At 31 December 2015 and 1 January 2016	390	—	—	(1,213)	27,446	26,623	15,065	41,688
Profit for the period	—	—	—	—	16,495	16,495	2,173	18,668
Other comprehensive income, net of income tax Exchange differences arising on translation of financial statements of foreign operations	—	—	—	(4,597)	—	(4,597)	(350)	(4,947)
Total comprehensive income for the period	—	—	—	(4,597)	16,495	11,898	1,823	13,721
Transfer	—	2,279	—	—	(2,279)	—	—	—
Appropriation of safety production fund Safety production fund utilised in the current period	—	—	530	—	(530)	—	—	—
	—	—	(330)	—	330	—	—	—
At 30 June 2016	390	2,279	200	(5,810)	41,462	38,521	16,888	55,409
For the period from 2 January 2015 (date of incorporation) to 30 June 2015 (unaudited)								
Issue of shares upon incorporation	390	—	—	—	—	390	—	390
Loss and total comprehensive income for the period	—	—	—	—	(724)	(724)	—	(724)
At 30 June 2015	390	—	—	—	(724)	(334)	—	(334)

Notes:

(a) Statutory surplus reserve

According to the relevant rules and regulations in the People's Republic of China (the "PRC"), the company established in the PRC are required to transfer 10% of their net profit, as determined in accordance with the PRC accounting standards and regulations, to the statutory surplus reserve until the balance of the reserve reaches 50% of their respective registered capital. The transfer to this reserve must be made before distribution of dividends to owners of these PRC subsidiaries. Statutory surplus reserve can be used to set-off previous years' loss, if any, and may be converted into capital in proportion to existing equity owners' equity percentage, provided that the balance after such issuance is not less than 25% of their registered capital.

(b) Other reserves

Pursuant to regulations 安全生產費用提取和使用管理辦法 issued on 14 February 2012 in the PRC relating to the mining industry, the company engaged in mining business is required to provide for safety production fund. The amount is calculated based on the volume of ores excavated each year and at the applicable rate per tonne of ores. The safety production fund will be used to pay for safety expenses in accordance with the rules as stated in PRC Company Law which is not available for distribution to shareholders.

APPENDIX II-A FINANCIAL INFORMATION OF THE TARGET GROUP

Consolidated Statements of Cash Flows

	For the period from 2 January 2015 (date of incorporation) to 31 December 2015 <i>HK\$'000</i>	For the period from 2 January 2015 (date of incorporation) to 30 June 2015 <i>HK\$'000</i> (Unaudited)	Six months ended 30 June 2016 <i>HK\$'000</i>
OPERATING ACTIVITIES			
Profit (loss) before tax	25,557	(724)	22,512
Adjustments for:			
Interest income	(9)	—	(14)
Interest expenses	291	—	1,933
Depreciation of property, plant and equipment	2,167	—	5,900
Amortisation of prepaid lease payments	7	—	56
Amortisation of intangible assets	2,238	—	5,760
Provision for land reclamation and cavity refill cost	137	—	299
Provision for environmental rehabilitation	90	—	295
Gain on bargain purchase	(35,693)	—	—
	<hr/>	<hr/>	<hr/>
Operating cash flows before movements in working capital	(5,215)	(724)	36,741
(Increase) decrease in inventories	(5,075)	—	9,994
Increase in trade and other receivables	(602)	—	(32,426)
Increase (decrease) in trade and other payables	58,386	—	(33,901)
	<hr/>	<hr/>	<hr/>
Cash generated from (used in) operations	47,494	(724)	(19,592)
Income tax paid	—	—	(2,106)
	<hr/>	<hr/>	<hr/>
NET CASH FROM (USED IN) OPERATING ACTIVITIES	47,494	(724)	(21,698)
	<hr/>	<hr/>	<hr/>

APPENDIX II-A FINANCIAL INFORMATION OF THE TARGET GROUP

	For the period from 2 January 2015 (date of incorporation) to 31 December 2015 <i>HK\$'000</i>	For the period from 2 January 2015 (date of incorporation) to 30 June 2015 <i>HK\$'000</i> (Unaudited)	Six months ended 30 June 2016 <i>HK\$'000</i>
INVESTING ACTIVITIES			
Payment for purchase of property, plant and equipment	(12,492)	—	(13,008)
Acquisition of subsidiaries	(110,917)	—	—
Interest received	9	—	14
	<hr/>	<hr/>	<hr/>
NET CASH USED IN INVESTING ACTIVITIES	(123,400)	—	(12,994)
	<hr/>	<hr/>	<hr/>
FINANCING ACTIVITIES			
New loan raised	—	—	199,000
Increase (decrease) in amount due to the sole director	116,175	2,968	(84,193)
Repayment of bank borrowings	(37,285)	—	—
Interest paid	(291)	—	—
	<hr/>	<hr/>	<hr/>
NET CASH FROM FINANCING ACTIVITIES	78,599	2,968	114,807
	<hr/>	<hr/>	<hr/>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,693	2,244	80,115
	<hr/>	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	—	—	5,715
	<hr/>	<hr/>	<hr/>
Effect of foreign exchange rate changes	3,022	—	613
	<hr/>	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, represented by bank balances and cash	5,715	2,244	86,443
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

One Champion International Limited (“One Champion”) was incorporated in the British Virgin Islands (“BVI”) with limited liability on 2 January 2015.

One Champion acts as an investing holding company. One Champion and its subsidiaries (collectively referred to as the “One Champion Group”) are principally engaged in the exploration, mining, processing and sale of gold and related products.

As at the end of the Relevant Periods, One Champion had direct and indirect interests in its subsidiaries, all of which are private limited liability company (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name of subsidiaries	Place and date of incorporation/ establishment and place of business	Nominal value of issued/registered share capital	Percentage of equity interest attributable to One Champion		Principal activities
			Directly	Indirectly	
Champion Lucky Limited <i>(Note a)</i>	Hong Kong 18 February 2015	HK\$1	100%	—	Investment holding
陝西福瑞永成礦業有限公司 (transliterated as Shaanxi Furui Rongcheng Mining Co., Ltd*) (“Shaanxi Furui”) <i>(Note b)</i>	PRC 17 April 2015	HK\$40,000,000	—	100%	Investment holding and sale of gold and related products
渭南金東礦業有限公司 (transliterated as Weinan Jindong Mining Co., Ltd*) (Weinan Jindong”) <i>(Note c)</i>	PRC 22 April 2015	RMB35,000,000	—	100%	Investment holding
潼關縣祥順礦業發展有限公司 (transliterated as Tongguan County Xiangshun Mining Development Co., Ltd*) (“Xiangshun Mining”) <i>(Note d)</i>	PRC 26 July 2006	RMB27,500,000	—	90%	Exploration, mining, processing and sale of gold and related products

Notes:

- (a) The statutory financial statements of Champion Lucky Limited for the period 18 February 2015 (date of incorporation) to 31 December 2015 was prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and was audited by Asian Alliance (HK) CPA Limited, certified public accountants registered in Hong Kong. No audited financial statements have been prepared for the six months ended 30 June 2016 as there is no statutory requirement.
- (b) No audited financial statements have been prepared for Shaanxi Furui for the period from 17 April 2015 (date of incorporation) to 31 December 2015 and the six months ended 30 June 2016 as there is no statutory requirement.
- (c) No audited financial statements have been prepared for Weinan Jindong for the period from 22 April 2015 (date of incorporation) to 31 December 2015 and the six months ended 30 June 2016 as there is no statutory requirement.
- (d) The statutory financial statements of Xiangshun Mining for the year ended 31 December 2015 was prepared in accordance with “Accounting Standards for Business Enterprises” issued by the Ministry of Finance of the PRC (the “MOF”) and other relevant requirements (collectively known as the “PRC GAAP”) and was audited by Shenzhen Huatu Certified Public Accountants, certified public accountants registered in the PRC.

* For identification purposes only

APPENDIX II-A FINANCIAL INFORMATION OF THE TARGET GROUP

The addresses of the registered office and principal place of business of One Champion are OMC Chambers, Wickhams Cay 1, Road Town, Tortola, BVI and Unit A, 20/F., Eton Building, 288 Des Voeux Road Central, Hong Kong, respectively.

The functional currencies of the One Champion Group are Hong Kong dollar (“HK\$”) and Renminbi (“RMB”). The Financial Information is presented in HK\$ for the convenience of the investors of the Company as its shares are listed in The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the One Champion Group has adopted all the HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) which are effective for the One Champion Group’s financial period beginning on 1 January 2016 consistently throughout the Relevant Periods.

The One Champion Group has not early adopted the following new and revised HKFRSs that have been issued but are not yet effective during the Relevant Periods:

HKFRS 9	Financial Instruments ²
HKFRS 15	Revenue from Contracts with Customers ²
HKFRS 16	Leases ³
Amendments to Hong Kong Accounting Standard (“HKAS”) 7	Disclosure Initiative ¹
HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ¹
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendments to HKFRS 15	Clarifications to HKFRS 15 <i>Revenue from Contracts with Customers</i> ²

¹ Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

² Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

³ Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

⁴ Effective date to be determined and early application is permitted.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a “fair value through other comprehensive income” (“FVTOCI”) measurement category for certain simple debts instruments.

Key requirements of HKFRS 9:

- All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved

both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless that recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.
- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The sole director of One Champion (the "Sole Director") anticipates that the application of HKFRS 9 in the future may have a material impact on amounts reported in respect of the One Champion Group's financial assets and financial liabilities. Regarding the One Champion Group's financial assets and financial liabilities, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue* and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The Sole Director anticipates that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the One Champion Group’s Financial Information. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the One Champion Group performs a detailed review.

HKFRS 16 Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 *Leases*, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Sole Director anticipates that the application of HKFRS 16 in the future may have a certain impact on the amounts reported and disclosures made in the Financial Information. However, it is not practicable to provide a reasonable estimate of effect of HKFRS 16 until the One Champion Group performs a detailed review.

Other than the above, the Sole Director does not anticipate that the application of the other new and amendment to HKFRSs will have any significant impact on the One Champion Group’s financial results and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This Financial Information presents the financial track record of the One Champion Group for the period from 2 January 2015 (date of incorporation) to 31 December 2015, period from 2 January 2015 (date of incorporation) to 30 June 2015 and six months ended 30 June 2016 and is prepared for the purposes of inclusion in a circular of the Company to its shareholders for the purpose of proposed acquisition of the remaining 73% of the total issued share capital of One Champion, using the principal accounting policies which are materially consistent with those of the Company as applied in the Company’s consolidated financial statements for the year ended 31 December 2015.

The Financial Information has been prepared in accordance with the accounting policies set out below which conform to HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

The Financial Information has been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange of goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the One Champion Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Financial Information is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value, such as value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of One Champion, entities controlled by One Champion and its subsidiaries. Control is achieved when One Champion:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The One Champion Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the One Champion Group obtains control over the subsidiary and ceases when the One Champion Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the One Champion Group gains control until the date when the One Champion Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of One Champion and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of One Champion and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the One Champion Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the One Champion Group are eliminated in full on consolidation.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the One Champion Group, liabilities incurred by the One Champion Group to the former owners of the acquiree and the equity interests issued by the One Champion Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the One Champion Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the One Champion Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the One Champion Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the One Champion Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leasing

All leases are classified as operating leases.

The One Champion Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When a lease includes both land and building elements, the One Champion Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the One Champion Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statements of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below), are stated in the consolidated statements of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Construction in progress are carried at cost, less any recognised accumulated impairment loss. Costs comprises the direct costs of construction during the period of construction. Construction in progress are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write-off the cost of assets (other than mining structures and properties under construction) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each of the reporting periods, with the effect of any changes in estimate accounted for on a prospective basis.

Included in property, plant and equipment is mining structures located in the mining site. Depreciation is provided to write-off the cost of the mining structures using the Units of Production (“UOP”) basis to write-off cost of the asset proportionately to the extraction of the proven and probable mineral reserves.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets***Intangible assets acquired separately***

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses, if any. Amortisation for intangible assets with finite useful life is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each of the reporting periods, with the effect of any changes in estimate being accounted for on a prospective basis.

Mining rights are stated at cost less accumulated amortisation and impairment losses, if any. The mining rights are amortised to profit or loss using the UOP method based on the proven and probable mineral reserves. The One Champion Group's mining rights are of sufficient duration (or convey a legal right to renew for sufficient duration) to enable all reserves to be mined in accordance with current production schedules.

Exploration rights are stated at cost less accumulated amortisation and impairment losses, if any. The exploration rights are amortised on a straight line basis over the estimated useful lives of two years.

Exploration assets are stated at cost less impairment losses. Exploration and evaluation costs include expenditure incurred to secure further mineralisation in existing ore bodies as well as in new areas of interest. Expenditure incurred prior to accruing legal rights to explore an area is written off as incurred.

When it can be reasonably ascertained that an exploration property is capable of commercial production, exploration and evaluation costs capitalised are transferred to either mining infrastructure or mining rights and reserves and depreciated/amortised by the UOP method based on the proven and probable mineral reserves. Costs incurred for exploration which can be directly attributable to the development of mining infrastructure are transferred to mining infrastructure when the exploration reaches the stage of commercial production. All other costs will be transferred to mining rights and reserves.

Exploration rights and assets are written off to profit or loss if the exploration property is abandoned.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss in the period when the asset is derecognised.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from "profit before tax" as reported in the consolidated statements of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The One Champion Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each of the reporting periods.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each of the reporting periods and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the Relevant Periods.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the One Champion Group expects, at the end of each of the reporting periods, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when the One Champion Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Financial assets are mainly loans and loans receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from shareholders and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment loss (see accounting policy in respect of impairment of financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each of the reporting periods. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the One Champion Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivable is considered uncollectible, it is written-off against the allowance account. Subsequent recoveries of amounts previously written-off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the assets at the date the impairment loss is reversed does not exceed what the amortised cost would have been had the impairment loss not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by the One Champion Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the One Champion Group are recognised at the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities including trade and other payables, amount due to the sole director and loan and loan interest payables are subsequently measured at amortised cost, using effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derecognition

The One Champion Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the One Champion Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the One Champion Group recognises the retained interest in the asset and an associated liability for amounts it may have to pay. If the One Champion Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the One Champion Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the One Champion Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The One Champion Group derecognises financial liabilities when, and only when, the One Champion Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment of tangible and intangible assets

At the end of each of the reporting periods, the One Champion Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of

an individual asset, the One Champion Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior periods. A reversal of an impairment loss is recognised immediately in profit or loss.

Provisions

Provisions are recognised when the One Champion Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the One Champion Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of each of the reporting periods, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

Provisions for land reclamation and cavity refill costs and environmental rehabilitation are based on estimates of required expenditure on the mines in accordance with the relevant rules and regulations in the PRC. The One Champion Group estimates its liabilities for land reclamation and cavity refill, and environmental rehabilitation based upon detailed calculations of the amount and timing of the future cash expenditure to perform the required work, escalated for inflation, then discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability such that the amount of provision reflects the present value of the expenditures expected to be required to settle the obligation. Provisions for land reclamation and refill cost, and environmental rehabilitation are recognised in profit and loss in the period when the obligation is identified.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to the state-managed retirement benefit schemes are recognised as an expense when employees have rendered services entitling them to the contributions.

The employees of the One Champion Group in the PRC are members of the state-managed retirement benefit schemes operated by the PRC Government. The One Champion Group is required to contribute certain percentage of their payroll to the retirement benefit scheme to fund the benefits. The only obligation of the One Champion Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the One Champion Group's accounting policies, which are described in Note 3 to the Financial Information, the Sole Director is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The Sole Director has not come across any significant areas where critical judgements are involved in applying the One Champion Group's accounting policies.

Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each of the reporting periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period.

(a) Impairment of intangible assets and property, plant and equipment

The carrying amount of property, plant and equipment and intangible assets are reviewed and adjusted for impairment in accordance with HKAS 36 whenever certain events or changes in circumstances indicate that the carrying amount may not be recoverable. The One Champion Group determines the recoverable amount of these assets based on the estimations of future expected cash flows from the usage of these assets and a suitable discount rate. Where the future cash flows are less than expected, a material impairment loss may arise. No impairment loss of intangible assets and property, plant and equipment has been provided during the Relevant Periods.

(b) Impairment of trade and other receivables

When there is objective evidence of impairment loss, the One Champion Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit loss that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. No impairment loss in respect of trade and other receivables has been recognised during the Relevant Periods.

(c) Depreciation and amortisation of mining related assets and reserves estimates

Mining structures and mining rights are depreciated and amortised using the UOP method based on the proven and probable mineral reserves.

Engineering estimates of the One Champion Group's gold reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information. There is a national standard set by the PRC Government regarding the engineering criteria that have to be met before estimated gold reserves can be designated as "proven and probable". Proven and probable gold reserve estimates are updated at regular basis and have taken into account recent production and technical information about each mine. In addition, as prices and cost levels change from year to year, the estimate of proven and probable gold reserves also changes. This change is considered as a change in estimate for accounting purposes and is reflected on a

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prospective basis in related depreciation rates. The Sole Director has engaged an technical consultant not related to the One Champion Group, SRK Consulting (Hong Kong) Limited, to estimate the total indicated and inferred metals and the independent technical report was issued on 31 October 2016.

(d) *Provision for land reclamation and cavity refill and environmental rehabilitation*

Pursuant to the regulation in the PRC, the One Champion Group recognises provision for land reclamation and cavity refill and environmental rehabilitation of the mines located in the PRC. The amount of provision is an estimate based upon the life of mining tenement, mine closure as well as the future timing and cost of such rehabilitation, which depends on an overall judgement of management.

5. CAPITAL RISK MANAGEMENT

The One Champion Group manages its capital to ensure that the One Champion Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the One Champion Group consists of net debt, which includes amount due to the Sole Director and loan payables net of cash and cash equivalents and equity attributable to equity holders of One Champion, comprising issued share capital and reserves.

The Sole Director reviews the capital structure on a regular basis. As part of this review, the Sole Director considers the cost of capital and the risk associates with each class of capital. The One Champion Group will balance its overall capital structure through new share issues as well as the issue of new debt.

6. FINANCIAL INSTRUMENTS

(a) **Categories of financial instruments**

	At 31 December 2015 HK\$'000	At 30 June 2016 HK\$'000
Financial assets		
Loan and receivables:		
Trade and other receivables	9,839	49,774
Amounts due from shareholders	390	390
Bank balances and cash	5,715	86,443
	15,944	136,607
	15,944	136,607
Financial liabilities		
Liabilities measured at amortised cost:		
Trade and other payables	79,976	82,054
Amount due to the sole director	50,332	1,744
Loan and loan interest payables	—	200,933
	130,308	284,731
	130,308	284,731

(b) Financial risk management objectives and policies

The One Champion Group's major financial instruments include trade and other receivables, amounts due from shareholders, bank balances and cash, trade and other payables, amount due to the sole director and loan and loan interest payables. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

Certain bank balances are denominated in foreign currencies, which expose the One Champion Group to foreign currency risk.

The carrying amounts of the One Champion Group's foreign currency denominated monetary assets at the end of each of the reporting periods are as follows:

	Assets	
	At 31 December 2015 HK\$'000	At 30 June 2016 HK\$'000
HK\$	228	2,055

Sensitivity analysis

The One Champion Group is mainly exposed to the effects of fluctuation in HK\$.

The following table details the One Champion Group's sensitivity to 5% and 5% increase and decrease in RMB against the relevant foreign currencies as at 31 December 2015 and 30 June 2016 respectively. The sensitivity rate of 5% and 5% used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates as at 31 December 2015 and 30 June 2016 respectively. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation for a 5% and 5% change in foreign currency rates for the period from 2 January 2015 (date of incorporation) to 31 December 2015 and the six months ended 30 June 2016.

A positive number below indicates an decrease in post-tax profit where RMB strengthen 5% and 5% against the relevant currency as at 31 December 2015 and 30 June 2016 respectively. For a 5% and 5% weakening of RMB against the relevant currency as at 31 December 2015 and 30 June 2016 respectively, there would be an equal and opposite impact on the post-tax profit.

	HK\$ impact	
	At 31 December 2015 HK\$'000	At 30 June 2016 HK\$'000
Decrease in post-tax profit	9	77

Interest rate risk

The One Champion Group is exposed to fair value interest rate risk in relation to fixed-rate loan and loan interest payables (see Note 25 to the Financial Information). The One Champion Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances (see Note 21 to the Financial Information). The Sole Director is of the opinion that the impact of interest rate risk for bank balances is insignificant. Accordingly, no sensitivity analysis is presented.

Credit risk

The One Champion Group's maximum exposure to credit risk which will cause a finance loss to the One Champion Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets stated in the consolidated statements of financial position.

The One Champion Group's credit risk is primarily attributable to its trade and other receivables.

In order to minimise the credit risk, the management of the One Champion Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the One Champion Group reviews the recoverable amount of each individual debt at the end of each of the reporting periods to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Sole Director considers that the One Champion Group's credit risk is significantly reduced.

The One Champion Group has concentration of credit risk as the One Champion Group's gross trade receivables of the One Champion Group approximately HK\$38,680,000 representing 100% of total gross trade receivables were derived from two customers as at 30 June 2016. In order to minimise the credit risk, the management continuously monitor the level of exposure to ensure that follow up actions and/or corrective actions are taken promptly to lower exposure or even to recover the overdue debts.

Operational risk

During the period from 2 January 2015 (date of incorporation) to 31 December 2015 and the six months ended 30 June 2016, the One Champion Group's exposure to operational risk is primarily attributable to heavy reliance on two customers located in the PRC. The revenue contributed by the two customers accounted to approximately HK\$16,298,000 and HK\$ 126,121,000 which accounted for 100% and 100% of the One Champion Group's total revenue for the period from 2 January 2015 (date of incorporation) to 31 December 2015 and the six months ended 30 June 2016 respectively. The Sole Director will continue closely monitor the performance and financial position of these major customers to avoid any adverse impact on the One Champion Group's financial position.

Liquidity risk

In the management of the liquidity risk, the One Champion Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the One Champion Group's operation and mitigate the effects of fluctuations in cash flows.

The following table details One Champion Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the One Champion Group can be required to pay.

The table includes both interest and principal cash flows.

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Liquidity tables

	Weighted average interest rate	Repayable on demand or within 1 year <i>HK\$'000</i>	1-2 years <i>HK\$'000</i>	Total undiscounted cash flow <i>HK\$'000</i>	Carrying amounts <i>HK\$'000</i>
At 31 December 2015					
Trade and other payables	—	79,976	—	79,976	79,976
Amount due to the sole director	—	<u>50,332</u>	<u>—</u>	<u>50,332</u>	<u>50,332</u>
		<u>130,308</u>	<u>—</u>	<u>130,308</u>	<u>130,308</u>
At 30 June 2016					
Trade and other payables	—	82,054	—	82,054	82,054
Amount due to the sole director	—	1,744	—	1,744	1,744
Loan an loan interest payables	3%	<u>—</u>	<u>210,940</u>	<u>210,940</u>	<u>200,933</u>
		<u>83,798</u>	<u>210,940</u>	<u>294,738</u>	<u>284,731</u>

(c) Fair value measurements of the financial instruments

There is no financial instrument measured at fair value on a recurring basis. The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flows analysis.

The Sole Director considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their respective fair values at the end of each of the reporting periods.

7. REVENUE

An analysis of the One Champion Group's revenue for the period is as follows:

	For the period from 2 January 2015 (date of incorporation) to 31 December 2015 <i>HK\$'000</i>	For the period from 2 January 2015 (date of incorporation) to 30 June 2015 <i>HK\$'000</i> (Unaudited)	Six months ended 30 June 2016 <i>HK\$'000</i>
Sales of gold and related products	<u>16,298</u>	<u>—</u>	<u>126,121</u>

APPENDIX II-A FINANCIAL INFORMATION OF THE TARGET GROUP

8. SEGMENT INFORMATION

Information reported to the Sole Director, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. This is also the basis upon which the One Champion Group is organised and managed. No operating segments identified by the Sole Director has been aggregated in arriving at the reportable segment of the One Champion Group.

Specifically, the One Champion Group's reportable and operating segment under HKFRS 8 is as follows:

- Mining, processing and sales of gold and related products

Since this is the only operating and reportable segment of the One Champion Group, no further analysis thereof is presented. All the revenue of the One Champion Group is generated from mining, processing during the Relevant Periods.

Geographical information

The One Champion Group's operations are located in the PRC. All the revenue from external customers of the One Champion Group's is generated from customers located in the PRC. All the non-current assets of the One Champion Group are located in the PRC.

Information about major customers

Revenues from customers of the corresponding period contributing over 10% of the total revenue of the One Champion Group is as follows:

	For the period from 2 January 2015 (date of incorporation) to 31 December 2015 <i>HK\$'000</i>	For the period from 2 January 2015 (date of incorporation) to 30 June 2015 <i>HK\$'000</i> (Unaudited)	Six months ended 30 June 2016 <i>HK\$'000</i>
Customer A	4,898	—	22,765
Customer B	11,400	—	103,356
	<u>16,298</u>	<u>—</u>	<u>126,121</u>

9. OTHER INCOME

	For the period from 2 January 2015 (date of incorporation) to 31 December 2015 <i>HK\$'000</i>	For the period from 2 January 2015 (date of incorporation) to 30 June 2015 <i>HK\$'000</i> (Unaudited)	Six months ended 30 June 2016 <i>HK\$'000</i>
Bank interest income	9	—	14
Net foreign exchange gains	15	4	—
Sundry income	—	—	1
	<u>24</u>	<u>4</u>	<u>15</u>

APPENDIX II-A FINANCIAL INFORMATION OF THE TARGET GROUP

10. FINANCE COSTS

	For the period from 2 January 2015 (date of incorporation) to 31 December 2015 HK\$'000	For the period from 2 January 2015 (date of incorporation) to 30 June 2015 HK\$'000 (Unaudited)	Six months ended 30 June 2016 HK\$'000
Interest on bank borrowings	291	—	—
Interest on loan payables	—	—	1,933
	<u>291</u>	<u>—</u>	<u>1,933</u>

11. INCOME TAX (CREDIT) EXPENSES

	For the period from 2 January 2015 (date of incorporation) to 31 December 2015 HK\$'000	For the period from 2 January 2015 (date of incorporation) to 30 June 2015 HK\$'000 (Unaudited)	Six months ended 30 June 2016 HK\$'000
Current tax			
PRC Enterprise Income Tax ("EIT")	—	—	4,809
Over-provision on EIT	(863)	—	—
	<u>(863)</u>	<u>—</u>	<u>4,809</u>
Deferred tax (<i>Note 26</i>)			
Current period	(316)	—	(965)
Income tax (credit) expenses	<u>(1,179)</u>	<u>—</u>	<u>3,844</u>

No provision for Hong Kong Profits Tax has been made as the One Champion Group had no assessable profits arising in Hong Kong during the Relevant Periods.

APPENDIX II-A FINANCIAL INFORMATION OF THE TARGET GROUP

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law" effective from 1 January 2008) and Implementation Regulation on the EIT Law, as well as pursuant to the Notice of the Ministry of Finance, 財政部國家稅務總局海關總署關於深入實施西部大開發戰略有關稅收政策問題的通知(財稅〔2011〕58號) (transliterated as General Administration of Customs and the State Administration of Taxation on the Issues of Preferential Taxation Policies for Further Implementing the Western Development Strategy (Cai Shui [2011] No. 58)*), from 1 January 2011 to 31 December 2020, the enterprises in the western region, which engaged in encouraged industries as indicated in the 西部地區鼓勵類產業目錄 (transliterated as Catalogue of Encouraged Industries of Western Region*) and 產業結構調整指導目錄(2011年本)(修正) (transliterated as Catalogue of Industrial Structure Adjustment Guidance ([2011] Revised)*) (國家發改委令2013年第21號) (transliterated as National Development and Reform Commission Order [2013] No. 21*) and which derive 70% of their operating income from the encouraged industries could apply for a tax incentive. After getting in-charge tax bureau's approval, those enterprises could enjoy a reduced EIT rate of 15% from the statutory EIT rate of 25%. During the period from 2 January 2015 (date of incorporation) to 31 December 2015, period from 2 January 2015 (date of incorporation) to 30 June 2015 and six months ended 30 June 2016, Xiangshun Mining obtained the in-charge tax bureau's approval and was granted a reduced EIT rate of 15%.

The income tax (credit) expenses for the Relevant Periods can be reconciled to the profit (loss) before tax per the consolidated statements of profit or loss and other comprehensive income as follows:

	For the period from 2 January 2015 (date of incorporation) to 31 December 2015 HK\$'000	For the period from 2 January 2015 (date of incorporation) to 30 June 2015 HK\$'000 (Unaudited)	Six months ended 30 June 2016 HK\$'000
Profit (loss) before tax	25,557	(724)	22,512
Tax at the domestic income tax rate (15%) (Note)	3,834	(109)	3,377
Tax effect of expenses not deductible for tax purpose	376	109	203
Tax effect of income not taxable for tax purpose	(5,355)	—	—
Effect of different tax rate of subsidiaries operating in other jurisdictions	(34)	—	272
Others	—	—	(8)
Income tax (credit) expenses	(1,179)	—	3,844

Note: The domestic tax rate (which is the reduced PRC EIT rate) represents the tax rate used in the jurisdiction where the operation of the One Champion Group is substantially based.

APPENDIX II-A FINANCIAL INFORMATION OF THE TARGET GROUP

12. PROFIT (LOSS) FOR THE PERIOD

	For the period from 2 January 2015 (date of incorporation) to 31 December 2015 HK\$'000	For the period from 2 January 2015 (date of incorporation) to 30 June 2015 HK\$'000 (Unaudited)	Six months ended 30 June 2016 HK\$'000
Profit (loss) for the period has been arrived at after charging:			
Director's and chief executive's emoluments	—	—	—
Other staff costs			
— Salaries and other allowances	650	—	1,799
— Retirement benefits scheme contributions	100	—	236
Total staff costs	<u>750</u>	<u>—</u>	<u>2,035</u>
Auditor's remuneration	25	—	—
Depreciation of property, plant and equipment (<i>Note a</i>)	2,167	—	5,900
Amortisation of prepaid lease payments	7	—	56
Amortisation of intangible assets (<i>Note b</i>)	2,238	—	5,760
Costs of inventories recognised as an expense	17,216	—	72,604
Minimum lease payments under operating lease in respect of rented premises	12	—	33

Notes:

- (a) Included in depreciation of property, plant and equipment, approximately HK\$2,003,000, HK\$Nil and HK\$5,696,000 are recognised in cost of sales for the period from 2 January 2015 (date of incorporation) to 31 December 2015, period from 2 January 2015 (date of incorporation) to 30 June 2015 and six months ended 30 June 2016, respectively.
- (b) All the amortisation of intangible assets are recognised in cost of sales during the Relevant Periods.

APPENDIX II-A FINANCIAL INFORMATION OF THE TARGET GROUP

13. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the One Champion Group for the Relevant Periods who are neither a director nor chief executive are as follows:

	For the period from 2 January 2015 (date of incorporation) to 31 December 2015 HK\$'000	For the period from 2 January 2015 (date of incorporation) to 30 June 2015 HK\$'000 (Unaudited)	Six months ended 30 June 2016 HK\$'000
Salaries and other allowances	174	—	516
Retirement benefits scheme contributions	9	—	26
	<u>183</u>	<u>—</u>	<u>542</u>

14. DIVIDEND

No dividend was paid or proposed to the ordinary shareholders of One Champion during the Relevant Periods, nor has any dividend been proposed since the end of the Relevant Periods.

APPENDIX II-A FINANCIAL INFORMATION OF THE TARGET GROUP

15. PROPERTY, PLANT AND EQUIPMENT

	Mining structures HK\$'000	Buildings HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
COST							
Acquisition of subsidiaries	74,109	5,355	7,459	1,332	366	4,461	93,082
Additions	—	1,473	2	2	—	11,015	12,492
Exchange adjustments	(2,929)	(270)	(295)	(53)	(14)	(612)	(4,173)
At 31 December 2015 and 1 January 2016	71,180	6,558	7,166	1,281	352	14,864	101,401
Additions	28	12	471	13	—	12,484	13,008
Transfers	13,189	—	—	—	—	(13,189)	—
Exchange adjustments	(1,676)	(143)	(161)	(27)	(8)	(320)	(2,335)
At 30 June 2016	82,721	6,427	7,476	1,267	344	13,839	112,074
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
Charge for the period	1,642	181	179	74	91	—	2,167
Exchange adjustments	(65)	(7)	(7)	(3)	(4)	—	(86)
At 31 December 2015 and 1 January 2016	1,577	174	172	71	87	—	2,081
Charge for the period	4,850	317	529	204	—	—	5,900
Exchange adjustments	(76)	(6)	(9)	(3)	(3)	—	(97)
At 30 June 2016	6,351	485	692	272	84	—	7,884
CARRYING VALUES							
At 31 December 2015	69,603	6,384	6,994	1,210	265	14,864	99,320
At 30 June 2016	76,370	5,942	6,784	995	260	13,839	104,190

Applications for property ownership certificates of all the buildings located in Shaanxi Province with carrying values of approximately HK\$6,384,000 and HK\$5,942,000 as of 31 December 2015 and 30 June 2016 respectively were still in progress and these property ownership certificates had not been issued to the One Champion Group by the relevant government authority at the end of the Relevant Periods. The Sole Director is of the opinion that the One Champion Group has acquired the beneficial title to those buildings located in Shaanxi Province at the end of the Relevant Periods and the property certificates can be obtained in the future.

The above items of property, plant and equipment, other than mining structures and construction in progress, are depreciated on a straight-line basis at follows:

Buildings	Shorter of lease term of land or 8 — 40 years
Plant and machinery	12 — 14 years
Furniture, fixtures and equipment	5 — 10 years
Motor vehicles	5 — 10 years

Mining structures are depreciated on a UOP basis.

APPENDIX II-A FINANCIAL INFORMATION OF THE TARGET GROUP

16. PREPAID LEASE PAYMENTS

	At 31 December 2015 <i>HK\$'000</i>	At 30 June 2016 <i>HK\$'000</i>
Analysed for reporting purposes as:		
— Current assets	113	111
— Non-current assets	4,529	4,375
	<u>4,642</u>	<u>4,486</u>

17. INTANGIBLE ASSETS

	Mining rights <i>HK\$'000</i> <i>(Note (a))</i>	Exploration right and assets <i>HK\$'000</i> <i>(Note (b))</i>	Total <i>HK\$'000</i>
COST			
Acquisition of subsidiaries	91,156	275	91,431
Exchange adjustments	(3,603)	(11)	(3,614)
	<u>87,553</u>	<u>264</u>	<u>87,817</u>
At 31 December 2015 and 1 January 2016			
Additions	—	34,333	34,333
Exchange adjustments	(1,919)	(302)	(2,221)
	<u>85,634</u>	<u>34,295</u>	<u>119,929</u>
At 30 June 2016			
ACCUMULATED AMORTISATION AND IMPAIRMENT			
Charge for the period	2,177	61	2,238
Exchange adjustments	(86)	(3)	(89)
	<u>2,091</u>	<u>58</u>	<u>2,149</u>
At 31 December 2015 and 1 January 2016			
Charge for the period	5,586	174	5,760
Exchange adjustments	(95)	(2)	(97)
	<u>7,582</u>	<u>230</u>	<u>7,812</u>
At 30 June 2016			
CARRYING VALUES			
At 31 December 2015	<u>85,462</u>	<u>206</u>	<u>85,668</u>
At 30 June 2016	<u>78,052</u>	<u>34,065</u>	<u>112,117</u>

APPENDIX II-A FINANCIAL INFORMATION OF THE TARGET GROUP

Notes:

(a) Mining rights

The One Champion Group's mining rights are as follows:

Mine	Location	Expiry date
Gold Mine – Q301	Shaanxi Province	30 May 2018
Gold Mine – Q401	Shaanxi Province	6 May 2018
Gold Mine – Q198	Shaanxi Province	9 July 2017
Gold Mine – Q4112 (<i>Note</i>)	Shaanxi Province	22 June 2019

Note: As at 30 June 2016, the mining rights in respect of the gold mine – Q4112, which was applied by Xiangshun Mining during the year ended 31 December 2013, with carrying values of HK\$Nil are still under the name of an independent third party, and the application for the change of name is still in progress up to the date of this report. The Sole Director is of the opinion that the One Champion Group has acquired the beneficial title to that mining right as at 30 June 2016, and the legal title of that mining right can be obtained by the One Champion Group in the future.

(b) Exploration right and assets

Included in the exploration right and assets with carrying values of approximately HK\$206,000 and HK\$34,065,000 at 31 December 2015 and 30 June 2016 respectively, representing the exploration right and assets located in Shaanxi Province.

18. INVENTORIES

	At 31 December 2015 <i>HK\$'000</i>	At 30 June 2016 <i>HK\$'000</i>
Raw materials	143	2,641
Finished goods	12,492	—
	<u>12,635</u>	<u>2,641</u>

19. TRADE AND OTHER RECEIVABLES

	At 31 December 2015 <i>HK\$'000</i>	At 30 June 2016 <i>HK\$'000</i>
Trade receivables (<i>Note a</i>)	—	38,680
Other receivables (<i>Note b</i>)	6,818	6,686
Deposits and prepayments (<i>Note c</i>)	18,056	14,413
	<u>24,874</u>	<u>21,099</u>
Total trade and other receivables	<u>24,874</u>	<u>59,779</u>

APPENDIX II-A FINANCIAL INFORMATION OF THE TARGET GROUP

Notes:

(a) Trade receivables

The One Champion Group normally allows credit period of 30 days to its trade customers. The aged analysis of trade receivables presented based on the invoice dates which approximated the respective dates on which revenue was recognised at the end of each of the reporting periods is as follows:

	At 31 December 2015 HK\$'000	At 30 June 2016 HK\$'000
0 — 30 days	—	38,680

Before accepting any new customer, the One Champion Group assesses the potential customer's credit quality and defines credit limits by customer. Limits and credit quality attributed to customers are reviewed annually. At 31 December 2015 and 30 June 2016, no trade receivables was past due but not impaired.

(b) Other receivables

Included in the One Champion Group's other receivables, an amount of approximately HK\$3,820,000 and HK\$717,000 as at 31 December 2015 and 30 June 2016, respectively, represented the staff advances which are unsecured, interest-free and have no fixed terms of repayment.

(c) Deposits and prepayments

Included in the One Champion Group's deposits and prepayments, an amount of approximately HK\$10,044,000 and HK\$5,240,000 as at 31 December 2015 and 30 June 2016, respectively, represented the prepayment to a supplier for purchases of gold ore which is unsecured, interest-free and has no fixed terms of repayment.

Further, included in the One Champion Group's deposits and prepayments, an amount of approximately HK\$2,626,000 and HK\$2,569,000 as at 31 December 2015 and 30 June 2016, respectively represented the mining security and deposit paid to 潼關縣安全生產監督管理局 (transliterated as Tongguan County Administration of Work Safety*) which are unsecured, interest-free and have no fixed terms of repayment.

20. AMOUNTS DUE FROM SHAREHOLDERS

The amounts due from shareholders are unsecured, non-interest bearing and repayable on demand.

Particulars of amounts due from shareholders are disclosed as follows:

	At 31 December 2015 HK\$'000	At 30 June 2016 HK\$'000
Forever Success Investments Limited ("Forever Success")	273	273
Supreme Success Group Limited ("Supreme Success")	117	117
	390	390

APPENDIX II-A FINANCIAL INFORMATION OF THE TARGET GROUP

Maximum amounts outstanding during the Relevant Periods are as follows:

	Period from 2 January 2015 (date of incorporation) to 31 December 2015 <i>HK\$'000</i>	Six months ended 30 June 2016 <i>HK\$'000</i>
Forever Success	273	273
Supreme Success	117	117
	273	273

21. BANK BALANCES AND CASH

The bank balances carry interest at interest rates as follows:

	At 31 December 2015	At 30 June 2016
Range of interest rates per annum	0.001%-0.350%	0.001%-0.350%
	0.001%-0.350%	0.001%-0.350%

Included in bank balances and cash are the following amounts which are subject to foreign exchange control regulations or not freely transferable:

	At 31 December 2015 <i>HK\$'000</i>	At 30 June 2016 <i>HK\$'000</i>
Amounts denominated in:		
RMB	2,194	78,382
	2,194	78,382

22. TRADE AND OTHER PAYABLES

	At 31 December 2015 <i>HK\$'000</i>	At 30 June 2016 <i>HK\$'000</i>
Trade payables (<i>Note a</i>)	50,557	54,905
Other payables and accruals	16,034	14,059
Receipts in advance (<i>Note b</i>)	33,050	—
Deposits received (<i>Note c</i>)	13,385	13,090
	62,469	27,149
	113,026	82,054

APPENDIX II-A FINANCIAL INFORMATION OF THE TARGET GROUP

Notes:

(a) Trade payables

The following is an aged analysis of trade payables presented based on the invoice date at the end of each of the reporting periods:

	At 31 December 2015 HK\$'000	At 30 June 2016 HK\$'000
0 — 90 days	32,321	52,514
91 — 180 days	6,883	1,235
181 — 365 days	5,963	—
Over 1 year	5,390	1,156
	50,557	54,905
	50,557	54,905

During the Relevant Periods, the average credit period on purchase of goods are 30 days. The One Champion Group has financial risk management policies in place to ensure that all payables are settled within the credit timetable.

(b) Receipts in advance

As at 31 December 2015, the receipts in advance from two customers are unsecured, interest-free and non-refundable.

(c) Deposits received

Included in the One Champion Group's deposits received, an amount of approximately HK\$13,337,000 and HK\$13,045,000 as at 31 December 2015 and 30 June 2016, respectively represented the deposits received from contractors which are unsecured, interest-free and refundable upon completion of service contracts.

23. AMOUNT DUE TO THE SOLE DIRECTOR

The amount due to the Sole Director is unsecured, non-interest bearing and repayable on demand.

24. PROVISIONS

	Provision for land reclamation and cavity refill cost HK\$'000 (Note (a))	Provision for environmental rehabilitation HK\$'000 (Note (b))	Total HK\$'000
Acquisition of subsidiaries	2,014	1,900	3,914
Additions	137	90	227
Exchange adjustments	(85)	(78)	(163)
	2,066	1,912	3,978
At 31 December 2015 and 1 January 2016	2,066	1,912	3,978
Additions	299	295	594
Exchange adjustments	(49)	(44)	(93)
	2,316	2,163	4,479
At 30 June 2016	2,316	2,163	4,479

APPENDIX II-A FINANCIAL INFORMATION OF THE TARGET GROUP

Notes:

(a) Provision for land reclamation and cavity refill cost

In accordance with the relevant PRC rules and regulations, the One Champion Group is obliged to accrue the costs for land reclamation and cavity refill for the One Champion Group's existing mines. The provision for land reclamation and cavity refill costs has been determined by the Sole Director, based on his estimation and basis as stated in Note 4(d) to the Financial Information.

(b) Provision for environmental rehabilitation

The provisions for environmental rehabilitation is in relation to the estimated costs of complying with the One Champion Group's obligations for environmental rehabilitation. These costs are expected to be incurred on mine closure, which, based on current mineral reserve estimates.

25. LOAN AND LOAN INTEREST PAYABLES

	At 31 December 2015 HK\$'000	At 30 June 2016 HK\$'000
Loan payables (<i>Note</i>)	—	199,000
Loan interest payables	—	1,933
	—	200,933
	—	200,933

On 22 January 2016 and 13 April 2016, One Champion obtained loans facilities of HK\$100,000,000 and HK\$99,000,000 respectively at interest rate of 3% per annum for a term of 24 months from the drawdown date from the Company (the "First Loan" and the "Second Loan" respectively). Forever Success, one of the shareholders of One Champion, has executed share mortgage agreements in favour of the Company to pledge 20% and 23% of the total issued share capital of One Champion held by Forever Success to the Company as securities in respect of the First Loan and the Second Loan respectively. The First Loan was drawn on 25 January 2016 and the Second Loan was drawn on 13 April 2016. Details of the First Loan and the Second Loan were disclosed in the announcements of the Company dated 22 January 2016 and 13 April 2016 respectively.

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26. DEFERRED TAX ASSETS (LIABILITIES)

The following is the analysis of the deferred tax balances for financial reporting purposes:

	At 31 December 2015	At 30 June 2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
Deferred tax assets	837	1,148
Deferred tax liabilities	(11,564)	(10,683)
	(10,727)	(9,535)
	(10,727)	(9,535)

The followings are the deferred tax assets (liabilities) recognised and movements thereon during the Relevant Periods:

	Accelerated tax depreciation	Intangible assets	Others	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Acquisition of subsidiaries	(12,557)	465	609	(11,483)
Credit to profit or loss (<i>Note 11</i>)	221	83	12	316
Exchange adjustments	487	(22)	(25)	440
	(11,849)	526	596	(10,727)
At 31 December 2015 and 1 January 2016	(11,849)	526	596	(10,727)
Credit to profit or loss (<i>Note 11</i>)	678	247	40	965
Exchange adjustments	254	(14)	(13)	227
	(10,917)	759	623	(9,535)
	(10,917)	759	623	(9,535)

27. SHARE CAPITAL

	At 31 December 2015 and 30 June 2016
Authorised:	
50,000 ordinary shares of US\$1 each	US\$50,000
	US\$50,000
Issued and fully paid:	
50,000 ordinary shares of US\$1 each	US\$50,000
	US\$50,000
Shown in the Financial Information as	HK\$390,000

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28. NON-CONTROLLING INTERESTS

Details of non-wholly owned subsidiary that have material non-controlling interests

The table below shows the details of non-wholly owned subsidiary of the One Champion Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation	Proportion of ownership interests and voting rights held by non-controlling interests		Total comprehensive income allocated to non-controlling interests		Accumulated non-controlling interests	
		31 December 2015	30 June 2016	31 December 2015	30 June 2016	31 December 2015	30 June 2016
				HK\$'000	HK\$'000	HK\$'000	HK\$'000
Xiangshun Mining	PRC	10%	10%	(1,330)	1,823	15,065	16,888

Summarised financial information in respect of Xiangshun Mining that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intra-group eliminations.

	At 31 December 2015 HK\$'000	At 30 June 2016 HK\$'000
Current assets	102,329	201,151
Non-current assets	190,354	221,830
Current liabilities	130,476	243,410
Non-current liabilities	11,564	10,683
Equity attributable to owners of Xiangshun Mining	135,578	152,000
Non-controlling interests	15,065	16,888

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	For the period from 2 January 2015 (date of incorporation) to 31 December 2015	Six months ended 30 June 2016
Total revenue	16,298	125,400
Total expenses	(23,402)	(103,655)
(Loss) profit for the period	(7,104)	21,745
(Loss) profit attributable to owners of Xiangshun Mining	(6,394)	19,572
(Loss) profit attributable to non-controlling interests	(710)	2,173
(Loss) profit for the period	(7,104)	21,745
Other comprehensive income attributable to owners of Xiangshun Mining	(5,579)	(3,150)
Other comprehensive income attributable to non-controlling interests	(620)	(350)
Other comprehensive income for the period	(6,199)	(3,500)
Total comprehensive income attributable to owners of Xiangshun Mining	(11,973)	16,422
Total comprehensive income attributable to non-controlling interests	(1,330)	1,823
Total comprehensive income for the period	(13,303)	18,245
Dividends paid to non-controlling interests	—	—
Net cash inflow from operating activities	50,357	62,375
Net cash outflow from investing activities	(12,480)	(119,014)
Net cash (outflow) inflow from financing activities	(37,285)	128,653
Net cash inflow	592	72,014

29. ACQUISITION OF SUBSIDIARIES

On 15 October 2015, 段佳(Duan Jia*) (“Mr. Duan”), an independent third party, and Shaanxi Furui, a wholly-owned subsidiary of One Champion, entered into a sale and purchase agreement, pursuant to which Mr. Duan had conditionally agreed to sell and Shaanxi Furui had conditionally agreed to acquire the entire equity interest of Weinan Jindong from Mr. Duan at a consideration of RMB90,000,000 (equivalent to approximately HK\$111,855,000) (the “Acquisition”). The consideration of the Acquisition was satisfied by cash. The Acquisition was completed on 11 November 2015.

The Acquisition has been accounted for using the acquisition method. The Sole Director considered that Weinan Jindong became one of its indirect wholly-owned subsidiaries of the One Champion Group and the financial performance of Weinan Jindong and its subsidiary (the “Weinan Jindong Group”) would be consolidated into the consolidated financial statements of the One Champion Group after the completion of the Acquisition.

Shaanxi Furui acquired the entire equity interest of Weinan Jindong. Weinan Jindong holds 90% interest in Xiangshun Mining. After the Acquisition was completed, the One Champion Group hold 90% effective interest in Xiangshun Mining. The Weinan Jindong Group is engaged in the exploration, mining, processing, and sale of gold and related products. The Weinan Jindong Group was acquired so as to expand the business in the exploration, mining, processing and sale of gold and related products.

Consideration transferred

	<i>HK\$’000</i>
Cash	111,855

Acquisition-related costs amounting to approximately HK\$1,000 have been excluded from the consideration transferred and have been recognised as an expense in the period from 2 January 2015 (date of incorporation) to 31 December 2015, within the administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

Assets acquired and liabilities recognised at the date of acquisition were as follows:

	<i>HK\$’000</i>
Property, plant and equipment	93,082
Prepaid lease payments	4,853
Intangible assets	91,431
Deferred tax assets	809
Inventories	7,560
Trade and other receivables	24,272
Amount due from a related party	65,843
Bank balances and cash	938
Trade and other payables	(54,640)
Bank borrowing	(37,285)
Shareholder’s loan	(68,356)
Provisions	(3,914)
Tax liabilities	(16,714)
Deferred tax liabilities	(12,292)
Net assets	95,587

* For identification purposes only

APPENDIX II-A FINANCIAL INFORMATION OF THE TARGET GROUP

Gain on bargain purchase arising on the Acquisition

	<i>HK\$'000</i>
Consideration transferred	111,855
<i>Plus:</i> non-controlling interests (10% in Xiangshun Mining)	16,395
<i>Less:</i> net assets acquired	(95,587)
assignment of a shareholder's loan	(68,356)
	<hr/>
Gain on bargain purchase arising on the Acquisition	(35,693)
	<hr/> <hr/>

Analysis on net cash outflow arising from the Acquisition

	<i>HK\$'000</i>
Cash consideration paid	(111,855)
<i>Less:</i> bank balances and cash acquired	938
	<hr/>
Net cash outflow	(110,917)
	<hr/> <hr/>

Included in the profit for the period from 2 January 2015 (dated of incorporation) to 31 December 2015 is loss of approximately HK\$7,227,000 attributable to the additional business generated by the Weinan Jindong Group. Revenue for the period from 2 January 2015 (dated of incorporation) to 31 December 2015 includes HK\$16,298,000 generated from the Weinan Jindong Group.

Had the Acquisition been completed at the beginning of the period, the total amount of revenue of the One Champion Group for the period from 2 January 2015 (dated of incorporation) to 31 December 2015 would have been approximately HK\$112,663,000, and the amount of the profit for the period from 2 January 2015 (dated of incorporation) to 31 December 2015 would have been approximately HK\$22,603,000. The pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the One Champion Group that actually would have been achieved had the Acquisition been completed at the beginning of the period, nor it is intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the One Champion Group had the Weinan Jindong Group been acquired at the beginning of the period from 2 January 2015 (date of incorporation) to 31 December 2015, the Sole Director had calculated depreciation of plant and equipment and amortisation of intangible assets acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition consolidated financial statements of the Weinan Jindong Group.

APPENDIX II-A FINANCIAL INFORMATION OF THE TARGET GROUP

30. OPERATING LEASE COMMITMENTS

The One Champion Group as lessee

At the end of each of the reporting periods, the One Champion Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	At 31 December 2015 <i>HK\$'000</i>	At 30 June 2016 <i>HK\$'000</i>
Within one year	68	67
In the second to fifth years inclusive	270	264
Over five years	707	658
	1,045	989
	1,045	989

Operating lease payments represent rentals payable by the One Champion Group for its premises. Leases are negotiated for an average term of 18 years, and no arrangements have been entered into for contingent rental payments.

31. RELATED PARTY TRANSACTIONS

(a) Balances

Details of balances with related parties are set out in Notes 20 and 23 to the Financial Information.

(b) Compensation of key management personnel

No remuneration was paid to the Sole Director and other key management personnel of the One Champion Group during the Relevant Periods.

32. CAPITAL COMMITMENTS

	At 31 December 2015 <i>HK\$'000</i>	At 30 June 2016 <i>HK\$'000</i>
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the Financial Information	2,024	1,436
	2,024	1,436
	2,024	1,436

33. MAJOR NON-CASH TRANSACTIONS

During the six months ended 30 June 2016, the One Champion Group had acquired certain exploration assets from several suppliers at approximately HK\$34,333,000. The purchase cost was settled by the Sole Director during the six months ended 30 June 2016.

(B) SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the One Champion Group have been prepared in respect of any period subsequent to 30 June 2016 and up to the date of this report.

Yours faithfully,

Asian Alliance (HK) CPA Limited
Certified Public Accountants (Practising)
Chan Mei Mei
Practising Certificate Number: P05256

Suites 313-316, 3/F., Shui On Centre
6-8 Harbour Road
Wan Chai
Hong Kong



31 October 2016

The Board of Directors
China Mining Resources Group Limited
Room 1306, 13/F
Bank of America Tower
12 Harcourt Road
Admiralty
Hong Kong

Dear Sirs/Madams,

We set out below our report on the financial information (the “Financial Information”) of 潼關縣祥順礦業發展有限公司 (transliterated as Tongguan County Xiangshun Mining Development Co., Ltd.*) (“Xiangshun Mining”) which comprises the statements of financial position of Xiangshun Mining as at 31 December 2013, 2014, 2015 and 30 June 2016, the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows of Xiangshun Mining for each of the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 (the “Relevant Periods”) and a summary of significant accounting policies and other explanatory information. This Financial Information has been prepared by the sole director of Xiangshun Mining for inclusion in Appendix II-B to the circular dated 31 October 2016 (the “Circular”) issued by China Mining Resources Group Limited (the “Company”) in connection with its proposed acquisition of the remaining 73% of the total issued share capital of One Champion International Limited (the “Transaction”).

Xiangshun Mining was established in Shaanxi Province, the People’s Republic of China (the “PRC”) with limited liability on 26 July 2006. The address of Xiangshun Mining’s registered office and principal place of business is Bei Dong Cun, Dai Zi Ying Xiang, Tongguan County, Weinan City, Shaanxi Province, the PRC. Xiangshun Mining is principally engaged in the exploration, mining, processing, and sale of gold and related products.

The financial year end date of Xiangshun Mining is 31 December.

* For identification purposes only

APPENDIX II-B FINANCIAL INFORMATION OF THE PROJECT COMPANY

The statutory financial statements of Xiangshun Mining for each of the years ended 31 December 2013, 2014 and 2015 which were audited by the respective certified public accountants in the PRC during the Relevant Periods are as follows:

Name of company	Statutory auditors			
	For the year ended			For the six
	31 December			months ended
	2013	2014	2015	30 June
				2016
Xiangshun Mining	<i>Note (a)</i>	<i>Note (b)</i>	<i>Note (b)</i>	<i>Note (c)</i>

Notes:

- (a) The statutory financial statements of Xiangshun Mining for the year ended 31 December 2013 were prepared in accordance with “Accounting Standards for Business Enterprises” issued by the Ministry of Finance of the PRC (the “MOF”) and other relevant regulatory requirements (collectively known as the “PRC GAAP”) and were audited by Xian Hongda Certified Public Accountants Limited, certified public accountants registered in the PRC.
- (b) The statutory financial statements of Xiangshun Mining for the years ended 31 December 2014 and 2015 were prepared in accordance with the PRC GAAP and were audited by Shenzhen Huatu Certified Public Accountants, certified public accountants registered in the PRC.
- (c) No audited financial statements of Xiangshun Mining for the six months ended 30 June 2016 have been prepared as there is no statutory audit requirement.

For the purpose of this report, the sole director of Xiangshun Mining has prepared the financial statements of Xiangshun Mining for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) (collectively the “Underlying Financial Statements”).

We have undertaken an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements. No adjustments have been made by us to the Underlying Financial Statements in preparation of this report for inclusion in the Circular. The preparation of the Underlying Financial Statements is the responsibility of the sole director of Xiangshun Mining. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

OPINION

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the financial position of Xiangshun Mining as at 31 December 2013, 2014 and 2015 and 30 June 2016, and of its financial performance and cash flows for the Relevant Periods.

COMPARATIVE FINANCIAL INFORMATION

The unaudited comparative statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows of Xiangshun Mining for the six months ended 30 June 2015 together with the notes thereon have been extracted from the unaudited financial information of Xiangshun Mining for the same period (the “**30 June 2015 Financial Information**”) which was prepared by the sole director of Xiangshun Mining solely for the purpose of this report. We have reviewed the 30 June 2015 Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. Our review of the 30 June 2015 Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion on the 30 June 2015 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the 30 June 2015 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with HKFRSs.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to Note 2 to the Financial Information below, which indicates that as at 30 June 2016, Xiangshun Mining had net current liabilities of approximately RMB36,256,000. This condition indicates the existence of a material uncertainty which may cast significant doubt on Xiangshun Mining’s ability to continue as a going concern.

APPENDIX II-B FINANCIAL INFORMATION OF THE PROJECT COMPANY

(A) FINANCIAL INFORMATION OF 潼關縣祥順礦業發展有限公司 (TRANSLITERATED AS TONGGUAN COUNTY XIANGSHUN MINING DEVELOPMENT CO., LTD.*)

The following is the financial information of 潼關縣祥順礦業發展有限公司 (transliterated as Tongguan County Xiangshun Mining Development Co., Ltd.*) (“Xiangshun Mining”) prepared by the sole director of Xiangshun Mining as at 31 December 2013, 2014, 2015 and 30 June 2016 and for each of the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 (the “Relevant Periods”) (collectively known as the “Financial Information”).

Statements of Profit or Loss and Other Comprehensive Income

	Notes	Year ended 31 December			Six months ended 30 June	
		2013 RMB'000	2014 RMB'000	2015 RMB'000	2015 RMB'000	2016 RMB'000
					(Unaudited)	
Revenue	8	91,002	83,092	90,651	9,938	106,481
Cost of sales		(56,737)	(47,299)	(61,440)	(6,592)	(76,850)
Gross profit		34,265	35,793	29,211	3,346	29,631
Other income	10	488	1,277	2,059	2,055	8
Administrative expenses		(7,632)	(3,840)	(4,472)	(1,593)	(4,351)
Finance costs	11	(620)	(181)	(2,234)	(1,200)	—
Profit before tax		26,501	33,049	24,564	2,608	25,288
Income tax expense	12	(4,141)	(4,898)	(3,734)	(365)	(3,786)
Profit and total comprehensive income for the year/period	13	<u>22,360</u>	<u>28,151</u>	<u>20,830</u>	<u>2,243</u>	<u>21,502</u>
Dividends	16	<u>10,000</u>	<u>23,000</u>	<u>—</u>	<u>—</u>	<u>—</u>

* For identification purposes only

APPENDIX II-B FINANCIAL INFORMATION OF THE PROJECT COMPANY

Statements of Financial Position

	<i>Notes</i>	At 31 December			At 30 June
		2013	2014	2015	2016
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT ASSETS					
Property, plant and equipment	17	58,520	75,313	82,583	88,655
Prepaid lease payments — non-current portion	18	1,387	1,354	1,322	1,306
Intangible assets	19	11,280	11,355	10,338	38,116
Deferred tax assets	28	707	737	701	983
		<u>71,894</u>	<u>88,759</u>	<u>94,944</u>	<u>129,060</u>
CURRENT ASSETS					
Inventories	20	1,555	1,413	10,583	2,264
Trade and other receivables	21	20,094	12,184	20,838	17,471
Prepaid lease payments	18	33	33	32	32
Amount due from the former holding company/ the immediate holding company	22	53,769	2,548	60	80
Amount due from an intermediate holding company	22	—	—	—	90,000
Amount due from a former shareholder	22	104	104	—	—
Amount due from a related party	22	—	31,809	52,918	—
Bank balances and cash	23	141	492	1,229	62,379
		<u>75,696</u>	<u>48,583</u>	<u>85,660</u>	<u>172,226</u>
CURRENT LIABILITIES					
Trade and other payables	24	38,865	44,738	94,667	105,570
Amount due to an intermediate holding company	25	—	—	—	83,985
Amount due to a related party	25	47,191	—	—	1,494
Bank borrowings	26	10,000	30,000	—	—
Provisions	27	3,536	4,527	3,332	3,836
Tax liabilities		2,677	7,605	11,303	13,597
		<u>102,269</u>	<u>86,870</u>	<u>109,302</u>	<u>208,482</u>

APPENDIX II-B FINANCIAL INFORMATION OF THE PROJECT COMPANY

		At 31 December		At 30 June	
		2013	2014	2015	2016
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
NET CURRENT LIABILITIES		<u>(26,573)</u>	<u>(38,287)</u>	<u>(23,642)</u>	<u>(36,256)</u>
NET ASSETS		<u>45,321</u>	<u>50,472</u>	<u>71,302</u>	<u>92,804</u>
CAPITAL AND RESERVES					
Registered capital	29	27,500	27,500	27,500	27,500
Reserves		<u>17,821</u>	<u>22,972</u>	<u>43,802</u>	<u>65,304</u>
TOTAL EQUITY		<u>45,321</u>	<u>50,472</u>	<u>71,302</u>	<u>92,804</u>

APPENDIX II-B FINANCIAL INFORMATION OF THE PROJECT COMPANY

Statements of Changes in Equity

	Registered capital RMB'000	Statutory surplus reserve RMB'000 (Note a)	Capital reserve RMB'000	Other reserves RMB'000 (Note b)	Retained earnings RMB'000	Total RMB'000
At 1 January 2013	2,000	446	26,500	261	3,754	32,961
Profit and total comprehensive income for the year	—	—	—	—	22,360	22,360
Transfer	—	2,236	—	—	(2,236)	—
Increase in registered capital by transfer of capital reserve (Note 29)	25,500	—	(25,500)	—	—	—
Appropriation of safety production fund	—	—	—	512	(512)	—
Dividends paid (Note 16)	—	—	—	—	(10,000)	(10,000)
At 31 December 2013 and 1 January 2014	27,500	2,682	1,000	773	13,366	45,321
Profit and total comprehensive income for the year	—	—	—	—	28,151	28,151
Transfer	—	2,815	—	—	(2,815)	—
Appropriation of safety production fund	—	—	—	569	(569)	—
Safety production fund utilised in the current year	—	—	—	(177)	177	—
Dividends paid (Note 16)	—	—	—	—	(23,000)	(23,000)
At 31 December 2014 and 1 January 2015	27,500	5,497	1,000	1,165	15,310	50,472
Profit and total comprehensive income for the year	—	—	—	—	20,830	20,830
Transfer	—	2,083	—	—	(2,083)	—
Appropriation of safety production fund	—	—	—	659	(659)	—
Safety production fund utilised in the current year	—	—	—	(933)	933	—
At 31 December 2015 and 1 January 2016	27,500	7,580	1,000	891	34,331	71,302
Profit and total comprehensive income for the period	—	—	—	—	21,502	21,502
Transfer	—	2,150	—	—	(2,150)	—
Appropriation of safety production fund	—	—	—	501	(501)	—
Safety production fund utilised in the current period	—	—	—	(312)	312	—
At 30 June 2016	27,500	9,730	1,000	1,080	53,494	92,804

APPENDIX II-B FINANCIAL INFORMATION OF THE PROJECT COMPANY

	Registered capital RMB'000	Statutory surplus reserve RMB'000 (Note a)	Capital reserve RMB'000	Other reserves RMB'000 (Note b)	Retained earnings RMB'000	Total RMB'000
For the six months ended 30 June 2015						
(unaudited)						
At 1 January 2015	27,500	5,497	1,000	1,165	15,310	50,472
Profit and total comprehensive income for the period	—	—	—	—	2,243	2,243
Transfer	—	224	—	—	(224)	—
Appropriation of safety production fund	—	—	—	92	(92)	—
Safety production fund utilised in the current period	—	—	—	(20)	20	—
At 30 June 2015	<u>27,500</u>	<u>5,721</u>	<u>1,000</u>	<u>1,237</u>	<u>17,257</u>	<u>52,715</u>

Notes:

(a) Statutory surplus reserve

According to the relevant rules and regulations in the People's Republic of China (the "PRC"), the company established in the PRC are required to transfer 10% of their net profit, as determined in accordance with the PRC accounting standards and regulations, to the statutory surplus reserve until the balance of the reserve reaches 50% of their respective registered capital. The transfer to this reserve must be made before distribution of dividends to owners of these PRC companies. Statutory surplus reserve can be used to set-off previous years' loss, if any, and may be converted into capital in proportion to existing equity owners' equity percentage, provided that the balance after such issuance is not less than 25% of their registered capital.

(b) Other reserves

Pursuant to regulations 安全生產費用提取和使用管理辦法 issued on 14 February 2012 in the PRC relating to the mining industry, the company engaged in mining business is required to provide for safety production fund. The amount is calculated based on the volume of ores excavated each year and at the applicable rate per tonne of ores. The safety production fund will be used to pay for relevant safety expenses in accordance with the rules as stated in the PRC Company Law which is not available for distribution to shareholders.

APPENDIX II-B FINANCIAL INFORMATION OF THE PROJECT COMPANY

Statements of Cash Flows

	Year ended 31 December			Six months ended	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
OPERATING ACTIVITIES					
Profit before tax	26,501	33,049	24,564	2,608	25,288
Adjustments for:					
Interest income	(6)	(2)	(6)	(2)	(7)
Interest expense	620	181	2,234	1,200	—
Depreciation of property, plant and equipment	4,636	4,905	6,413	2,054	4,974
Amortisation of prepaid lease payments	33	33	33	16	16
Amortisation of intangible assets	895	515	1,017	213	1,375
Over-provision for land reclamation and cavity refill cost and environmental rehabilitation in prior years	—	—	(1,707)	(1,707)	—
Provision for land reclamation and cavity refill cost	455	475	343	12	254
Provision for environmental rehabilitation	670	516	169	16	250
Written-off of property, plant and equipment	1	—	—	—	—
Operating cash flows before movements in working capital	33,805	39,672	33,060	4,410	32,150
Decrease (increase) in inventories	1,914	142	(9,170)	174	8,319
(Increase) decrease in trade and other receivables	(5,455)	7,910	(8,654)	181	3,367
Increase (decrease) in trade and other payables	7,708	5,873	49,929	(8,813)	10,903
Cash generated from (used in) operations	37,972	53,597	65,165	(4,048)	54,739
Income tax paid	(5,148)	—	—	—	(1,774)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	32,824	53,597	65,165	(4,048)	52,965

APPENDIX II-B FINANCIAL INFORMATION OF THE PROJECT COMPANY

	Year ended 31 December			Six months ended	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
INVESTING ACTIVITIES					
(Increase) decrease in amount due from the former holding company/ the immediate holding company	(63,769)	28,221	2,488	—	(20)
Increase in amount due from an intermediate holding company	—	—	—	—	(90,000)
Decrease in amount due from a former shareholder	145	—	—	—	—
(Increase) decrease in amount due from a related party	—	(31,809)	(21,005)	7,990	—
Payments for purchase of property, plant and equipment	(6,503)	(21,698)	(13,683)	(3,151)	(11,046)
Payments for purchase of intangible assets	(2,028)	(590)	—	—	—
Interest received	6	2	6	2	7
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(72,149)	(25,874)	(32,194)	4,841	(101,059)
FINANCING ACTIVITIES					
Decrease in amount due to the immediate holding company	(17,653)	—	—	—	—
Increase in amount due to an intermediate holding company	—	—	—	—	83,985
Increase (decrease) in amount due to a related party	47,191	(47,191)	—	—	25,259
Repayment of bank borrowings	—	(10,000)	(30,000)	—	—
New bank borrowings raised	10,000	30,000	—	—	—
Interest paid	(620)	(181)	(2,234)	(1,200)	—
NET CASH FROM (USED IN) FINANCING ACTIVITIES	38,918	(27,372)	(32,234)	(1,200)	109,244
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(407)	351	737	(407)	61,150
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR/ PERIOD	548	141	492	492	1,229
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR/PERIOD, represented by bank balances and cash	141	492	1,229	85	62,379

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

潼關縣祥順礦業發展有限公司 (transliterated as Tongguan County Xiangshun Mining Development Co., Ltd.*) (“Xiangshun Mining”) was established in the People’s Republic of China (the “PRC”) with limited liability on 26 July 2006. Its immediate holding company is 渭南金東礦業有限公司 (transliterated as Weinan Jindong Mining Co., Ltd.*), which was established in the PRC, and its ultimate holding company is One Champion International Limited, which was incorporated in the British Virgin Islands.

Xiangshun Mining is principally engaged in the exploration, mining, processing and sales of gold and related products.

The address of the registered office and principal place of business of Xiangshun Mining is Bei Dong Cun, Dai Zi Ying Xiang, Tongguan County, Weinan City, Shaanxi Province, the PRC.

The Financial Information is presented in Renminbi (“RMB”), which is also the functional currency of Xiangshun Mining.

2. BASIS OF PREPARATION

As at 30 June 2016, Xiangshun Mining had net current liabilities of approximately RMB36,256,000. This condition indicates the existence of a material uncertainty which may cast significant doubt on Xiangshun Mining’s ability to continue as a going concern. Therefore, Xiangshun Mining may be unable to realise its assets and discharge its liability in the normal course of business.

These Financial Information have been prepared on a going concern basis, the validity of which depends upon the financial support of an intermediate holding company of Xiangshun Mining, Champion Lucky Limited (“Champion Lucky”), at a level sufficient to finance the working capital requirements of Xiangshun Mining. In addition, Xiangshun Mining has obtained undertaking from Champion Lucky, not to demand for repayment of debt due from Xiangshun Mining until such time when repayment will not affect the ability of Xiangshun Mining to repay other creditors in the normal course of business. The sole director of Xiangshun Mining (the “Sole Director”) is therefore of the opinion that it is appropriate to prepare the Financial Information on a going concern basis. Should Xiangshun Mining be unable to continue as a going concern, adjustments would have to be made to the Financial Information to adjust the value of the assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, Xiangshun Mining has adopted all the HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) which are effective for Xiangshun Mining’s financial period beginning on 1 January 2016 consistently throughout the Relevant Periods.

Xiangshun Mining has not early adopted the following new and revised HKFRSs that have been issued but are not yet effective during the Relevant Periods:

HKFRS 9	Financial Instruments ²
HKFRS 15	Revenue from Contracts with Customers ²
HKFRS 16	Leases ³
Amendments to Hong Kong Accounting Standard (“HKAS”) 7	Disclosure Initiative ¹
HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ¹
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers ²

* For identification purposes only

- ¹ Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
- ² Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
- ³ Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.
- ⁴ Effective date to be determined and early application is permitted.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a “fair value through other comprehensive income” (“FVTOCI”) measurement category for certain simple debts instruments.

Key requirements of HKFRS 9:

- All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless that recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to a financial liabilities’ credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.
- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity’s risk management activities have also been introduced.

The Sole Director anticipates that the application of HKFRS 9 in the future may have a material impact on amounts reported in respect of Xiangshun Mining’s financial assets and financial liabilities. Regarding Xiangshun Mining’s financial assets and financial liabilities, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue* and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The Sole Director anticipates that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in Xiangshun Mining’s Financial Information. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until Xiangshun Mining performs a detailed review.

HKFRS 16 Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 *Leases*, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Sole Director anticipates that the application of HKFRS 16 in the future may have a certain impact on the amounts reported and disclosures made in Xiangshun Mining’s Financial Information. However, it is not practicable to provide a reasonable estimate of effect of HKFRS 16 until Xiangshun Mining performs a detailed review.

Other than the above, the Sole Director does not anticipate that the application of the other new and amendment to HKFRSs will have any significant impact on Xiangshun Mining’s financial results and financial position.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Information presents the financial track record of Xiangshun Mining for the three years ended 31 December 2013, 2014, 2015 and six months ended 30 June 2016 and is prepared for the purposes of inclusion in a circular of the Company to its shareholders for the purpose of proposed acquisition of the remaining 73% of the total issued share capital of One Champion International Limited, using the principal accounting policies which are materially consistent with those of the Company as applied in the Company's consolidated financial statements for the year ended 31 December 2015.

The Financial Information has been prepared in accordance with the accounting policies set out below which conform to HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Financial Information has been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange of goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, Xiangshun Mining takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Financial Information is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value, such as value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below:

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- Xiangshun Mining has transferred to the buyer the significant risks and rewards of ownership of the goods;
- Xiangshun Mining retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to Xiangshun Mining; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Subcontracting income is recognised when services have been rendered.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to Xiangshun Mining and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Xiangshun Mining's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

Leasing

All leases are classified as operating leases.

Xiangshun Mining as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant leases.

Xiangshun Mining as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When a lease includes both land and building elements, Xiangshun Mining assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to Xiangshun Mining, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Government grants

Government grants are not recognised until there is reasonable assurance that Xiangshun Mining will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which Xiangshun Mining recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that Xiangshun Mining should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to Xiangshun Mining with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below), are stated in the statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Construction in progress are carried at cost, less any recognised accumulated impairment loss. Costs comprises the direct costs of construction during the period of the construction. Construction in progress are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write-off the cost of assets (other than mining structures and properties under construction) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each of the reporting periods, with the effect of any changes in estimate accounted for on a prospective basis.

Included in property, plant and equipment is mining structures located in the mining site. Depreciation is provided to write-off the cost of the mining structures using the Units of Production (“UOP”) basis to write-off the cost of the asset proportionately to the extraction of the proven and probable mineral reserves.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets***Intangible assets acquired separately***

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses, if any. Amortisation for intangible assets with finite useful life is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each of the reporting periods, with the effect of any changes in estimate being accounted for on a prospective basis.

Mining rights are stated at cost less accumulated amortisation and impairment losses, if any. The mining rights are amortised to profit or loss using the UOP method based on the proven and probable mineral reserves. Xiangshun Mining’s mining rights are of sufficient duration (or convey a legal right to renew for sufficient duration) to enable all reserves to be mined in accordance with current production schedules.

Exploration rights are stated at cost less accumulated amortisation and impairment losses, if any. The exploration rights are amortised on a straight line basis over the estimated useful lives of two years.

Exploration assets are stated at cost less impairment losses. Exploration and evaluation costs include expenditure incurred to secure further mineralisation in existing ore bodies as well as in new areas of interest. Expenditure incurred prior to accruing legal rights to explore an area is written off as incurred.

When it can be reasonably ascertained that an exploration property is capable of commercial production, exploration and evaluation costs capitalised are transferred to either mining infrastructure or mining rights and reserves and depreciated/amortised by the UOP method based on the proven and probable mineral reserves. Costs incurred for exploration which can be directly attributable to the development of mining infrastructure are transferred to mining infrastructure when the exploration reaches the stage of commercial production. All other costs will be transferred to mining rights and reserves.

Exploration rights and assets are written off to profit or loss if the exploration property is abandoned.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss in the period when the asset is derecognised.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from “profit before tax” as reported in the statements of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Xiangshun Mining’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each of the reporting periods.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each of the reporting periods and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting periods.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Xiangshun Mining expects, at the end of each of the reporting periods, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when Xiangshun Mining becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Financial assets are mainly loans and loans receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from the former holding company/the immediate holding company/an intermediate holding company/a former shareholder/a related party and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment loss (see accounting policy in respect of impairment on financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each of the reporting periods. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include Xiangshun Mining's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivable is considered uncollectible, it is written-off against the allowance account. Subsequent recoveries of amounts previously written-off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the assets at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by Xiangshun Mining are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by Xiangshun Mining are recognised at the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities including trade and other payables, amount due to an intermediate holding company/a related party and bank borrowings are subsequently measured at amortised cost, using effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derecognition

Xiangshun Mining derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If Xiangshun Mining neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, Xiangshun Mining recognises the retained interest in the asset and an associated liability for amounts it may have to pay. If Xiangshun Mining retains substantially all the risks and rewards of ownership of a transferred financial asset, Xiangshun Mining continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, Xiangshun Mining allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Xiangshun Mining derecognises financial liabilities when, and only when, Xiangshun Mining's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment of tangible and intangible assets

At the end of each of the reporting periods, Xiangshun Mining reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, Xiangshun Mining estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior periods. A reversal of an impairment loss is recognised immediately in profit or loss.

Provisions

Provisions are recognised when Xiangshun Mining has a present obligation (legal or constructive) as a result of a past event, it is probable that Xiangshun Mining will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of each of the reporting periods, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

Provisions for land reclamation and cavity refill costs, and environmental rehabilitation are based on estimates of required expenditure on the mines in accordance with the relevant rules and regulations in the PRC. Xiangshun Mining estimates its liabilities for land reclamation and cavity refill, and environmental rehabilitation based upon detailed calculations of the amount and timing of the future cash expenditure to perform the required work, escalated for inflation, then discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability such that the amount of provision reflects the present value of the expenditures expected to be required to settle the obligation. Provisions for land reclamation and refill cost, and environmental rehabilitation are recognised in profit and loss in the period when the obligation is identified.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to the state-managed retirement benefit schemes are recognised as an expense when employees have rendered services entitling them to the contributions.

The employees of Xiangshun Mining in the PRC are members of the state-managed retirement benefit schemes operated by the PRC Government. Xiangshun Mining is required to contribute certain percentage of their payroll to the retirement benefit scheme to fund the benefits. The only obligation of Xiangshun Mining with respect to the retirement benefit schemes is to make the required contributions under the schemes.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of Xiangshun Mining's accounting policies, which are described in Note 4 to the Financial Information, the Sole Director is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following is the critical judgement, apart from those involving estimations (see below), that the Sole Director has made in the process of applying Xiangshun Mining's accounting policies and that have the most significant effect on the amounts recognised in the Financial Information.

Going concern and liquidity

As explained in Note 2 to the Financial Information, the financial position of Xiangshun Mining indicates the existence of a material uncertainty which may cast doubt on Xiangshun Mining's ability to continue as a going concern. The assessment of the going concern assumptions involves making judgement by the Sole Director, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. The Sole Director considers that Xiangshun Mining has ability to continue as a going concern and the major conditions that may cast significant doubt about the going concern assumptions are set out in Note 2 to the Financial Information.

Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each of the reporting periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period.

(a) Impairment of intangible assets and property, plant and equipment

The carrying amount of property, plant and equipment and intangible assets are reviewed and adjusted for impairment in accordance with HKAS 36 whenever certain events or changes in circumstances indicate that the carrying amount may not be recoverable. Xiangshun Mining determines the recoverable amount of these assets based on the estimations of future expected cash flows from the usage of these assets and a suitable discount rate. Where the future cash flows are less than expected, a material impairment loss may arise. No impairment of intangible assets and property, plant and equipment has been provided during the Relevant Periods.

(b) Impairment of trade and other receivables

When there is objective evidence of impairment loss, Xiangshun Mining takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit loss that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. No impairment loss in respect of trade and other receivables has been recognised during the Relevant Periods.

(c) Depreciation and amortisation of mining related assets and reserves estimates

Mining structures and mining rights are depreciated and amortised using the UOP method based on the proven and probable mineral reserves.

Engineering estimates of Xiangshun Mining's gold reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information. There is a national standard set by the PRC Government regarding the engineering criteria that have to be met before estimated gold reserves can be designated as "proven and probable". Proven and probable gold reserve estimates are updated at regular basis and have taken into account recent production and technical information about each mine. In addition, as prices and cost levels change from year to year, the estimate of proven and probable gold reserves also changes. This change is considered as a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation rates. The Sole Director has engaged a technical consultant not related to Xiangshun Mining, SRK Consulting (Hong Kong) Limited, to estimate the total indicated and inferred metals and the independent technical report was issued on 31 October 2016.

(d) Provision for land reclamation and cavity refill and environmental rehabilitation

Pursuant to the regulation in the PRC, Xiangshun Mining recognises provision for land reclamation and cavity refill and environmental rehabilitation of the mines located in the PRC. The amount of provision is an estimate based upon the life of mining tenement, mine closure as well as the future timing and cost of such rehabilitation, which depends on an overall judgement of management.

6. CAPITAL RISK MANAGEMENT

Xiangshun Mining manages its capital to ensure that Xiangshun Mining will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of Xiangshun Mining consists of net debt, which includes bank borrowings, net of cash and cash equivalents and equity attributable to equity holders of Xiangshun Mining, comprising registered capital and reserves.

The Sole Director reviews the capital structure on a regular basis. As part of this review, the Sole Director considers the cost of capital and the risk associates with each class of capital. Xiangshun Mining will balance its overall capital structure through new share issues as well as the issue of new debt.

7. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	At 31 December		At 30 June	
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Financial assets				
Loan and receivables:				
Trade and other receivables	17,394	10,440	8,243	8,902
Amount due from the former holding company/the immediate holding company	53,769	2,548	60	80
Amount due from an intermediate holding company	—	—	—	90,000
Amount due from a former shareholder	104	104	—	—
Amount due from a related party	—	31,809	52,918	—
Bank balances and cash	141	492	1,229	62,379
	<u>71,408</u>	<u>45,393</u>	<u>62,450</u>	<u>161,361</u>
Financial liabilities				
Liabilities measured at amortised cost:				
Trade and other payables	38,865	44,738	66,980	70,189
Amount due to an intermediate holding company	—	—	—	83,985
Amount due to a related party	47,191	—	—	1,494
Bank borrowings	10,000	30,000	—	—
	<u>96,056</u>	<u>74,738</u>	<u>66,980</u>	<u>155,668</u>

(b) Financial risk management objectives and policies

Xiangshun Mining's major financial instruments include trade and other receivables, amount due from the former holding company/the immediate holding company/an intermediate holding company/a former shareholder/a related party, bank balances and cash, trade and other payables, amount due to an intermediate holding company/a related party and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk***Interest rate risk***

Xiangshun Mining is exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings (see Notes 23 and 26 to the Financial Information).

Xiangshun Mining's exposures to interest rate on financial liabilities are detailed in the liquidity risk section of this note. Xiangshun Mining's cash flow interest rate risk is mainly concentrated on the fluctuation of The People's Bank of China Benchmark Rate arising from Xiangshun Mining's RMB denominated bank borrowings.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate bank borrowings at the end of each of the reporting periods. The analysis is prepared assuming these bank borrowings outstanding at the end of each of the reporting periods were outstanding for the whole year. 50 basis points, 50 basis points, 50 basis points and 50 basis points increase or decrease are used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates for the years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2016 respectively.

If interest rates had been 50 basis points, 50 basis points, 50 basis points and 50 basis points higher/lower and all other variables were held constant for the years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2016, Xiangshun Mining's post-tax profit would decrease/increase by approximately RMB43,000, RMB128,000, RMBNil and RMBNil for the years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2016 respectively.

For bank balances, the Sole Director is of the opinion that the impact of interest rate risk is insignificant. Accordingly, no sensitivity analysis is presented.

Credit risk

Xiangshun Mining's maximum exposure to credit risk which will cause a finance loss to Xiangshun Mining due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets stated in the statements of financial position.

Xiangshun Mining's credit risk is primarily attributable to its trade and other receivables.

In order to minimise the credit risk, the management of Xiangshun Mining has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, Xiangshun Mining reviews the recoverable amount of each individual debt at the end of each of the reporting periods to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Sole Director considers that Xiangshun Mining's credit risk is significantly reduced.

Xiangshun Mining has concentration of credit risk as Xiangshun Mining's gross trade receivables approximately RMB12,657,000 and RMB1,581,000 representing 100% and 100% of total gross trade receivables were derived from two and one customer(s) as at 31 December 2013 and 31 December 2014 respectively. In order to minimise the credit risk, the management continuously monitor the level of exposure to ensure that follow up actions and/or corrective actions are taken promptly to lower exposure or even to recover the overdue debts.

Operational risk

During the years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2015 and 2016, Xiangshun Mining's exposure to operational risk is primarily attributable to heavy reliance on several major customers located in the PRC. The revenue contributed by these major customers amounted to approximately RMB72,230,000, RMB83,092,000, RMB82,822,000, RMB9,938,000 and RMB102,079,000 which accounted for 79%, 100%, 91%, 100% and 96% of Xiangshun Mining's total revenue for the years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2015 and 2016 respectively. The Sole Director will continue closely monitor the performance and financial position of these major customers to avoid any adverse impact on Xiangshun Mining's financial position.

APPENDIX II-B FINANCIAL INFORMATION OF THE PROJECT COMPANY

Liquidity risk

In the management of the liquidity risk, Xiangshun Mining monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance Xiangshun Mining's operation and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

At 30 June 2016, Xiangshun Mining has net current liabilities of approximately RMB36,256,000. The adoption of going concern basis has been detailed in Note 2 to the Financial Information. In the opinion of the Sole Director, Xiangshun Mining's exposure to liquidity risk is limited.

The following table details Xiangshun Mining's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which Xiangshun Mining can be required to pay.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate as at the end of each of the reporting periods.

Liquidity tables

	Weighted average interest rate	Repayable on demand or within 1 year RMB'000	Total undiscounted cash flow RMB'000	Carrying amounts RMB'000
At 31 December 2013				
Trade and other payables	—	38,865	38,865	38,865
Amount due to a related party	—	47,191	47,191	47,191
Bank borrowings	7.80%	10,035	10,035	10,000
		<u>96,091</u>	<u>96,091</u>	<u>96,056</u>
At 31 December 2014				
Trade and other payables	—	44,738	44,738	44,738
Bank borrowings	7.89%	32,218	32,218	30,000
		<u>76,956</u>	<u>76,956</u>	<u>74,738</u>
At 31 December 2015				
Trade and other payables	—	66,980	66,980	66,980
At 31 June 2016				
Trade and other payables	—	70,189	70,189	70,189
Amount due to an intermediate holding company	—	83,985	83,985	83,985
Amount due to a related party	—	1,494	1,494	1,494
		<u>155,668</u>	<u>155,668</u>	<u>155,668</u>

(c) **Fair value measurements of the financial instruments**

There is no financial instrument measured at fair value on a recurring basis. The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flows analysis.

The Sole Director considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their respective fair values at the end of each of the reporting periods.

8. REVENUE

An analysis of Xiangshun Mining's revenue for the year/period is as follows:

	Year ended 31 December			Six months ended	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Sales of gold and related products	85,502	83,092	90,651	9,938	106,481
Trading of gold concentrate	5,500	—	—	—	—
	<u>91,002</u>	<u>83,092</u>	<u>90,651</u>	<u>9,938</u>	<u>106,481</u>

9. SEGMENT INFORMATION

Information reported to the Sole Director, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. This is also the basis upon which Xiangshun Mining is organised and managed. No operating segments identified by the Sole Director has been aggregated in arriving at the reportable segment of Xiangshun Mining.

Specifically, Xiangshun Mining's reportable and operating segment under HKFRS 8 is as follows:

— Mining, processing and sales of gold and related products

Since this is the only operating and reportable segment of Xiangshun Mining, no further analysis thereof is presented. All the revenue of Xiangshun Mining is generated from mining, processing and sales of gold and related products during the Relevant Periods.

Geographical information

Xiangshun Mining's operations are located in the PRC. All the revenue from external customers of Xiangshun Mining is generated from customers located in the PRC. All the non-current assets of Xiangshun Mining are located in the PRC.

APPENDIX II-B FINANCIAL INFORMATION OF THE PROJECT COMPANY

Information about major customers

Revenues from customers of the corresponding year/period contributing over 10% of the total revenue of Xiangshun Mining is as follows:

	Year ended 31 December			Six months ended 30 June	
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2015 RMB'000	2016 RMB'000
Customer A	72,230	—	—	—	—
Customer B	N/A*	32,941	—	—	—
Customer C	—	16,011	—	—	—
Customer D	—	34,140	82,822	9,938	29,281
Customer E	—	—	—	—	72,798
	—	—	—	—	72,798

* The corresponding revenue did not contribute over 10% of total revenue of the Xiangshun Mining.

10. OTHER INCOME

	Year ended 31 December			Six months ended 30 June	
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2015 RMB'000	2016 RMB'000
Subcontracting income	—	1,273	346	346	—
Rental income	150	—	—	—	—
Over-provision for land reclamation and cavity refill cost and environmental rehabilitation in prior years	—	—	1,707	1,707	—
Bank interest income	6	2	6	2	7
Sundry income	332	2	—	—	1
	488	1,277	2,059	2,055	8

11. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2015 RMB'000	2016 RMB'000
Interest on bank borrowings	620	181	2,234	1,200	—

APPENDIX II-B FINANCIAL INFORMATION OF THE PROJECT COMPANY

12. INCOME TAX EXPENSE

	Year ended 31 December			Six months ended	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Current tax					
PRC Enterprise Income Tax (“EIT”)	4,501	4,928	3,698	—	4,068
Deferred tax (<i>Note 28</i>)					
Current year/period	(360)	(30)	36	365	(282)
Income tax expense	<u>4,141</u>	<u>4,898</u>	<u>3,734</u>	<u>365</u>	<u>3,786</u>

Under the Law of the People’s Republic of China on Enterprise Income Tax (the “EIT Law” effective from 1 January 2008) and Implementation Regulation on the EIT Law, as well as pursuant to the Notice of the Ministry of Finance, 財政部國家稅務總局海關總署關於深入實施西部大開發戰略有關稅收政策問題的通知(財稅[2011] 58號) (transliterated as General Administration of Customs and the State Administration of Taxation on the Issues of Preferential Taxation Policies for Further Implementing the Western Development Strategy (Cai Shui [2011] No. 58)*), from 1 January 2011 to 31 December 2020, the enterprises in the western region, which engaged in encouraged industries as indicated in the 西部地區鼓勵類產業目錄 (transliterated as Catalogue of Encouraged Industries of Western Region*) and 產業結構調整指導目錄 (2011 年本) (修正) (transliterated as Catalogue of Industrial Structure Adjustment Guidance ([2011] Revised)*) (國家發改委令 2013 年第 21 號) (transliterated as National Development and Reform Commission Order [2013] No. 21*) and which derive 70% of their operating income from the encouraged industries could apply for a tax incentive. After getting in-charge tax bureau’s approval, those enterprises could enjoy a reduced EIT rate of 15% from the statutory EIT rate of 25%. During the years ended 31 December 2013, 2014 and 2015 and six months ended 30 June 2015 and 2016, Xiangshun Mining got the in-charge tax bureau’s approval and was granted a reduced EIT rate of 15%.

The income tax expense for the Relevant Periods can be reconciled to the profit before tax per the statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December			Six months ended	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Profit before tax	<u>26,501</u>	<u>33,049</u>	<u>24,564</u>	<u>2,608</u>	<u>25,288</u>
Tax at domestic income tax rate (15%)	3,975	4,957	3,685	391	3,793
Tax effect of expenses not deductible for tax purpose	203	30	49	—	—
Tax effect of income not taxable for tax purpose	(37)	—	—	—	—
Others	—	(89)	—	(26)	(7)
Income tax expense	<u>4,141</u>	<u>4,898</u>	<u>3,734</u>	<u>365</u>	<u>3,786</u>

* For identification purposes only

APPENDIX II-B FINANCIAL INFORMATION OF THE PROJECT COMPANY

13. PROFIT FOR THE YEAR/PERIOD

	Year ended 31 December			Six months ended 30 June	
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2015 RMB'000 (Unaudited)	2016 RMB'000
Profit for the year/period has been arrived at after charging:					
Director's and chief executives' emoluments (<i>Note 14</i>)	111	258	—	—	—
Other staff costs					
— Salaries and other allowances	4,018	3,812	3,138	1,439	1,528
— Retirement benefits scheme contributions	521	256	483	214	200
Total staff costs	4,650	4,326	3,621	1,653	1,728
Auditor's remuneration	30	20	20	—	—
Depreciation of property, plant and equipment (<i>Note a</i>)	4,636	4,905	6,413	2,054	4,974
Amortisation of prepaid lease payments	33	33	33	16	16
Amortisation of intangible assets (<i>Note b</i>)	895	515	1,017	213	1,375
Written-off of property, plant and equipment	1	—	—	—	—
Costs of inventories recognised as an expense	39,063	33,946	51,227	4,943	58,099
Minimum lease payments under operating lease in respect of rented premises	55	57	57	28	28

Notes:

- (a) Included in depreciation of property, plant and equipment, approximately RMB3,656,000, RMB4,451,000, RMB5,884,000, RMB1,686,000 and RMB4,801,000 are recognised in cost of sales for the years ended 31 December 2013, 2014 and 2015 and six months ended 30 June 2015 and 2016, respectively.
- (b) All the amortisation of intangible assets are recognised in cost of sales during the Relevant Periods.

APPENDIX II-B FINANCIAL INFORMATION OF THE PROJECT COMPANY

14. DIRECTOR'S AND CHIEF EXECUTIVES' EMOLUMENTS

Directors' remuneration for the Relevant Periods are as follows:

	Fees <i>RMB'000</i>	Salaries and other allowances <i>RMB'000</i>	Retirement benefits scheme contributions <i>RMB'000</i>	Total <i>RMB'000</i>
For the year ended				
31 December 2013				
Jia Dan Yang (<i>Note a</i>)	—	107	4	111
For the year ended				
31 December 2014				
Jia Dan Yang (<i>Note a</i>)	—	250	8	258
For the year ended				
31 December 2015				
Jia Dan Yang (<i>Note a</i>)	—	—	—	—
Wang Yun Zhong (<i>Note b</i>)	—	—	—	—
For the six months ended				
30 June 2015 (Unaudited)				
Jia Dan Yang (<i>Note a</i>)	—	—	—	—
For the six months ended				
30 June 2016				
Wang Yun Zhong (<i>Note b</i>)	—	—	—	—

Notes:

- (a) Resigned on 15 September 2015
- (b) Appointed on 9 September 2015

During the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016, no emoluments were paid by Xiangshun Mining to the directors of Xiangshun Mining as an inducement to join or upon joining Xiangshun Mining or as compensation for loss of office.

The directors' emoluments shown above were mainly for their services in connection with the management of the affairs of Xiangshun Mining. There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the Relevant Periods.

Apart from the directors, Xiangshun Mining has not classified any other persons as chief executives during the Relevant Periods.

APPENDIX II-B FINANCIAL INFORMATION OF THE PROJECT COMPANY

15. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of Xiangshun Mining during the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016 included 1, 1, 0, 0 and 0 director of Xiangshun Mining, respectively, detail of whose remuneration are set out in Note 14 to the Financial Information above. Details of the remuneration for the remaining 4, 4, 5, 5 and 5 highest paid employees who are neither a director or a chief executive of Xiangshun Mining, for the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016, respectively, are as follows:

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Salaries and other allowances	464	493	840	420	438
Retirement benefits scheme contributions	27	27	45	23	22
	<u>491</u>	<u>520</u>	<u>885</u>	<u>443</u>	<u>460</u>

The number of the highest paid employees who are not the directors of Xiangshun Mining whose remuneration fell within the following bands is as follows:

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RMBNil to RMB1,000,000	<u>4</u>	<u>4</u>	<u>5</u>	<u>5</u>	<u>5</u>

16. DIVIDENDS

	At 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interim dividends for shareholders of Xiangshun Mining recognised as distribution during the year/period	<u>10,000</u>	<u>23,000</u>	<u>—</u>	<u>—</u>	<u>—</u>

APPENDIX II-B FINANCIAL INFORMATION OF THE PROJECT COMPANY

17. PROPERTY, PLANT AND EQUIPMENT

	Mining structures <i>RMB'000</i>	Buildings <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Furniture, fixtures and equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
COST							
At 1 January 2013	13,261	6,772	10,518	211	4,443	12,533	47,738
Additions	17,918	489	1,015	1,127	—	4,474	25,023
Written-off	—	—	(13)	—	—	—	(13)
Transfers	280	694	—	14	—	(988)	—
At 31 December 2013 and 1 January 2014	31,459	7,955	11,520	1,352	4,443	16,019	72,748
Additions	6	78	13	10	—	21,591	21,698
Transfers	36,790	208	—	612	—	(37,610)	—
At 31 December 2014 and 1 January 2015	68,255	8,241	11,533	1,974	4,443	—	94,446
Additions	33	1,186	10	2	—	12,452	13,683
At 31 December 2015 and 1 January 2016	68,288	9,427	11,543	1,976	4,443	12,452	108,129
Additions	24	10	400	11	—	10,601	11,046
Transfers	11,199	—	—	—	—	(11,199)	—
At 30 June 2016	79,511	9,437	11,943	1,987	4,443	11,854	119,175
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
At 1 January 2013	1,709	2,583	2,780	112	2,420	—	9,604
Charge for the year	2,320	416	902	145	853	—	4,636
Eliminated on written-off	—	—	(12)	—	—	—	(12)
At 31 December 2013 and 1 January 2014	4,029	2,999	3,670	257	3,273	—	14,228
Charge for the year	2,600	482	907	120	796	—	4,905
At 31 December 2014 and 1 January 2015	6,629	3,481	4,577	377	4,069	—	19,133
Charge for the year	3,968	599	1,109	585	152	—	6,413
At 31 December 2015 and 1 January 2016	10,597	4,080	5,686	962	4,221	—	25,546
Charge for the period	4,083	269	449	173	—	—	4,974
At 30 June 2016	14,680	4,349	6,135	1,135	4,221	—	30,520
CARRYING VALUES							
At 31 December 2013	27,430	4,956	7,850	1,095	1,170	16,019	58,520
At 31 December 2014	61,626	4,760	6,956	1,597	374	—	75,313
At 31 December 2015	57,691	5,347	5,857	1,014	222	12,452	82,583
At 30 June 2016	64,831	5,088	5,808	852	222	11,854	88,655

APPENDIX II-B FINANCIAL INFORMATION OF THE PROJECT COMPANY

Applications for property ownership certificates of all the buildings located in Shaanxi Province with carrying values of approximately RMB4,956,000, RMB4,760,000, RMB5,347,000 and RMB5,088,000 as of 31 December 2013, 2014, 2015 and 30 June 2016 respectively were still in progress and these property ownership certificates had not been issued to Xiangshun Mining by the relevant government authority at the end of the Relevant Periods. The Sole Director is of the opinion that Xiangshun Mining has acquired the beneficial title to those buildings located in Shaanxi Province at the end of the Relevant Periods and the property certificates can be obtained in the future.

The above items of property, plant and equipment, other than mining structures and construction in progress, are depreciated on a straight-line basis at follows:

Buildings	Shorter of lease term of land or 8-40 years
Plant and machinery	12-14 years
Furniture, fixtures and equipment	5-10 years
Motor vehicles	5-10 years

Mining structures are depreciated on a UOP basis.

18. PREPAID LEASE PAYMENTS

	At 31 December			At 30 June
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Analysed for reporting purposes as:				
— Current assets	33	33	32	32
— Non-current assets	1,387	1,354	1,322	1,306
	<u>1,420</u>	<u>1,387</u>	<u>1,354</u>	<u>1,338</u>

APPENDIX II-B FINANCIAL INFORMATION OF THE PROJECT COMPANY

19. INTANGIBLE ASSETS

	Mining rights <i>RMB'000</i> <i>(Note (a))</i>	Exploration right and assets <i>RMB'000</i> <i>(Note (b))</i>	Total <i>RMB'000</i>
COST			
At 1 January 2013	12,304	371	12,675
Additions	2,028	—	2,028
At 31 December 2013 and 1 January 2014	14,332	371	14,703
Additions	—	590	590
At 31 December 2014, 1 January 2015, 31 December 2015 and 1 January 2016	14,332	961	15,293
Additions	—	29,153	29,153
At 30 June 2016	14,332	30,114	44,446
ACCUMULATED AMORTISATION AND IMPAIRMENT			
At 1 January 2013	2,452	76	2,528
Charge for the year	709	186	895
At 31 December 2013 and 1 January 2014	3,161	262	3,423
Charge for the year	284	231	515
At 31 December 2014 and 1 January 2015	3,445	493	3,938
Charge for the year	722	295	1,017
At 31 December 2015 and 1 January 2016	4,167	788	4,955
Charge for the period	1,227	148	1,375
At 30 June 2016	5,394	936	6,330
CARRYING VALUES			
At 31 December 2013	<u>11,171</u>	<u>109</u>	<u>11,280</u>
At 31 December 2014	<u>10,887</u>	<u>468</u>	<u>11,355</u>
At 31 December 2015	<u>10,165</u>	<u>173</u>	<u>10,338</u>
At 30 June 2016	<u>8,938</u>	<u>29,178</u>	<u>38,116</u>

APPENDIX II-B FINANCIAL INFORMATION OF THE PROJECT COMPANY

Notes:

(a) Mining rights

Xiangshun Mining's mining rights are as follows:

Mine	Location	Expiry date
Gold Mine – Q301	Shaanxi Province	30 May 2018
Gold Mine – Q401	Shaanxi Province	6 May 2018
Gold Mine – Q198	Shaanxi Province	9 July 2017
Gold Mine – Q4112 (<i>Note</i>)	Shaanxi Province	22 June 2019

Note: As at 30 June 2016, the mining rights in respect of the gold mine – Q4112, which was applied during the year ended 31 December 2013, with carrying values of RMBNil are still under the name of an independent third party, and the application for the change of name is still in progress up to the date of this report. The Sole Director is of the opinion that Xiangshun Mining has acquired the beneficial title to that mining right as at 30 June 2016, and the legal title of that mining right can be obtained by Xiangshun Mining in the future.

(b) Exploration right and assets

Included in the exploration right and assets with carrying values of approximately RMB109,000, RMB468,000, RMB173,000 and RMB29,178,000 at 31 December 2013, 2014, 2015 and 30 June 2016 respectively, representing the exploration right and assets located in Shaanxi Province.

20. INVENTORIES

	At 31 December			At 30 June
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	1,555	1,413	119	2,264
Finished goods	—	—	10,464	—
	<u>1,555</u>	<u>1,413</u>	<u>10,583</u>	<u>2,264</u>

21. TRADE AND OTHER RECEIVABLES

	At 31 December			At 30 June
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables (<i>Note a</i>)	12,657	1,581	—	—
Other receivables (<i>Note b</i>)	2,246	6,367	5,712	5,126
Deposits and prepayments (<i>Note c</i>)	5,191	4,236	15,126	12,345
	<u>7,437</u>	<u>10,603</u>	<u>20,838</u>	<u>17,471</u>
Total trade and other receivables	<u>20,094</u>	<u>12,184</u>	<u>20,838</u>	<u>17,471</u>

APPENDIX II-B FINANCIAL INFORMATION OF THE PROJECT COMPANY

Notes:

(a) Trade receivables

Xiangshun Mining normally allows credit period of 30 days to its trade customers. The aged analysis of trade receivables presented based on the invoice dates which approximated the respective dates on which revenue was recognised at the end of each of the reporting periods is as follows:

	At 31 December			At 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
0 — 30 days	2,000	—	—	—
31 — 60 days	3,157	1,581	—	—
61 — 90 days	7,500	—	—	—
	12,657	1,581	—	—
	12,657	1,581	—	—

Before accepting any new customer, Xiangshun Mining assesses the potential customer's credit quality and defines credit limits by customer. Limits and credit quality attributed to customers are reviewed annually. At 31 December 2013, approximately 16% of the trade receivables were neither past due nor impaired. At 31 December 2014, 2015 and 30 June 2016, no trade receivables was past due but not impaired.

Ageing of trade receivables which are past due but not impaired:

	At 31 December			At 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
31 — 60 days	3,157	1,581	—	—
61 — 90 days	7,500	—	—	—
	10,657	1,581	—	—
	10,657	1,581	—	—

Included in Xiangshun Mining's trade receivables balance at 31 December 2013, 2014, 2015 and 30 June 2016 are debtors with aggregate carrying amount of approximately RMB10,657,000, RMB1,581,000, RMBNil and RMBNil respectively which are past due at the end of each of the reporting periods for which Xiangshun Mining has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered to be recoverable. Xiangshun Mining does not hold any collateral over these balances.

As at 31 December 2013, included in Xiangshun Mining's trade receivables was an amount due from the former holding company of approximately RMB12,657,000, which are repayable on similar credit terms to those offered to the major customers of Xiangshun Mining. The amount had been subsequently settled during the year ended 31 December 2014.

(b) Other receivables

Included in Xiangshun Mining's other receivables, an amount of approximately RMB1,538,000, RMB3,068,000, RMB3,200,000 and RMB614,000 as at 31 December 2013, 2014, 2015 and 30 June 2016, respectively, represented the staff advances which are unsecured, interest-free and have no fixed terms of repayment.

As at 31 December 2014, included in Xiangshun Mining's other receivables in respect of subcontracting income were amounts due from a related company, 潼關縣潼金礦業有限公司 (transliterated as Tongguan County Tongjin Gold Mine Company Limited*), approximately of RMB1,284,000 which were repayable on similar credit terms to those offered to the major customers of Xiangshun Mining. It was fully settled during the year ended 31 December 2015.

* For identification purposes only

(c) Deposits and prepayments

Included in Xiangshun Mining's deposits and prepayments, an amount of approximately RMB1,688,000, RMB141,000, RMBNil and RMBNil as at 31 December 2013, 2014, 2015 and 30 June 2016, respectively, represented the advance payments to several suppliers for exploration and mining of gold which are unsecured, interest-free and have no fixed terms of repayment.

Also, included in Xiangshun Mining's deposits and prepayments, an amount of approximately RMB8,414,000 and RMB4,488,000 as at 31 December 2015 and 30 June 2016, respectively, represented the prepayment to a supplier for purchases of gold ore which is unsecured, interest-free and has no fixed terms of repayment.

Further, included in Xiangshun Mining's deposits and prepayments, an amount of approximately RMB2,200,000, RMB2,200,000, RMB2,200,000 and RMB2,200,000 as at 31 December 2013, 2014, 2015 and 30 June 2016, respectively represented the mining security and deposit paid to 潼關縣安全生產監督管理局 (transliterated as Tongguan County Administration of Work Safety*) which are unsecured, interest-free and have no fixed terms of repayment.

22. AMOUNT DUE FROM THE FORMER HOLDING COMPANY/THE IMMEDIATE HOLDING COMPANY/AN INTERMEDIATE HOLDING COMPANY/A FORMER SHAREHOLDER/A RELATED PARTY

The amount due from the former holding company/the immediate holding company/an intermediate holding company/a shareholder/a former shareholder/a related party are unsecured, non-interest bearing and repayable on demand.

Particulars of amount due from the former holding company/the immediate holding company/an intermediate holding company/a former shareholder/a related party are disclosed as follows:

	At 31 December			At 30 June
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
The former holding company/the immediate holding company				
— 陝西秦豫環保科技有限公司 (transliterated as Shaanxi Qinyu Environmental Protection Technology Company Limited*) ("Shaanxi Qinyu") (Note i)	53,769	2,548	—	—
— 渭南金東礦業有限公司 (transliterated as Weinan Jindong Mining Co., Ltd.*) ("Weinan Jindong") (Note i)	—	—	60	80
	<u>53,769</u>	<u>2,548</u>	<u>60</u>	<u>80</u>
An intermediate holding company				
— 陝西福瑞永成礦業有限公司 (transliterated as Shaanxi Furui Rongcheng Mining Co., Ltd.*) ("Shaanxi Furui")	—	—	—	90,000
	<u>—</u>	<u>—</u>	<u>—</u>	<u>90,000</u>
A shareholder/a former shareholder				
— Guo Guangqian (Note ii)	104	104	—	—
	<u>104</u>	<u>104</u>	<u>—</u>	<u>—</u>
A related party				
— Ma Dongsheng (Note iii)	—	31,809	52,918	—
	<u>—</u>	<u>31,809</u>	<u>52,918</u>	<u>—</u>

* For identification purposes only

APPENDIX II-B FINANCIAL INFORMATION OF THE PROJECT COMPANY

Maximum amounts outstanding during the Relevant Periods are as follows:

	At 31 December			At 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
The former holding company/the immediate holding company				
— Shaanxi Qinyu (<i>Note i</i>)	54,001	53,769	2,548	—
— Weinan Jindong (<i>Note i</i>)	—	—	60	80
	<u>54,001</u>	<u>53,769</u>	<u>2,608</u>	<u>80</u>
An intermediate holding company				
— Shaanxi Furui	—	—	—	90,000
	<u>—</u>	<u>—</u>	<u>—</u>	<u>90,000</u>
A former shareholder				
— Guo Guangqian (<i>Note ii</i>)	249	104	104	—
	<u>249</u>	<u>104</u>	<u>104</u>	<u>—</u>
A related party				
— Ma Dongsheng (<i>Note iii</i>)	—	43,179	52,918	52,918
	<u>—</u>	<u>43,179</u>	<u>52,918</u>	<u>52,918</u>

Notes:

- (i) Shaanxi Qinyu was the holding company of Xiangshun Mining since 31 October 2013. On 15 September 2015, Shaanxi Qinyu completed the disposal of the entire issued shares of Xiangshun Mining to Weinan Jindong and ceased to be the holding company of Xiangshun Mining. And Weinan Jindong became the immediate holding company of Xiangshun Mining since 15 September 2015.
- (ii) Mr. Guo Guangqian was the shareholder of Xiangshun Mining since 22 November 2011. On 31 October 2013, Mr. Guo Guangqian completed the disposal of the shares of Xiangshun Mining to Shaanxi Qinyu and ceased to be the shareholder of Xiangshun Mining.
- (iii) Mr. Ma Dongsheng is the ultimate beneficiary of Forever Success Investments Limited, which holds 43% of the total issued share capital of One Champion International Limited, the ultimate holding company of Xiangshun Mining.

23. BANK BALANCES AND CASH

The bank balances carry interest at interest rates as follows:

	At 31 December			At 30 June
	2013	2014	2015	2016
Range of interest rates per annum	0.35%	0.35%-0.5%	0.3%-0.35%	0.3%-0.35%
	<u>0.35%</u>	<u>0.35%-0.5%</u>	<u>0.3%-0.35%</u>	<u>0.3%-0.35%</u>

APPENDIX II-B FINANCIAL INFORMATION OF THE PROJECT COMPANY

24. TRADE AND OTHER PAYABLES

	At 31 December			At 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables (Note a)	8,883	24,487	42,353	47,027
Other payables and accruals (Note b)	22,867	8,987	13,414	11,950
Receipts in advance (Note c)	—	—	27,687	35,381
Deposits received (Note d)	7,115	11,264	11,213	11,212
	29,982	20,251	52,314	58,543
	<u>38,865</u>	<u>44,738</u>	<u>94,667</u>	<u>105,570</u>

Notes:

(a) Trade payables

The following is an aged analysis of trade payables presented based on the invoice date at the end of each of the reporting periods:

	At 31 December			At 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
0 — 90 days	4,031	14,203	27,076	44,979
91 — 180 days	4,850	5,013	5,766	1,058
181 — 365 days	—	2,487	4,995	—
Over 1 year	2	2,784	4,516	990
	<u>8,883</u>	<u>24,487</u>	<u>42,353</u>	<u>47,027</u>

During the Relevant Periods, the average credit period on purchase of goods are 30 days. Xiangshun Mining has financial risk management policies in place to ensure that all payables are settled within the credit timetable.

(b) Other payables

Included in Xiangshun Mining's other payables, an amount of approximately RMB18,520,000 as at 31 December 2013 represented the outstanding payables for the purchases of certain property, plant and equipment during the year ended 31 December 2013.

(c) Receipts in advance

As at 31 December 2015, the receipts in advance from two customers are unsecured, interest-free and non-refundable.

As at 30 June 2016, the receipts in advance was advance from Shaanxi Furui, an intermediate holding company of Xiangshun Mining, which is unsecured, interest-free and non-refundable.

(d) Deposits received

Included in Xiangshun Mining's deposits received, an amount of approximately RMB7,045,000, RMB11,217,000, RMB11,173,000 and RMB11,173,000 as at 31 December 2013, 2014, 2015 and 30 June 2016, respectively represented the deposits received from contractors which are unsecured, interest-free and refundable upon completion of the service contracts.

APPENDIX II-B FINANCIAL INFORMATION OF THE PROJECT COMPANY

25. AMOUNT DUE TO AN INTERMEDIATE HOLDING COMPANY/A RELATED PARTY

The amount due to an intermediate holding company/a related party are unsecured, non-interest bearing and repayable on demand.

Particulars of amount due to an intermediate holding company/a related party are disclosed as follows:

	At 31 December			At 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
An intermediate holding company				
— Champion Lucky Limited	—	—	—	83,985
	<u>—</u>	<u>—</u>	<u>—</u>	<u>83,985</u>
A related party				
— Ma Dongsheng (<i>Note</i>)	47,191	—	—	1,494
	<u>47,191</u>	<u>—</u>	<u>—</u>	<u>1,494</u>

Note:

Mr. Ma Dongsheng is the ultimate beneficiary of Forever Success Investments Limited, which hold 43% of the total issued share capital of One Champion International Limited, the ultimate holding company of Xiangshun Mining.

26. BANK BORROWINGS

	At 31 December			At 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Secured bank borrowings repayable				
within one year	10,000	30,000	—	—
	<u>10,000</u>	<u>30,000</u>	<u>—</u>	<u>—</u>

As at 31 December 2013, an independent third party provided a corporate guarantee to secure a bank borrowing of RMB10,000,000 granted to Xiangshun Mining.

As at 31 December 2014, two independent third parties provided a personal guarantee and a corporate guarantee respectively to secure a bank borrowing of RMB30,000,000 granted to Xiangshun Mining. In addition, Xiangshun Mining had pledged its entire assets to the two independent third parties as the securities of the personal guarantee and the corporate guarantee.

The ranges of effective interest rates (which are also equal to contracted interest rates) on Xiangshun Mining's bank borrowings are as follows:

	At 31 December			At 30 June
	2013	2014	2015	2016
Bank borrowings	130% of The People's Bank of China Benchmark Rate	The People's Bank of China Benchmark Rate +2.29%	N/A	N/A

27. PROVISIONS

	Provision for land reclamation and cavity refill cost RMB'000 (Note (a))	Provision for environmental rehabilitation RMB'000 (Note (b))	Total RMB'000
At 1 January 2013	797	1,614	2,411
Additions	<u>455</u>	<u>670</u>	<u>1,125</u>
At 31 December 2013 and 1 January 2014	1,252	2,284	3,536
Additions	<u>475</u>	<u>516</u>	<u>991</u>
At 31 December 2014 and 1 January 2015	1,727	2,800	4,527
Over-provision in prior years	(340)	(1,367)	(1,707)
Additions	<u>343</u>	<u>169</u>	<u>512</u>
At 31 December 2015 and 1 January 2016	1,730	1,602	3,332
Additions	<u>254</u>	<u>250</u>	<u>504</u>
At 30 June 2016	<u><u>1,984</u></u>	<u><u>1,852</u></u>	<u><u>3,836</u></u>

Notes:

(a) Provision for land reclamation and cavity refill cost

In accordance with the relevant PRC rules and regulations, Xiangshun Mining is obliged to accrue the costs for land reclamation and cavity refill for Xiangshun Mining's existing mines. The provision for land reclamation and cavity refill costs has been determined by the Sole Director, based on his estimation and basis as stated in Note 5(d) to the Financial Information.

(b) Provision for environmental rehabilitation

The provisions for environmental rehabilitation is in relation to the estimated costs of complying with Xiangshun Mining's obligations for environmental rehabilitation. These costs are expected to be incurred on mine closure, which, based on current mineral reserve estimates.

APPENDIX II-B FINANCIAL INFORMATION OF THE PROJECT COMPANY

28. DEFERRED TAX ASSETS (LIABILITIES)

The followings are the deferred tax assets (liabilities) recognised and movements thereon during the Relevant Periods:

	Accelerated tax depreciation <i>RMB'000</i>	Intangible assets <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2013	(82)	67	362	347
Credit to profit or loss	<u>53</u>	<u>139</u>	<u>168</u>	<u>360</u>
At 31 December 2013 and 1 January 2014	(29)	206	530	707
(Charge) credit to profit or loss	<u>(201)</u>	<u>82</u>	<u>149</u>	<u>30</u>
At 31 December 2014 and 1 January 2015	(230)	288	679	737
(Charge) credit to profit or loss	<u>(9)</u>	<u>153</u>	<u>(180)</u>	<u>(36)</u>
At 31 December 2015 and 1 January 2016	(239)	441	499	701
Credit to profit or loss	<u>39</u>	<u>209</u>	<u>34</u>	<u>282</u>
At 30 June 2016	<u>(200)</u>	<u>650</u>	<u>533</u>	<u>983</u>

29. REGISTERED CAPITAL

	At 31 December			At 30 June
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Registered and fully paid capital at 1 January	2,000	27,500	27,500	27,500
Addition (<i>Note</i>)	<u>25,500</u>	<u>—</u>	<u>—</u>	<u>—</u>
At 31 December/30 June	<u>27,500</u>	<u>27,500</u>	<u>27,500</u>	<u>27,500</u>

Note: On 10 January 2013, the shareholders approved to increase the registered capital of Xiangshun Mining from RMB2,000,000 to RMB27,500,000 by the capitalisation of capital reserve.

30. PLEDGE OF ASSETS

As at 31 December 2014, all the assets of Xiangshun Mining had been pledged to two independent third parties for the provision of a personal guarantee and a corporate guarantee to secure the bank borrowing of RMB30,000,000 of Xiangshun Mining, as detailed in Note 26 to the Financial Information.

The assets pledged had been released upon repayment of bank borrowings during the year ended 31 December 2015.

APPENDIX II-B FINANCIAL INFORMATION OF THE PROJECT COMPANY

31. OPERATING LEASE COMMITMENTS

Xiangshun Mining as lessee

At the end of each of the reporting periods, Xiangshun Mining had commitments for future minimum lease payments under the non-cancellable operating leases which fall due as follows:

	At 31 December			At 30 June
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	57	57	57	57
In the second to fifth years inclusive	226	226	226	226
Over five years	705	649	592	564
	<u>988</u>	<u>932</u>	<u>875</u>	<u>847</u>

Operating lease payments represent rentals payable by Xiangshun Mining for its premises. Leases are negotiated for an average term of 18 years, and no arrangements have been entered into for contingent rental payments.

32. RELATED PARTY TRANSACTIONS

(a) Balances

Details of balances with related parties are set out in Notes 21(a), 21(b), 22 and 25 to the Financial Information.

(b) Transactions

During the Relevant Periods, Xiangshun Mining had entered into the following transactions with related parties.

Transaction	Company	Relationship	Year ended 31 December		Six months ended 30 June	
			2013 <i>RMB'000</i>	2014 <i>RMB'000</i>	2015 <i>RMB'000</i>	2015 <i>RMB'000</i> (Unaudited)
Sales of goods	Shaanxi Qinyu	Former holding company (Note 22(i))	72,230	—	—	—
	Shaanxi Furui	Intermediate holding company	—	—	—	72,798
	Tongjin Gold Mine	Related company (Note)	5,500	—	—	—
Subcontracting income	Tongjin Gold Mine	Related company (Note)	—	1,273	346	346
			<u>—</u>	<u>1,273</u>	<u>346</u>	<u>346</u>

Note:

Mr. Ma Dongsheng beneficiary owns 90% of the equity interests of Tongjin Gold Mine.

(c) Compensation of key management personnel

Compensation of key management personnel, being the remuneration of directors during the Relevant Periods has been disclosed in Note 14 to the Financial Information.

* For identification purposes only

APPENDIX II-B FINANCIAL INFORMATION OF THE PROJECT COMPANY

33. CAPITAL COMMITMENTS

	At 31 December			At 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the Financial Information	348	1,874	1,711	1,230

34. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2013, Xiangshun Mining had acquired certain property, plant and equipment and gold concentrate from a supplier at approximately RMB18,520,000 and RMB4,850,000 respectively. The purchase cost was settled by a related party of Xiangshun Mining during the year ended 31 December 2014.

During the years ended 31 December 2013 and 2014, Xiangshun Mining had declared interim dividends of RMB10,000,000 and RMB23,000,000 respectively. The dividends were settled by the amount due from the former holding company.

During the six months ended 30 June 2016, Xiangshun Mining had acquired certain exploration assets from several suppliers at approximately RMB29,153,000. The purchase cost was settled by a related party of Xiangshun Mining during the six months ended 30 June 2016.

(B) SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Xiangshun Mining have been prepared in respect of any period subsequent to 30 June 2016 and up to the date of this report.

Yours faithfully,

Asian Alliance (HK) CPA Limited
Certified Public Accountants (Practising)
Chan Mei Mei
Practising Certificate Number: P05256

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OVERVIEW

The Target Group comprises the Target Company, the HK Company, the WFOE, the PRC Company and the Project Company. As disclosed in the Letter from the Board contained in this circular, each of the Target Company, the HK Company, the WFOE and the PRC Company was incorporated in 2015. While the Project Company was established in 2006, the 90% equity interests in the Project Company were acquired by the Target Group through the acquisition of the entire equity interests in the PRC Company in November 2015. Therefore, the results and assets and liabilities of the Project Company have only been consolidated into the financial statements of the Target Group since November 2015.

As advised by the management of the Target Company, the WFOE recorded revenue of RMB73.4 million from the sale of gold concentrates purchased from the Project Company during the six months ended 30 June 2016. As at 30 June 2016, (i) the WFOE had prepayments and account receivables of approximately RMB68.5 million, inter-company balances of approximately RMB55.0 million, investment in a subsidiary of approximately RMB35.0 million, and bank balances and cash of approximately RMB6.5 million; and (ii) the HK Company had inter-company balances of approximately HK\$150.0 million, investment in a subsidiary of approximately HK\$40.0 million, and bank balances and cash of approximately HK\$6.0 million.

Save for the above, neither the Target Company, the HK Company, the WFOE nor the PRC Company has (i) conducted any business activities since its incorporation and up to the Latest Practicable Date; and (ii) any other material assets as at the Latest Practicable Date.

Please refer to Appendix II-A to this circular for the accountant's report containing the financial information of the Target Group for the period from 2 January 2015 (that is, the date of incorporation of the Target Company) to 31 December 2015 and the six months ended 30 June 2015 and 2016, respectively.

The following is the management discussion and analysis on the Project Company for the years ended 31 December 2013 (the "**FY 2013**"), 31 December 2014 (the "**FY 2014**") and 31 December 2015 (the "**FY 2015**"), and the six months ended 30 June 2015 and 30 June 2016 (together, the "**Review Period**"), based on the financial information of the Project Company prepared under HKFRSs as set out in Appendix II-B to this circular.

REVENUE

During the Review Period, revenue of the Project Company was primarily derived from the sale of gold and related products produced from the processing of ores at the Processing Plant. In addition to the processing of ores as extracted from the Gold Mine, the Project Company has in 2015 entered into long-term supply contracts for the purchase of third party ores for processing at the Processing Plant. For the FY 2013, a small portion of the Target Group's revenue was also derived from the trading of gold concentrates which the Project Company had ceased to be engaged in since 2014.

For the six months ended 30 June 2016, revenue of the Project Company increased substantially from approximately RMB9.9 million for the six months ended 30 June 2015 to approximately RMB106.5 million, of which the sale amounted to approximately RMB72.8 million was made to an intermediate holding company of the Project Company (i.e. the WFOE) as described in the section headed “Overview” above.

As advised by the management of the Project Company, the minimal revenue being recorded for the six months ended 30 June 2015 was mainly due to the temporary suspension of production by the relevant government authorities from January 2015 to May 2015 for safety inspection and enhancement works, and normal production had been resumed in June 2015 upon receiving the approval for production resumption by the relevant government authorities.

In spite of the decrease in average selling price of the Project Company’s products which was in line with the general trend of the international spot price for gold in 2014 and 2015, revenue of the Project Company increased by 9.10% from approximately RMB83.1 million for the FY 2014 to approximately RMB90.7 million for the FY 2015 which was primarily due to the increase in sales volume of gold and related products produced from the processing of ores as extracted from the Gold Mine as well as third party ores purchased under the long-term supply contracts as described above.

For the FY 2014, revenue of the Project Company decreased by 8.69% to approximately RMB83.1 million from approximately RMB91.0 million for the FY 2013. Such decrease was mainly attributable to (i) the loss of revenue from trading of gold concentrates of approximately RMB5.5 million as the Target Group has ceased to be engaged in the trading of gold concentrates since FY 2014; and (ii) the decrease in revenue from sale of gold and related products, as resulted mainly from the decrease in average selling price of the Project Company’s products which was in line with the trend of the international spot price for gold in 2013 and 2014.

COST OF SALES

For the six months ended 30 June 2016, cost of sales of the Project Company increased substantially from approximately RMB6.6 million for the six months ended 30 June 2015 to approximately RMB76.9 million. Such increase was in line with the increase in revenue of the Project Company during the period as mentioned above.

As described above, since 2015 the Project Company has commenced purchasing third party ores in addition to ores as extracted from the Gold Mine for processing at the Processing Plant to make optimal use of its equipment. Cost of sales of the Project Company increased by 29.9% from approximately RMB47.3 million for the FY 2014 to approximately RMB61.4 million for the FY 2015 which was mainly attributable to the purchase cost of third party ores as described above and was in line with the increase in sales volume of the Project Company’s products during the year.

Cost of sales of the Project Company decreased by 16.63% from approximately RMB56.7 million for the FY 2013 to approximately RMB47.3 million for the FY 2014. Such decrease was primarily due to the reduction in purchase cost of gold concentrates as the Project Company had not conducted any trading of gold concentrates during the year, as well as the decrease in mining expenses for the FY 2014.

ADMINISTRATIVE EXPENSES

Administrative expenses of the Project Company increased by 173.1% from approximately RMB1.6 million for the six months ended 30 June 2015 to approximately RMB4.4 million for the six months ended 30 June 2016. Such increase was mainly due to the increase in (i) fees for intermediaries mainly for the preparation of reserves and environmental reports; and (ii) staff costs.

Administrative expenses of the Project Company increased by 16.46% from approximately RMB3.8 million for the FY 2014 to approximately RMB4.5 million for the FY 2015. Such increase was primarily due to the increase in fees for intermediaries, safety and environmental surcharges and expenses, as well as other miscellaneous expenses, and was partly offset by the decrease in staff costs for the FY 2015.

Administrative expenses of the Project Company decreased by 49.69% from approximately RMB7.6 million for the FY 2013 to approximately RMB3.8 million for the FY 2014, which was primarily due to an one-off expense of RMB2.1 million, being the penalty payable by the Project Company for its delay in payment of a refund of investment to a third party, that was incurred for the FY 2013 but not for the FY 2014, as well as the decrease in fees for intermediaries and depreciation and amortization expenses.

FINANCE COSTS

The Project Company recorded finance costs of approximately RMB620,000, RMB181,000, RMB2.2 million and RMB Nil for the FY 2013, FY 2014, FY 2015 and the six months ended 30 June 2016, respectively. Such finance costs mainly represented interest on bank borrowings.

PROFIT FOR THE YEAR/PERIOD

As a result of the fluctuations in the profit or loss items as discussed above, the Project Company recorded net profit of approximately RMB21.5 million for the six months ended 30 June 2016 (representing an increase of 858.6% as compared with that of the same period last year), approximately RMB20.8 million for the FY 2015 (representing a decrease of 26.01% as compared with that of the FY 2014), and approximately RMB28.2 million for the FY 2014 (representing an increase of 25.90% as compared with that of the FY 2013).

LIQUIDITY, FINANCIAL RESOURCES AND GEARING

The following table sets out a summary of the Project Company's statements of financial position:

	As at 31 December			As at 30 June
	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>	2015 <i>RMB'000</i>	2016 <i>RMB'000</i>
Total assets	147,590	137,342	180,604	301,286
Total liabilities	<u>102,269</u>	<u>86,870</u>	<u>109,302</u>	<u>208,482</u>
Net assets	<u><u>45,321</u></u>	<u><u>50,472</u></u>	<u><u>71,302</u></u>	<u><u>92,804</u></u>
Gearing ratio*	22.06%	59.44%	—	—

* Gearing ratio is defined as total interest-bearing borrowings over equity attributable to owners of the company.

As at 30 June 2016, total assets of the Project Company amounted to approximately RMB301.3 million, which comprised mainly, among other things, (i) amount due from an intermediate holding company of approximately RMB90.0 million; (ii) property, plant and equipment of approximately RMB88.7 million; and (iii) bank balances and cash of approximately RMB62.4 million. Total liabilities of the Project Company amounted to approximately RMB208.5 million, which mainly consisted of, among other things, (i) trade and other payables of approximately RMB105.6 million; and (ii) amount due to an intermediate holding company of approximately RMB84.0 million. Net asset value of the Project Company amounted to approximately RMB92.8 million as at 30 June 2016.

CAPITAL COMMITMENTS

As at 30 June 2016, the Project Company had capital commitments of approximately RMB1.2 million in relation to capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial information of the Project Company as set out in Appendix II-B to this circular.

TREASURY POLICIES

The Project Company had no formal treasury policy and did not enter into any form of financial arrangement for hedging for the Review Period.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2013, 2014, 2015 and 30 June 2016, the Project Company employed a total of 71, 42, 45, and 55 employees, respectively for its operations. The Project Company has remuneration policies that align with market practice and remunerates its employees based on the responsibilities of their roles, their performance, market requirements and the performance of the Project Company. Staff remuneration is reviewed by the management of the Project Company from time to time and increases are granted normally annually or by special adjustment depending on length of service and performance when warranted. In addition to salaries, the Project Company provides staff benefits including medical insurance and provident fund/retirement benefits scheme.

The total staff costs of the Project Company for the FY 2013, FY 2014, FY 2015, and the six months ended 30 June 2015 and 30 June 2016 amounted to approximately RMB4.7 million, RMB4.3 million, RMB3.6 million, and RMB1.7 million and RMB1.7 million respectively.

CAPITAL RISK MANAGEMENT

The Project Company manages its capital to ensure that the Project Company will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Project Company consists of net debt, which includes bank borrowings, net of cash and cash equivalents and equity attributable to equity holders of the Project Company, comprising issued share capital and reserves.

The director of the Project Company reviews the capital structure on a regular basis. As part of this review, the director of the Project Company considers the cost of capital and risk associated with each class of capital. The Project Company will balance its overall capital structure through new share issues as well as the issue of new debt.

FINANCIAL RISK MANAGEMENT**Interest rate risk**

The Project Company is exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings.

The Project Company's cash flow interest rate risk is mainly concentrated on the fluctuation of the People's Bank of China benchmark rate arising from the Project Company's RMB denominated bank borrowings.

Credit risk

The Project Company's maximum exposure to credit risk which will cause a finance loss to the Project Company due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets stated in the statements of financial position as set out in Appendix II-B to this circular.

The Project Company's credit risk is primarily attributable to its trade and other receivables.

In order to minimise the credit risk, the management of the Project Company has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Project Company reviews the recoverable amount of each individual debt at the end of each Review Periods to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the director of the Project Company considers that the Project Company's credit risk is significantly reduced.

The Project Company had concentration of credit risk as its gross trade receivables of approximately RMB12.7 million and RMB1.6 million representing 100% and 100% of total gross trade receivables were derived from certain major customers as at 31 December 2013 and 31 December 2014 respectively. The Project Company did not have any trade receivables as at 31 December 2015 and 30 June 2016.

The Target Group had concentration of credit risk as gross trade receivables of the Target Group approximately RMB38,680,000 representing 100% of total gross trade receivables were derived from two customers as at 30 June 2016. In order to minimise the credit risk, the management of the Target Group continuously monitors the level of exposure to ensure that follow up actions and/or corrective actions are taken promptly to lower exposure or even to recover the overdue debts.

Liquidity risk

In the management of the liquidity risk, the Project Company monitors and maintains a level of cash and cash equivalents deemed adequate by its management to finance the Project Company's operation and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

At 30 June 2016, the Project Company had net current liabilities of approximately RMB36.3 million. In the opinion of the director of the Project Company, the Project Company's exposure to liquidity risk is limited.

Operational risk

During the Review Period, the Project Company's exposure to operational risk is primarily attributable to heavy reliance on several major customers located in the PRC. The revenue contributed by these major customers amounted to approximately RMB72.2 million, RMB83.1 million, RMB82.8 million, RMB9.9 million and RMB102.1 million which accounted for 79%, 100%, 91%, 100% and 96% of the Project Company's total revenue for the FY 2013, FY 2014, FY 2015, and the six months ended 30 June 2015 and 30 June 2016 respectively. The director of the Project Company will continue to closely monitor the performance and financial position of these major customers to avoid any adverse impact on the Project Company's financial position.

MATERIAL ACQUISITIONS AND DISPOSALS

No material acquisitions or disposals were made by the Project Company during the Review Period.

SIGNIFICANT INVESTMENTS

The Project Company did not hold any significant investments as at 30 June 2016.

CONTINGENT LIABILITIES

The Project Company did not have any contingent liabilities as at 30 June 2016.

**INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA INFORMATION**

The Board of Directors
China Mining Resources Group Limited
Room 1306, 13/F
Bank of America Tower
12 Harcourt Road
Admiralty
Hong Kong

Dear Sirs,

We have completed our assurance engagement to report on the compilation of the unaudited pro forma financial information of China Mining Resources Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position of the Group and One Champion International Limited ("One Champion") and its subsidiaries (collectively referred to as the "One Champion Group") (hereinafter collectively referred to as the "Enlarged Group") as at 30 June 2016 (the "Unaudited Pro Forma Financial Information") as set out on pages 6 to 7 of Appendix IV to the circular dated 31 October 2016 (the "Circular") issued by the Company in connection with the proposed acquisition of the remaining 73% of the total issued share capital of One Champion (the "Transaction"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on pages 8 to 12 of Appendix IV to the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Transaction on the Group's financial position as at 30 June 2016 as if the Transaction had taken place at 30 June 2016. As part of this process, information about the Group's financial position as at 30 June 2016 has been extracted by the Directors from the Company's unaudited condensed consolidated financial statements for the six months ended 30 June 2016, on which an interim report dated 29 August 2016 has been published.

The information about the One Champion Group's financial position as at 30 June 2016 has been extracted by the Directors from the financial information as set out in Appendix II-A to the Circular.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountant comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the Transaction on unadjusted financial information of the Group as if the Transaction had occurred at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Transaction at 30 June 2016 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Enlarged Group, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the pro forma adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,

Asian Alliance (HK) CPA Limited

Certified Public Accountants (Practising)

Chan Mei Mei

Practising Certificate Number: P05256

Suites 313-316
3/F., Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

31 October 2016

1. Introduction to the Unaudited Pro Forma Financial Information of the Enlarged Group

The following is the unaudited pro forma financial information of the Enlarged Group (the “Unaudited Pro Forma Financial Information”), being the Company and its subsidiaries (collectively, the “Group”), as if the proposed acquisition of the remaining 73% of the total issued share capital of One Champion (the “Transaction”) had been completed on 30 June 2016. Details of the Transaction are set out in the section headed “Letter from the Board” contained in this Circular.

The Unaudited Pro Forma Financial Information has been prepared in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), for the purpose of illustrating the effect of the Transaction pursuant to the terms of a sale and purchase agreement dated 4 August 2016 (the “First One Champion Acquisition Agreement”) and a supplemental agreement dated 26 October 2016 (the “Second One Champion Acquisition Agreement”) entered into between the Group and Forever Success Investments Limited (“Forever Success”) and Supreme Success Group Limited (“Supreme Success”), which owned 43% and 30% of One Champion respectively, the Group agreed to conditionally acquire the entire equity interest held by them in One Champion. Because of its hypothetical nature, the Unaudited Pro Forma Financial Information may not give a true picture of the financial position or results of the Enlarged Group had the Transaction been completed as of the specified dates or any future date.

The Unaudited Pro Forma Financial Information has been prepared using accounting policies consistent with that of the Group based on i) the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2016, which has been extracted from the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2016 issued on 29 August 2016; and ii) the audited consolidated financial statements of the One Champion Group as at 30 June 2016 as extracted from the accountant’s report thereon set out in Appendix II-A to this Circular, and adjusted on a pro forma basis to reflect the effect of the Transaction. A narrative description on these pro forma adjustments that are (i) directly attributable to the Transaction and not relating to future events and decisions; and (ii) factually supportable based on the terms of the First One Champion Acquisition Agreement and the Second One Champion Acquisition Agreement.

The Unaudited Pro Forma Financial Information is based on a number of assumptions, estimates and uncertainties. The Unaudited Pro Forma Financial Information does not purport to describe the actual financial position of the Enlarged Group that would have been attained had the Transaction been completed on 30 June 2016. The Unaudited Pro Forma Financial Information does not purport to predict the future financial position of the Enlarged Group.

APPENDIX IV
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group as set out in (1) the published unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2016; and (2) other financial information included elsewhere in this Circular.

2. Unaudited Pro Forma Consolidated Statement of Financial Position of the Enlarged Group

	The Group	The One Champion Group	Pro forma adjustments				The Enlarged Group
	At 30 June 2016 (Unaudited) HK\$'000	At 30 June 2016 (Audited) HK\$'000	HK\$'000	HK\$'000 Note 3(c) (ii)&(iii)	HK\$'000 Note 3(e)	HK\$'000 Note 3(f)	At 30 June 2016 (Unaudited) HK\$'000
	Note 3(a)	Note 3(b)	Note 3(c)(i)				
NON-CURRENT ASSETS							
Property, plant and equipment	16,117	104,190	—	3,505	—	—	123,812
Prepaid lease payments – non-current portion	14,757	4,375	—	73	—	—	19,205
Goodwill	—	—	—	376,571	—	—	376,571
Intangible assets	5,871	112,117	—	99,569	—	—	217,557
Available-for-sale investments	151,542	—	—	(140,400)	—	—	11,142
Loan and loan interest receivables	200,933	—	—	—	(200,933)	—	—
Deposit paid for acquisition of subsidiaries	—	—	80,000	(80,000)	—	—	—
Deferred tax assets	—	1,148	—	—	—	—	1,148
	389,220	221,830	80,000	259,318	(200,933)	—	749,435
CURRENT ASSETS							
Inventories	98,223	2,641	—	—	—	—	100,864
Trade and other receivables	69,643	59,779	—	—	—	390	129,812
Prepaid lease payments	441	111	—	—	—	—	552
Amounts due from shareholders	—	390	—	—	—	(390)	—
Bank balances and cash	228,449	86,443	(80,000)	—	—	—	234,892
	396,756	149,364	(80,000)	—	—	—	466,120

APPENDIX IV
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

	The Group	The One Champion Group	Pro forma adjustments				The Enlarged Group
	At 30 June 2016	At 30 June 2016					At 30 June 2016
	(Unaudited)	(Audited)					(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Note 3(a)	Note 3(b)	Note 3(c)(i)	Note 3(c) (ii)&(iii)	Note 3(e)	Note 3(f)	
CURRENT LIABILITIES							
Trade and other payables	62,870	82,054	—	—	—	1,744	146,668
Amount due to a director	—	1,744	—	—	—	(1,744)	—
Bank borrowings	43,199	—	—	—	—	—	43,199
Provisions	—	4,479	—	—	—	—	4,479
Tax liabilities	15,977	15,892	—	—	—	—	31,869
	122,046	104,169	—	—	—	—	226,215
NET CURRENT ASSETS (LIABILITIES)							
	274,710	45,195	(80,000)	—	—	—	239,905
TOTAL ASSETS LESS CURRENT LIABILITIES							
	663,930	267,025	—	259,318	(200,933)	—	989,340
NON-CURRENT LIABILITIES							
Bank borrowings	38,528	—	—	—	—	—	38,528
Loan and loan interest payables	—	200,933	—	—	(200,933)	—	—
Deferred income	2,982	—	—	—	—	—	2,982
Deferred tax liabilities	—	10,683	—	15,472	—	—	26,155
	41,510	211,616	—	15,472	(200,933)	—	67,665
NET ASSETS							
	622,420	55,409	—	243,846	—	—	921,675
CAPITAL AND RESERVES							
Share capital	169,150	390	—	34,688	—	—	204,228
Share premium and reserves	454,908	38,131	—	200,391	—	—	693,430
Equity attributable to owners of the Company	624,058	38,521	—	235,079	—	—	897,658
Non-controlling interests	(1,638)	16,888	—	8,767	—	—	24,017
TOTAL EQUITY							
	622,420	55,409	—	243,846	—	—	921,675

3. Notes to the Unaudited Pro Forma Consolidated Statement of Financial Position of the Enlarged Group

- (a) For the purpose of the preparation of Unaudited Pro Forma Financial Information, the amounts are extracted from the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2016.
- (b) For the purpose of the preparation of Unaudited Pro Forma Financial Information, the amounts are extracted from the accountant's report on the One Champion Group as at 30 June 2016 as set out in Appendix II-A to this Circular.
- (c) The adjustment represents the proposed acquisition of the remaining 73% of the total issued share capital of One Champion. Pursuant to the First One Champion Acquisition Agreement and the Second One Champion Acquisition Agreement, the Group has conditionally agreed to acquire the remaining 73% of the total issued share capital of One Champion for an aggregate consideration of HK\$360,620,000 (the "One Champion Consideration"), which is to be satisfied in the following manners:

The fair value of the One Champion Consideration

	<i>Notes</i>	<i>HK\$'000</i>
Cash consideration	<i>(i)</i>	80,000
Consideration shares at fair value	<i>(ii)</i>	420,930
Fair value of 27% equity interests in One Champion held by the Group before the completion of Transaction	<i>(iii)</i>	<u>133,380</u>
		<u><u>634,310</u></u>

- (i) HK\$80,000,000 of the One Champion Consideration will be satisfied by cash within five business days from the date of the First One Champion Acquisition Agreement as a refundable deposit to Forever Success (or its designated nominee).
- (ii) Pursuant to the First One Champion Acquisition Agreement and the Second One Champion Acquisition Agreement, a sum of HK\$280,620,000 of the One Champion Consideration will be satisfied by way of issue of a total of 3,507,750,000 consideration shares (the "Consideration Shares") by the Company to Forever Success and Supreme Success of 1,655,250,000 Consideration Shares and 1,852,500,000 Consideration Shares respectively, at an issue price of HK\$0.08 per Consideration Share. As the fair value of the Consideration Shares at the date of completion of the Transaction (the "Completion Date") may be substantially different from the closing price of the Company's shares at 30 June 2016, the actual fair value of the One Champion Consideration and in turn, the amount of goodwill may be different from those presented in the Unaudited Pro Forma Financial Information.

The effect to the Company's share capital and share premium in respect of the issue of 3,507,750,000 consideration Shares by the Company with par value of HK\$0.01 per share as follows:

	<i>HK\$'000</i>
Share Capital	
— Issue of Consideration Shares (being 3,507,750,000 shares of HK\$0.01 each)	35,078
Share Premium	
— Issue of Consideration Shares (being 3,507,750,000 shares x (HK\$0.12 — HK\$0.01))	385,852
	420,930

For the preparation of the Unaudited Pro Forma Financial Information, the Company has used the closing price of its shares at 30 June 2016 to calculate the fair value of the Consideration Shares.

On the Completion Date, the fair value of the Consideration Shares will have to be reassessed, based on the market price of the Company's shares on the Completion Date.

- (iii) As a consequence of the Transaction, One Champion will become a wholly-owned subsidiary of the Group by way of step acquisition, as previously the Group accounted for its 27% equity interest in One Champion as an available-for-sale investment. Under Hong Kong Financial Reporting Standard 3 (Revised) – *Business Combinations*, the Group is required to recognise a gain or loss between the carrying value of its interest in One Champion (while it is classified as an available-for-sale investment) and the fair value of this interest at the date of the Transaction. The directors of the Company (the “Directors”) determined the fair value of the Group's existing interest in One Champion at the date of the Transaction was approximately HK\$133,380,000, which represented 27% of the business valuation of the One Champion Group as at 1 June 2016 (the “Business Valuation”) performed by an independent professional valuer, Greater China Appraisal Limited (“GCA”), net of the carrying value of HK\$140,400,000, which was recognised as an available-for-sale investment by the Group as at 30 June 2016, giving rise to a loss on step acquisition of One Champion of HK\$7,020,000.

APPENDIX IV**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

Under the Hong Kong Financial Reporting Standard 3 (Revised) – *Business Combinations*, acquisition method of accounting is applied to account for the Transaction, of which the fair value adjustments are directly attributable to the Transaction and not relating to future events or decisions. The goodwill arising from the Transaction is calculated as below.

Assets and liabilities recognised at the date of the Transaction, based on the audited figures at 30 June 2016 as stated in the accountant’s report set out in Appendix II-A, and the purchase price allocation at 30 June 2016 (the “PPA”) by GCA, are as follows:

	<i>HK\$’000</i>
Property, plant and equipment	107,695
Prepaid lease payments	4,559
Intangible assets	211,686
Deferred tax assets	1,148
Inventories	2,641
Trade and other receivables	59,779
Amount due from shareholders	390
Bank balances and cash	86,443
Trade and other payables	(82,054)
Amount due to a director	(1,744)
Provisions	(4,479)
Tax liabilities	(15,892)
Loan and loan interest payables	(200,933)
Deferred tax liabilities	(26,155)
	<hr/>
	143,084
	<hr/> <hr/>

For the purpose of this Unaudited Pro Forma Financial Information of the Enlarged Group, the Directors had assessed whether there is any material fair value adjustment of the assets and liabilities being acquired based on their knowledge of the business of the One Champion Group as well as the PPA. Based on the currently available information and the PPA, fair value upward adjustments of approximately HK\$3,505,000, HK\$73,000, HK\$99,569,000 and HK\$15,472,000 are made to the property, plant and equipment, prepaid lease payments, intangible assets and deferred tax liabilities, respectively. The fair value upward adjustment made to the deferred tax liabilities represent the deferred tax effect (i.e. 15%, the income tax rate) of the net effect of all the fair value adjustments of the above-mentioned assets. The fair value change attributable to the non-controlling interests was approximately HK\$8,767,000 at the date of the Transaction.

Goodwill arising on the Transaction

	<i>HK\$'000</i>
Consideration transferred	634,310
<i>Less:</i> Fair value of net assets acquired	(143,084)
<i>Add:</i> Non-controlling interests	<u>25,655</u>
Pro forma goodwill	516,881
<i>Less:</i> impairment loss recognised and allocated to pro forma goodwill at the initial recognition (<i>Note 3(d)</i>)	<u>(140,310)</u>
Carrying amount of goodwill after the impairment recognised	<u><u>376,571</u></u>

Adjustment on share capital is represented by the additional share capital arising from the issue of Consideration Shares for the Transaction of approximately HK\$35,078,000, net of the elimination of the share capital of One Champion as at 30 June 2016 of approximately HK\$390,000.

Adjustment on share premium and reserves is represented by the additional share premium arising from the issue of Consideration Shares for the Transaction of approximately HK\$385,852,000, net of the loss on the step acquisition of One Champion of approximately HK\$7,020,000, the elimination of the pre-acquisition reserves of the One Champion Group as at 30 June 2016 of approximately HK\$38,131,000 and the impairment loss recognised in respect of goodwill of approximately HK\$140,310,000.

- (d) Goodwill arising from the Transaction is tested for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable in accordance with the accounting policies of the Group and the requirements of Hong Kong Accounting Standard 36 — *Impairment of Assets* (“HKAS 36”). Goodwill will be allocated to the cash generating units (“CGUs”) that are expected to benefit from the synergies of the Transaction for the purpose of impairment testing. The results of the Enlarged Group may be affected by impairment loss whenever the recoverable amount of CGUs is lower than the carrying amount.

Based on the existing business model of the Enlarged Group, the Directors have performed the necessary assessment on impairment in accordance with the requirements under HKAS 36. Mining, processing and sales of gold and related products is the CGUs for the purpose of impairment testing of the pro forma goodwill.

The Directors have conducted a review of the pro forma goodwill based on the Business Valuation.

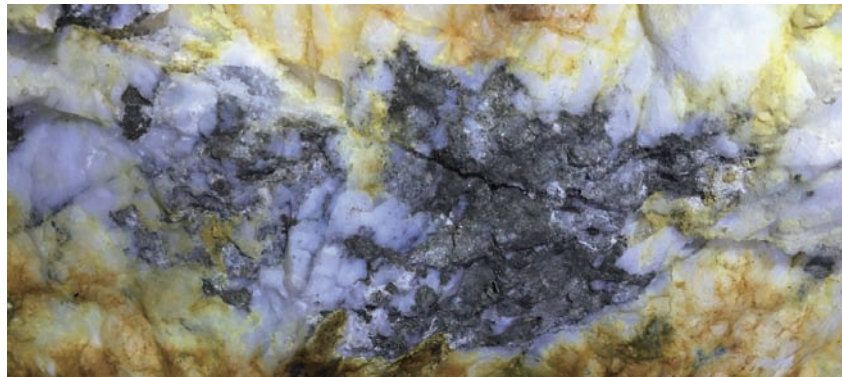
The recoverable amount of the pro forma goodwill has been determined by using value in use calculation. Value in use was determined by discounting the cash flows generated from the continuing use of the CGU. Based on the impairment test of the pro forma goodwill, the Directors assessed that the carrying amount of the CGU is determined to be higher than its recoverable amount of the CGU. Accordingly, an impairment loss of approximately HK\$140,310,000 is identified and firstly allocated fully to the goodwill and recognised in the profit or loss in the Unaudited Pro Forma Financial Information. The impairment loss on the pro forma goodwill on the Transaction arose due to the difference between the issue price of Consideration Shares of HK\$0.08 each as stated in the First One Champion Acquisition Agreement, and the closing price of the shares of the Company of HK\$0.12 each on 30 June 2016, which resulted in higher fair value of the One Champion Consideration and higher goodwill.

The amounts of goodwill and the related impairment assessment are subject to change on the Completion Date due to the fair value assessment of the net assets of the One Champion Group and fair value of the One Champion Consideration, which may differ materially from the amounts disclosed above.

- (e) The adjustment represented the elimination of the loan and loan interest due from the One Champion Group to the Group.
- (f) The adjustment represented the reclassification of the current accounts with the related parties upon the completion of the Transaction.
- (g) No adjustment has been made to the Unaudited Pro Forma Financial Information for acquisition-related costs (including fees to legal advisors, reporting accountants, valuers, and other expenses) as the Directors determined that such costs are insignificant. The total acquisition-related costs are estimated to be approximately HK\$0.9 million.
- (h) No adjustments have been made to adjust any trading results or other transactions of the Group or the One Champion Group subsequent to 30 June 2016.

Independent Technical Report on the Tongguan Gold Project

Report Prepared for
China Mining Resources Group Limited



Report Prepared by

 **srk** consulting

SRK Consulting (Hong Kong) Limited

OCI002

31 October 2016

Independent Technical Report on the Tongguan Gold Project

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August 2016

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EXECUTIVE SUMMARY

SRK Consulting (Hong Kong) Limited (SRK) was commissioned by China Mining Resources Group Limited (China Mining), a listed company on the Hong Kong Stock Exchange (HKEx) Mainboard to prepare an Independent Technical Report (ITR, or Report) on the Tongguan Gold Project (the Project). The Project is located in Tongguan County, Shaanxi Province of the People's Republic of China (PRC). The majority of the interest in the Project is currently owned by Tongguan County Xiangshun Mining Development Company Limited (Xiangshun or the Company).

On 7 December 2015, China Mining announced acquisition of a 27% interest of One Champion International Limited (One Champion), which effectively holds a 90% interest in Xiangshun. China Mining is considering acquiring the remaining interest of One Champion, and this acquisition will require preparation of an ITR according to the HKEx Listing Rules.

The Scope of Works for the ITR includes a review and reporting of the following technical aspects:

- Geology and Mineral Resources;
- Mining and Ore Reserves;
- Metallurgy and Processing;
- Capital and Operating Costs;
- Environment, Permits and Social Impacts; and
- Risk Assessment.

Work program

The work program included a review of the information provided by Xiangshun. SRK consultants visited the site in in December 2015, and February, March and April 2016. This Report comprises the results of the investigations, Mineral Resource and Ore Reserve estimations, and discussion with Xiangshun personnel.

Project descriptions

The Project is located in Tongguan County, Shaanxi Province of the PRC, approximately 155 km east of Xi'an, capital of Shaanxi Province. The Project comprises three major facilities, clustered within a 15 km diameter. The mine and exploration area lie approximately 10 km south of Tongguan. The processing plant is located at Beidong Village, Daiziying Town, Tongguan County, approximately 10 km northeast of the mine. The Project's administrative office is located at Xizhaizi Village, Tongguan County. The three facilities are connected by well-maintained paved provincial roads.

Xiangshun has a portfolio of mineral tenements, including four mining licences (Q401, Q4112, Q301 and Q198), totalling 7.7975 km². An application for an exploration licence, covering the adjoining area of Q401 and the area formerly occupied by Xiangshun's exploration licence (Q4114), with a total area of 16.23 km² was submitted to the relevant government authority on 13 January 2016. As of 1 June 2016, mining operations within Q401 and Q301 were continuing. The operation within Q4112 was suspended in October 2015 in order to upgrade the production safety measures, but resumed in late June 2016. A ramping down of production within Q198 is underway as closure planned.

Geology and Mineral Resources

The Project forms part of the Xiaoqinling gold field, the second largest gold belt in China, and is characterised by orogenic high-grade, narrow-vein gold deposits. The mineralisation in the Project area is considered to be related to a major east-west trending anticline, where auriferous veins are associated with the second and third order structures of the major anticline.

The gold mineralisation is composed of quartz veins and sulphides. Ductile to brittle shear zones, characterised by sericite-chlorite schist appear to be favourable for the development of quartz and sulphide veins. Associated sulphides commonly include pyrite, chalcopyrite, sphalerite and galena. Multiple vein sets are present in the overall mineralised envelope, and veins commonly pinch and swell along-strike and down-dip.

At least a dozen auriferous veins have been discovered in the Project area. The thickness of these veins ranges from 0.2 m to 4.2 m. The dimension of these veins varies from 200 m to 1,100 m along-strike and extends from 120 m to 750 m down-dip. Five more auriferous veins, namely Q4114, Q429, Q1403, Q401-3, Q401-4 v1 and Q401-4 v2 have been discovered to date, but are not being mined.

Since 2009, two local geological teams conducted exploration in the Project area, using surface and underground drilling and underground channel sampling methods. SRK examined the drill cores and inspected sites for the underground channel samples. In order to validate the historical exploration data, SRK undertook a verification program that included re-assay of historical drill core and pulp samples; collection of and analysis of samples from underground twin channels; and checking of bulk density measurements.

SRK estimated the Mineral Resources of the Project according to the 2012 edition of the Joint Ore Reserves Committee (JORC) Code. The validated data were used to build geological models and undertake Mineral Resource estimation of the Project. The Mineral Resource statement for the Project as of 1 June 2016 is presented in Table ES-1.

Table ES-1: Mineral Resource statement – Tongguan Project as of 1 June 2016

Licence type	Project short name	Domain	Category	Inventory (kt)	Grade (g/t Au)	Contained Metal (t)	Contained Metal (koz)	
Mining	Q401	Q401-3ML	Indicated	98.9	7.25	0.72	23.1	
			Inferred	115.7	6.93	0.80	25.8	
	Q4112	Q4112	Indicated	149.8	5.31	0.80	25.6	
			Inferred	113.5	4.90	0.56	17.9	
	Q301	Q301	Inferred	16.4	5.10	0.08	2.7	
	Q198	Q198	Inferred	19.3	3.87	0.07	2.4	
	Total			Indicated	248.7	6.08	1.51	48.6
				Inferred	264.9	5.72	1.52	48.7
Exploration Licence Application	Q4114	Q4114	Indicated	75.8	6.01	0.46	14.6	
			Inferred	139.0	9.32	1.30	41.7	
		Q429	Indicated	7.8	7.81	0.06	2.0	
			Inferred	7.0	6.46	0.05	1.5	
	Q401 adjoining area	Q1403	Indicated	56.9	6.70	0.38	12.3	
			Inferred	52.8	7.03	0.37	11.9	
		Q401-3ELA	Indicated	40.4	7.88	0.32	10.2	
			Inferred	20.9	6.01	0.13	4.0	
		Q401-4	Indicated	420.0	7.60	3.19	102.6	
			Inferred	103.0	2.95	0.30	9.8	
	Total			Indicated	600.9	7.34	4.41	141.7
				Inferred	322.7	6.64	2.14	68.8

- Notes:
1. Differences may occur due to rounding.
 2. 1.00 g/t Au cut-off grade applied for the resource block model.
 3. Q401-3 ML and Q401-3 ELA domains refer to the portion of Q401-3 within the mining licence and exploration licence application respectively.

Competent Persons' Statement: The information in this report that relates to Mineral Resources is based on information compiled by Drs Jinhui Liu and (Gavin) Heung Ngai Chan, who are both Members of The Australasian Institute of Mining and Metallurgy. Drs Liu and Chan are full-time employees of SRK Consulting (Hong Kong) Limited, and have sufficient experience that is relevant to the style of mineralisation, type of deposit under consideration and to the activity which they undertake to qualify as Competent Persons as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' (The JORC Code). Drs Liu and Chan consent to the inclusion in this report of the matters based on the information in the form and context in which it appears.

Mining and Ore Reserves

The Project currently has two key mining areas and five proposed mining areas. The former are within mining licences, while the rest are within a pending exploration licence.

The current approved mining capacity totals 45 kilo tonnes per annum (ktpa), which is insufficient to provide enough ore to meet the nameplate capacity of the processing plant (157 ktpa). To investigate the feasibility of increasing the mining capacity to meet the processing plant nameplate production capacity, Xi'an Nonferrous Metallurgy Engineering and Research Institute Co., Ltd. (XAENFI) was engaged to conduct a Feasibility Study (FS). The currently approved and designed capacity of the proposed mining areas is presented in Table ES-2.

Table ES-2: Current approved and designed maximum mining capacity for each area

Licence Type	Project area	Approved/ Designed maximum mining capacity (ktpa)	Mining capacity status	Mining target
Mining Licence	Q401-3	15	Approved	Ore Reserve
Mining Licence	Q4112	30	Approved	Ore Reserve
Exploration Licence Application	Q4114	50	Designed	Mining Inventory
Exploration Licence Application	Q429	7	Designed	Mining Inventory
Exploration Licence Application	Q1403	66	Designed	Mining Inventory
Exploration Licence Application	Q401-3	15	Designed	Mining Inventory
Exploration Licence Application	Q401-4	140	Designed	Mining Inventory

Note: Q401-3 ML and Q401-3 ELA domains refer to the portion of Q401-3 within the mining licence and exploration licence application respectively.

SRK reviewed the current mining conditions and data provided by Xiangshun and the FS Report. SRK opines that the selected mining methods – room-and-pillar (R&P) and short hole shrinkage (SHS) – and development system, as well as the auxiliary supporting systems which include ventilation, drainage, and compressed air supply, are appropriate for the Project.

For R&P mining, SRK's Mining Loss includes an allowance for the planned pillars that are contained within the designs that are not designed to be recovered. SRK calculated the theoretical design loss of these unrecovered pillars based on the standard stope diagram, resulting in a 26% "Designed Loss". SRK's view is that further study or trial practice should be undertaken to find a way of recovering the R&P stope pillars – at the very least, the crown pillars. The design loss was combined with the "Mining Recovery" to determine the "Mining Loss".

After applying the modifying factors set out in the FS Report and operation data provided by the Company, SRK estimated the Ore Reserves of the Project according to the JORC Code. No Measured Resources have been classified for the Project. The economically mineable parts of the Indicated Resources were converted to Probable Ore Reserves, as summarised in Table ES-3.

Table ES-3: Ore Reserve statement – Tongguan Project as of 1 June 2016

Domain	Category	Inventory (kt)	Grade (g/t Au)	Contained Metal (kg)	Contained Metal (koz)
Q401-3 ML	Probable	62.6	7.3	454	14.6
Q4112	Probable	126.6	4.7	594	19.1
Total	Probable	189.2	5.5	1,048	33.7

Notes:

1. The mining loss rates of Q401-3 ML and Q4112 are 24.6% and 10% respectively.
2. The dilution rates of Q401-3 ML and Q4112 are 11.2% and 13.9% respectively at 0.0 g/t Au.
3. A 3.5 g/t Au cut-off grade has been applied.
4. The Ore Reserves are inclusive of the Mineral Resources.
5. A gold price of RMB242/g is applied, using a USD:RMB exchange rate of 6.65 and a gold price of USD1,130/oz.
6. Rounding might cause some computational discrepancies in totals.

Competent Person's Statement: *The information in this report that relates to Ore Reserves is based on information compiled by Mr Falong Hu, a Member of The Australasian Institute of Mining and Metallurgy. Mr Hu is a full-time employee of SRK Consulting (China) Limited and has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Hu consents to the reporting of this information in the form and context in which it appears.*

A production schedule (Table ES-4) with a Life of Mine (LoM) of five years was prepared by SRK. The schedule is based on the available Ore Reserves, approved production capacity and mining technical conditions. There is no construction period, and the existing development upgrade and maintenance will occur concurrently with the mining production.

Table ES-4: LoM/Ore Reserve production schedule

Domain	June-Dec 2016	2017	2018	2019	2020	LoM Total
Q401-3 ML (kt)	1.4	15.4	15.2	15.3	15.1	62.6
Q4112 (kt)	23.8	30.3	30.0	27.4	15.2	126.6
Total (kt)	25.2	45.7	45.3	42.7	30.3	189.2
Grade (g/t Au)	4.7	5.9	5.5	5.5	5.7	5.5
Contained metal (kg)	119	270	249	236	174	1,048
Contained metal (koz)	3.8	8.7	8.0	7.6	5.6	33.7

Based on the technical parameters set out in the FS Report, which were reviewed and modified by SRK, a mine plan was prepared. SRK has used the modifying factors set out in the FS Report, to convert the defined Indicated Resources in all tenements to Mining Inventory (Table ES-5).

SRK notes that Mining Inventory is not part of the Ore Reserves. This is because some of the Mining Inventory is located outside the existing mining licences and thus cannot be mined until all the exploration licence application converted to mining licences and all required approvals are in place.

Table ES-5: Expansion Case — Mining inventory

Licence Type	Project area	Resource Category	Inventory (kt)	Grade (g/t Au)	Contained Metal (koz)	Contained Metal (kg)
Mining Licence	Q401-3	Indicated	63	7.3	15	454
	Q4112	Indicated	127	4.7	19	594
Exploration Licence Application	Q4114	Indicated	54	5.9	10	320
	Q429	Indicated	6	6.4	1	35
	Q1403	Indicated	31	6.8	7	212
	Q401-3	Indicated	28	7.5	7	208
	Q401-4	Indicated	277	7.0	62	1,940
Total		Indicated	585	6.4	120	3,764

SRK understands that the Company anticipates that the pending exploration licence application will be converted to mining licences in January 2018.

Based on the expected timeline, a production schedule with a LoM of 7 years has been prepared by SRK (Table ES-6). The schedule is based on the available Mining Inventory, anticipated dates of grant of mining licences and mining technical conditions. The schedule also assumes a construction period of one year. No inferred Resources have been considered in the schedule.

Table ES-6: Expansion Case — Production schedule

Licence Type	Domain	Unit	June- Dec 2016	2017	2018	2019	2020	2021	Total LoM
Mining Licence	Q401-3 ML	kt	1.4	15.4	15.2	15.3	15.1	0	62.3
	Q4112	kt	23.8	30.3	30.0	27.4	15.2	0	126.4
Exploration Licence Application	Q4114	kt	0	0	0	19.2	7.6	27.2	54.0
	Q429	kt	0	0	0	5.5	0	0	5.5
	Q1403	kt	0	0	0	31.4	0	0	31.4
	Q401-3 ELA	kt	0	0	0	15.1	12.5	0	27.6
	Q401-4	kt	0	0	0	42.9	106.3	127.9	277.1
	Tonnage	kt	25.2	45.7	45.3	156.8	156.7	155.1	584.8
	Grade	g/t	4.7	5.9	5.5	7.2	6.5	6.3	6.4
	Contained Metal	kg	119.2	269.5	248.8	1,125.7	1,021.7	978.7	3,763.6
		koz	3.8	8.7	8.0	36.2	32.8	31.5	121.0

Metallurgy and processing

The Project is a narrow auriferous quartz vein deposit. Economically recoverable minerals contained in the deposit include mainly gold and silver, with a small amount of sulphide minerals containing copper, lead, zinc and iron. Mineralogical studies show that the ore mineral speciation is simple and that the gold is closely associated with the sulphide minerals, such as pyrite. Gold occurs mainly in sulphide mineral fractures and gaps between gangue minerals and sulphide minerals. The gold is easily liberated from its host mineral via crushing, grinding and flotation. The recovery rates of gold and silver in the gold concentrate can be as high as 96% and 95%, respectively, using conventional processing methods and reagents during metallurgical testwork. These high recovery rates replicate actual production recoveries. Both production and metallurgical testing supports the suitability of the new and existing feed to the existing processing plant.

The Project has a processing plant with total production capacity of 475 tonnes per day (tpd). The simple and conventional crushing, grinding and flotation processing flowsheet is adopted to produce a gold concentrate, which has a grade of 60 g/t Au and a recovery rate higher than 96%. The processing flowsheet also allows other economically recoverable minerals within the gold concentrate to be recovered. The technical parameters of the gold processing, such as recovery and reagent consumption, are favourable.

Because the Project has a relatively low mining capacity, the ore fed to the processing plant is insufficient to meet the nameplate capacity, resulting in inefficient utilisation of the facility. In order to make optimal use of equipment, the plant has also toll treated or purchased ores from other mines, since 2014.

In the FS Report, mining and processing capacity was designed at 156,750 tonnes per annum (tpa) using the existing processing facilities. The key technical parameters for processing plant are shown in Table ES-7.

Table ES-7: Technical processing parameters used in feasibility study design

Product	Mass yield (%)	Output (tpa)	Grade			Recovery (%)		
			Au (g/t)	Ag (g/t)	Pb (%)	Au	Ag	Pb
Concentrate	11.15	17,817	50.00	77.48	9.28	96	90	90
Tailings	88.85	138,933	0.26	1.08	0.13	4	10	10
Ore feed	100.00	156,750	5.81	9.60	1.15	100	100	100

Capital and operating costs

The capital cost estimated at RMB 35.6 M (Table ES-8) consisting mainly of underground capital development, mining equipment and the new tailings storage facility (TSF).

Table ES-8: Capital cost estimate

Items	Total LoM (RMB M)
Capital development	7.3
Exploration	2.9
Mining	4.6
Processing Plant	1.2
TSF	9.4
Others	7.6
Contingency (10%)	2.7
Total	35.6

The LoM unit cash operating cost, including the resource tax and local resource levy, is estimated at is RMB838/t ore, RMB158/g payable gold or USD738/oz payable gold.

Environment, permits and social impacts

SRK has viewed business licence, mining licences, safety production licences, land use permit, site discharge permit and water use permit of the Project. At the time of this review, the aforementioned licences and permits were all valid.

Apart from the land use permit, SRK has seen many land lease agreements which cover the mine sites, explosives magazine and TSF. Details of the Project Company land use legal compliance can be found in the legal opinion prepared by Tian Yuan Law Firm on 31 October 2016 for China Mining.

Table ES-9 summarises the status of the environmental assessments and approvals for the Project.

Table ES-9: Status of environmental assessments and approvals

Project area	Environmental Impact Assessment (EIA) Report	Approval for EIA ¹	Water and Soil Conservation Plan (WSCP)	Approval for WSCP ²	Environmental Checking and Acceptance Approval ³
Q198	Y	Y	Y	Y	NS
Q301	Y	Y	Y	Y	NS
Q401	Y	Y	Y	Y	NS
Q4112	Y	Y	Y	Y	NS
Processing Plant	Y	Y	NA	NA	NS

Notes:

“Y” denotes that the licence/permit has been granted and has been viewed by SRK.

“N” denotes that the licence/permit has not been completed or is not available.

“NYR” denotes that the licence/permit is not yet required.

“NS” denotes that the licence/permit has not been viewed.

“NA” denotes that it is not applicable.

1. Environmental Impact Assessment
2. Water and Soil Conservation Report.
3. Formal environmental approval to commence operating.

No Final Check and Acceptance (FCA) reports and approvals for the Project were sighted as part of this review. SRK recommends that the Company acquires the FCA approvals for the Project to meet the requirements of Chinese laws and regulations.

SRK notes that the provided EIA reports and approval for the Project mine sites and processing plant have been compiled in accordance with relevant Chinese laws and regulations. SRK has reviewed the provided EIA reports and approval and has conducted an environmental site visit to the mine, processing plant and associated facilities, in line with recognised international industry environmental management standards, guidelines and practices. At the time of this site visit, SRK observed that the construction of mine sites and processing plant had been completed and that some mine sites and the processing plant were in production. SRK has sighted a statement issued by Tongguan County Environmental Protection Bureau (EPB) on 8 July 2016 stating that the Company will not be penalized by local EPB due to the EIA related issues.

SRK has reviewed the safety assessment reports, safety management system, safety operation procedure and emergency response plans as provided by the Company and is of the opinion that the documents cover items that are generally in line with recognised Chinese industry practices and Chinese safety regulations. Operational occupational health and safety (OHS) management systems/ procedures have generally been developed. No historical OHS records for the Project have been sighted as part of this review. However, SRK has sighted two accident investigation report approvals which were issued by the Tongguan County Safety Production Supervision Bureau. The two approvals reported one fatality from a falling accident in April 2013 and two fatalities from a roof collapse accident in April 2015. SRK recommends that the Company retains safety records and develops incident analysis reports for possible future injuries. The proposed reports would analyse the cause of injury and identify recurrence prevention measures that are in line with internationally recognised OHS accident-monitoring practices.

The Company reported to SRK that it had helped significantly with the development of the local community. The Company's public welfare programs include construction of a county government square and the village's cultural square, afforestation, as well as road and temple construction. However, no documentary evidence for the above public welfare programs were sighted as part of this review.

The significant inherent environmental and social risks for the Project are the following:

- Operation approvals;
- Water management (i.e. stormwater/ surface water drainage, including any mine dewatering);
- Waste rock and tailings management;
- Reclamation and mine closure; and
- Social aspects (i.e. land acquisition and resettlement).

The above inherent environmental risks are categorised as medium/ low risks, that is, requiring risk management measures.

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DISCLAIMER

The opinions expressed in this Report have been based on the information supplied to SRK Consulting (Hong Kong) Limited (SRK) by China Mining Resources Group Limited (China Mining). The opinions in this Report are provided in response to a specific request from China Mining to do so. SRK has exercised all due care in reviewing the supplied information. Whilst SRK has compared key supplied data with expected values, the accuracy of the results and conclusions from the review are entirely reliant on the accuracy and completeness of the supplied data. SRK does not accept responsibility for any errors or omissions in the supplied information and does not accept any consequential liability arising from commercial decisions or actions resulting from them. Opinions presented in this Report apply to the site conditions and features as they existed at the time of SRK's investigations, and those reasonably foreseeable. These opinions do not necessarily apply to conditions and features that may arise after the date of this Report, about which SRK had no prior knowledge nor had the opportunity to evaluate.

LIST OF ABBREVIATIONS

Abbreviation	Meaning
µm	micrometre
AAS	atomic absorption spectroscopy
Ag	silver
ARD	acid rock drainage
As	arsenic
ASL	above sea level
Au	gold
BEng	Bachelor of Engineering
BSc	Bachelor of Science
China Mining	China Mining Resources Group Limited
COG	cut-off grade
CRM	certified reference material
Cu	copper
EIA	environmental impact assessment
EPMP	environmental protection and management plan
ERP	emergency response plan
ESHS	environmental, social, health, and safety
FCA	final check and acceptance
FS	feasibility study
g	gram
g/t	grams per tonne
Ga	giga annum, billion years
h	hour
HKEx	Hong Kong Stock Exchange
IDW	inverse distance cube weighted
ITR	Independent Technical Report
Jinjian	Mining and Metallurgy Institute of Jinjian Engineering Design Co. Ltd.
JORC Code	Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves prepared by the Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia (JORC), December 2012
k	kilo
kg	kilogram
km	kilometre
kt	kilotonne

Abbreviation	Meaning
kW	kilowatt
L/s	litre per second
LoM	Life of Mine
m	metre
M	million
m ³	cubic metre
m ³ /d	cubic metre per day
m ³ /h	cubic metre per hour
m ³ /s	cubic metre per second
MAusIMM	Member of The Australasian Institute of Mining & Metallurgy
mm	millimetre
MPa	megapascal
Mt	million tonne
OHS	Operational occupational health and safety
OK	ordinary kriging
oz	ounce
Pa	pascal
Pb	lead
PRC	People's Republic of China
Qinlu	Weinan Qinlu Mining Development Co., Ltd
R&P	room and pillars method
RMB	renmibi, currency of the PRC
S	sulphur
SHS	short-hole shrinkage method
SRK	SRK Consulting (Hong Kong) Limited
t	tonne
Team 6	Shaanxi Geological Bureau Team 6
Team 712	Northwest Nonferrous Geological Bureau Team 712
tpa	tonne per annum
tpd	tonne per day
TSF	tailings storage facility
WRDs	waste rock dumps
WSCP	Water and Soil Conservation Plan
XANENFI	Xi'an Non-ferrous Metallurgical Design and Research Institute
Xiangshun	Tongguan County Xiangshun Mining Development Company Limited
Zn	zinc

1 INTRODUCTION AND SCOPE OF REPORT

SRK Consulting (Hong Kong) Limited (SRK) was commissioned by China Mining Resources Group Limited (China Mining, or the Company), a listed company on the Hong Kong Stock Exchange (HKEx) Mainboard to prepare an Independent Technical Report (ITR, or Report) on the Tongguan Gold Project (the Project). The Project is located in Tongguan County, Shaanxi Province of the People's Republic of China (PRC). The majority of the interest of the Project is currently owned by Tongguan County Xiangshun Mining Development Company Limited (Xiangshun).

On 7 December 2015, China Mining, announced acquisition of a 27% interest in One Champion International Limited (One Champion), which effectively holds a 90% interest in Xiangshun. China Mining is considering acquiring the remaining interest of One Champion, and this acquisition will require preparation of an ITR according to the HKEx Listing Rules.

The Scope of Works for the ITR includes a review and reporting of the following technical aspects:

- Geology and Mineral Resources;
- Mining and Ore Reserves;
- Metallurgy and Processing;
- Capital and Operating Costs;
- Environment, Permits and Social Impacts; and
- Risk Assessment.

1.1 Reporting standard

The HKEx Listing Rules Chapter 18 requires that an ITR be prepared in accordance with one of three international reporting standards. For this Report, SRK has adopted the JORC Code (2012) as the reporting standard for Exploration Results, Mineral Resources and Ore Reserves.

Certain amounts and percentage figures included in this Report have been subject to rounding adjustments. As a result, any discrepancies in any table or chart between the total shown and the sum of the amounts listed are due to rounding. Where information is presented in thousands or millions of units, amounts may have been rounded up or down.

The effective date of this Report is 1 June 2016. There has been no material change of the Mineral Resource and Ore Reserve estimates of the Project since the effective date of this Report.

1.2 Work program

The work program of this commission included:

- Review of the information supplied by Xiangshun;
- Site visits by SRK consultants in December 2015, February, March and April 2016;
- Complete Mineral Resource and Ore Reserve estimation; and
- Preparation of this ITR.

1.3 Project team

SRK has utilised a multidisciplinary team, comprising Consultants from various offices for the estimation of Mineral Resources, Ore Reserves and preparation of this ITR. In particular, (Gavin) Heung Ngai Chan and Jinhui Liu are nominated as the Competent Persons responsible for estimation and reporting of the Mineral Resources for the Project. Falong Hu is nominated as the Competent Person responsible for estimation and reporting of the Ore Reserves for the Project (Table 1-1). The Competent Persons' statements are provided in Appendix A of this Report.

Table 1-1: SRK team members and responsibility

Consultant/ Associate	Role	Office	Date of site visit
(Gavin) Heung Ngai Chan	Project Management, Geology and Resource Review; Project Economics Review; Co-Competent Person for Mineral Resources	SRK Hong Kong	28-29 April 2016
Jinhui Liu	Geology and Resource Review; Co-Competent Person for Mineral Resources	SRK Hong Kong	9-12 December 2015 27 February-5 March 2016
Falong Hu	Mining and Ore Reserves Review; Competent Person for Ore Reserves	SRK China	16-18 March 2016
Langliang Niu	Processing Review	SRK China	16-18 March 2016
Nan Xue	Environment, Permit and Social Review	SRK China	9-12 December 2015
Robin Simpson	Peer Review – Mineral Resources Review	SRK Russia	No visit
Simon Walsh	Peer Review – Processing Review	Associate	No visit
Ben Wither	Peer Review – Environment, Permits and Social Impacts Review	SRK Australasia	No visit
Peter Fairfield	Peer Review – Overall Report	SRK Australasia	No visit

1.4 Corporate capability

SRK is an independent, international group providing specialised consultancy services. Among SRK's clients are many of the world's mining companies, exploration companies, financial institutions, Engineering, Procurement and Construction Management ("EPCM") and construction firms, and government bodies.

Formed in Johannesburg in 1974, the SRK Group now employs some 1,400 staff internationally in over 40 permanent offices in 20 countries on six continents. A broad range of internationally recognised associate consultants complements the core staff.

The SRK Group's independence is ensured by the fact that it is strictly a consultancy organisation, with ownership by staff. SRK does not hold equity in any projects or companies. This permits SRK's consultants to provide clients with conflict-free and objective support on crucial issues.

SRK has prepared numerous independent technical reports for submission to the HKEx. Selected examples are shown in Table 1-2.

Table 1-2: Selected examples of Independent Technical reports prepared by SRK

Company	Year	Project Nature
Yanzhou Coal Limited	2000	Sale of Jining III Coal Project to the listed operating company
Chalco (Aluminium Corporation of China)	2001	Listing on the HKEx and New York Stock Exchange
Zijin Gold Mining Group	2004	Listing on the HKEx
Lingbao Gold Limited	2005	Listing on the HKEx
China Coal Energy Company Limited	2006	Listing on the HKEx
Sino Gold Mining Limited	2007	Dual listing on the HKEx and ASX
Xinjiang Xinxin Mining Industry Co., Ltd.	2007	Listing on the HKEx
Kiu Hung International Holding Limited	2008	Acquisition of a shareholding in mining projects in Inner Mongolia, China
Hao Tian Resource Group	2009	Very substantial acquisition of two coal projects in Inner Mongolia, China
Green Global Resources Holdings Ltd	2009	Acquisition of a shareholding in an iron project in Mongolia
North Mining Shares Company Limited	2009	Acquisition of a molybdenum mining project in Shaanxi, China
New Times Energy Corporation Ltd	2010	Acquisition of a shareholding in gold projects in Hebei, China

Company	Year	Project Nature
United Company RUSAL Limited	2010	Listing on the HKEx
Citic Dameng Holdings Limited	2011	Listing on the HKEx
China Hanking Holdings Limited	2011	Listing on the HKEx
China Nonferrous Metal Mining Group Co Ltd	2012	Listing on the HKEx
Minmetals Resources Limited	2012	Acquisition of Anvil Mining Limited
Jinchuan Group International Resources	2013	Very substantial acquisition of the mineral assets of Metrorex Ltd in the Democratic Republic of Congo and the Republic of Zambia
Wise Goal Enterprises Limited	2013	Very substantial acquisition of a glauberite project in Guangxi, China
Hengshi Mining Investments Limited	2013	Listing on the HKEx
Future Bright Mining Holdings Limited	2015	Listing on the HKEx
Feishang Non-metal Materials Technology Limited	2015	Listing on the HKEx
AgriTrade Resources Limited	2015	Acquisition of a coking coal project in Kalimantan
China Unienergy Group Limited	2016	Listing on the HKEx

1.5 Project team expertise

(Gavin) Heung Ngai Chan, General Manager (Hong Kong) and Principal Consultant (Geology), PhD, MAusIMM. Gavin has over 11 years of academic and commercial experience in geosciences, and has worked on numerous deposit styles including ophiolitic chromite, lode gold, sediment-hosted CuCo, iron ore, uranium, molybdenum, phosphate, and manganese. Gavin has previously worked in Niger, Sierra Leone, Tibet, Cyprus, Syria, New Zealand and Australia. His expertise lies in geological mapping, geological modelling, resource estimation, geological due diligence, valuation, fatal flaw and project analysis.

Jinhui Liu, Senior Consultant (Geology), PhD, MAusIMM. Jinhui has over 11 years' experience in geological modelling and resource estimation and is experienced in the review of geology and resource projects and implementation of Quality Assurance and Quality Control (QA/QC) in regard to exploration programs. He has completed many due diligence projects in various countries.

Nan Xue, Senior Consultant (Environmental) MSc, MAusIMM. Nan holds a Master's degree in environmental science from Nankai University in Tianjin. He has four years' experience in environmental impact assessment, environmental planning and environmental management. He has been involved in a number of large EIA projects and pollution source surveys for SINOPEC, as well as the environmental planning project funded by UNDP. He has particular expertise in construction project engineering analysis, pollution source calculations and impact predictions. In recent years after he joined SRK, Nan Xue has been involved in a number of due diligence projects.

Falong Hu, Senior Consultant (Mining) BEng, MAusIMM. Falong has a Bachelor's degree in Mining Engineering from Central South University. Before joining SRK he worked as an on-site and head office mining engineer at Sino Gold Mining Limited (which later merged with Eldorado Gold Corp.) and Silvercorp Metals Inc. He is familiar with underground mine production systems and has been involved in mine design, scheduling, and development; underground mining production; longhole blasting; rock mechanics; ventilation; back-fill; and cost accounting. He is also proficient in digital modelling using Gemcom Surpac.

Lanliang Niu, Principal Consultant (Processing) BEng, MAusIMM, MCAMRA. Lanliang has 25 years' experience in processing, hydrometallurgical testing and studies, mine technical support, and production management, and he is competent in both theoretical study and actual production. He has specific expertise in the processing of precious metals, nonferrous metals, ferrous metals, and some non-metal, as well as processing test design, data processing, and plant design and operation. He is actively acquainted with the new development and applications of processing technologies, facilities, and reagents. He has received two national awards for his achievements in this area. Since joining SRK, Lanliang has been responsible for ore processing/metallurgical and economic analysis of scopes of work and involved in more than 70 independent technical review projects.

1.6 Statement of SRK's independence

Neither SRK nor any of the Project team members of this Report have any material present or contingent interest in the outcome of this Report, nor do they have any pecuniary or other interest that could be reasonably regarded as being capable of affecting their independence or that of SRK.

SRK has no prior association with China Mining in regard to the mineral assets that are the subject of this Report. SRK has no beneficial interest in the outcome of the technical assessment capable of affecting its independence.

SRK's fee for completing this Report is based on a fixed price contract. The payment of that professional fee is not contingent upon the outcome of this ITR.

1.7 Warranties

China Mining has represented in writing to SRK that full disclosure has been made of all material information and that, to the best of its knowledge and understanding, such information is complete, accurate and true.

1.8 Indemnities

China Mining has provided SRK with an indemnity under which SRK is to be compensated for any liability and/or additional work or expenditure resulting from any additional work required:

- which results from SRK's reliance on information provided by China Mining or to China Mining not providing material information; or
- which relates to any consequential extension workload through queries, questions or public hearings arising from this Report.

1.9 Consents

SRK consents to this Report being included, in full, in China Mining's circular in relation to its proposed acquisition of the remaining interest of the Project, in the form and context in which the technical assessment is provided, and not for any other purpose.

1.10 Limitations

SRK, after due enquiry and subject to the Limitations of this Report hereunder, confirms that:

- The input, handling, computation, and output of the geological data and Resource and Reserve information has been conducted professionally and accurately and to the high standards commonly expected within the Geoscience profession.
- In conducting this assessment, SRK has assessed and addressed all activities and technical matters which might reasonably be considered to be relevant and material to such an assessment conducted to internationally accepted standards. Based on observations, interviews with appropriate staff and a review of available documentation, SRK is, after reasonable enquiry, satisfied that there are no outstanding relevant material issues other than those indicated in this report. However, it is impossible to dismiss absolutely the possibility that parts of the site or adjacent properties may give rise to additional issues.
- The conclusions presented in this Report are professional opinions based solely upon SRK's interpretations of the documentation received, interviews and conversations with personnel knowledgeable about the site, and other available information, as referenced in this Report. These conclusions are intended exclusively for the purposes stated herein.

For these reasons, prospective readers should make their own assumptions and their own assessments of the subject matter of this Report.

Opinions presented in this Report apply to the site's conditions and features as they existed at the time of SRK's investigations, and those reasonably foreseeable. These opinions cannot necessarily apply to conditions and features that may arise after the effective date of this Report, about which SRK has had no prior knowledge, nor had the opportunity to evaluate.

2 PROJECT DESCRIPTION

2.1 Location and mineral tenure

The Project is located in Tongguan County, Shaanxi Province of the PRC, approximately 155 km east of Xi'an, capital of Shaanxi Province. The Project comprises three major facilities, clustered within a 15 km diameter. The mine and exploration area are centred approximately at latitude 34° 27' 30" N and longitude 110° 13' 30" E and lie approximately 10 km south of Tongguan. The processing plant is located at Beidong Village, Daiziying Town, Tongguan County, approximately 10 km northeast of the mine. The Project's administrative office is located at Xizhaizi Village, Tongguan County. These three facilities are connected by well-maintained paved provincial roads (Figure 2-1 and Figure 2-2).

2.2 Tenure

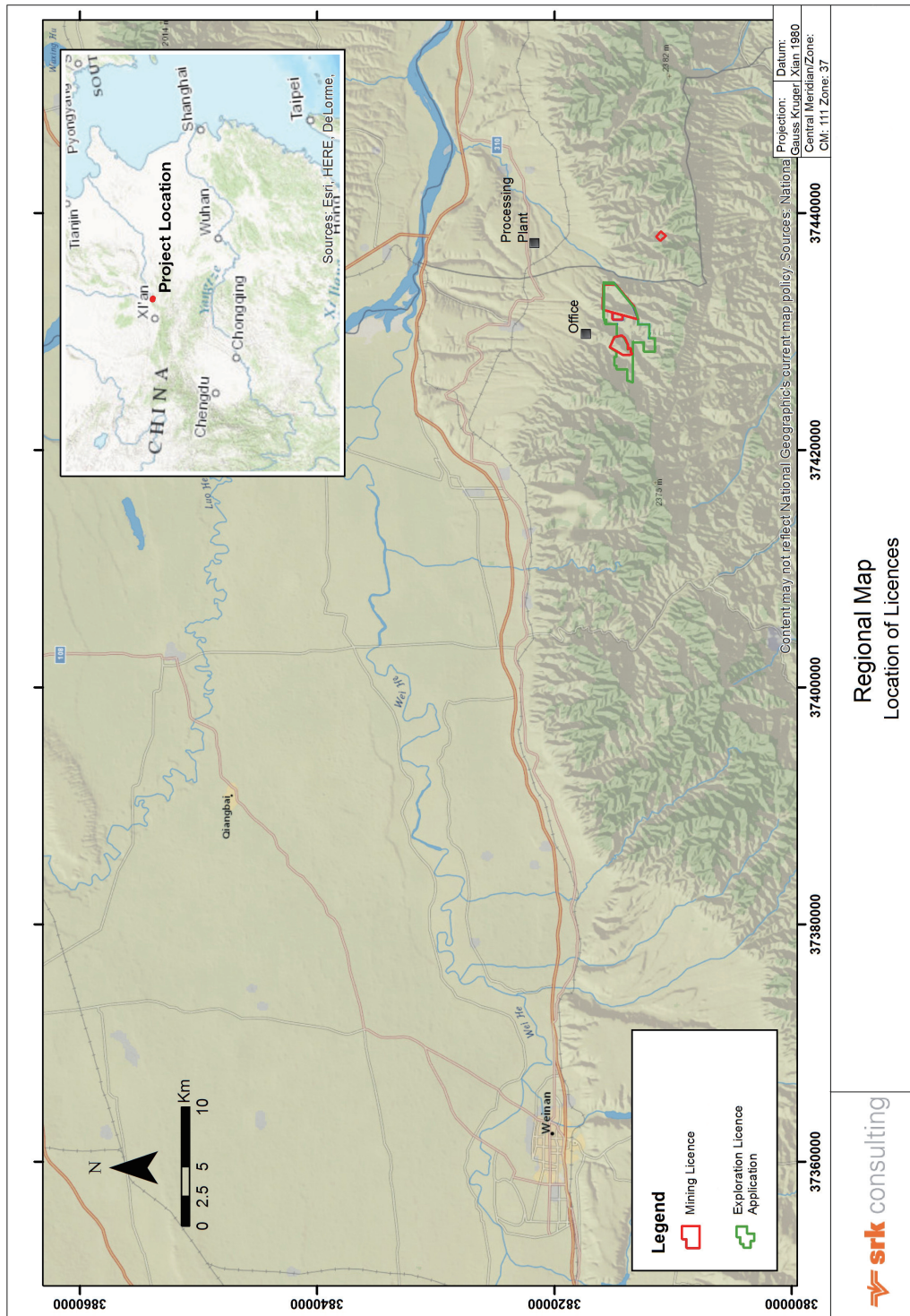
Xiangshun has a portfolio of mineral tenements, including four mining licences (Q401, Q4112, Q301 and Q198), totalling 7.7975 km² (Table 2-1). An application for an exploration licence, covering the adjoining area of Q401 and the area formerly occupied by Xiangshun's exploration licence (Q4114), with a total area of 16.23 km² was submitted to the relevant government authority on 13 January 2016 (Table 2-2). The locations of the granted tenements and the tenement under pending application are shown in Figure 2-2.

A legal opinion was provided to China Mining on the status of each tenement and tenement application by Tian Yuan Law Firm on 31 October 2016. This legal opinion indicated that all tenements were issued by the competent authority and are currently valid. The legal opinion also indicated that the tenement under pending application has received an initial approval by the relevant authority on 29 July 2016 which implies that there is no further legal obstacle before the licence is formally granted.

2.3 History and current status

The Project area has been developed and mined by a number of companies. A synopsis of the history of each tenement is as follows:

- Q401: a mining licence was granted to Shaanxi Tongguan Gold Mining in 1992. The licence was revoked when Shaanxi Tongguan Gold Mining bankrupted in 2001. The licence was granted to Tongjin Yusuiyu in 2005 and was transferred to Tongjin Gold Mine in 2008. The licence was acquired by Xiangshun in 2012. The Q401 project area has been in operation since 2012.
- Q4112: an exploration licence was held under Tongguan Jinxing Mining. In 2010, Xiangshun acquired the exploration licence that was subsequently converted to a mining licence in 2013. The Q4112 project area had been in operation since 2013, but was suspended in October 2015 in order to upgrade the production safety measures. The operation resumed in late June 2016.
- Q301: the area had been operated by Weinan Gold Mining from 1992 to 2006. In 2007, the mining licence was granted to Qinlu Mining who transferred the licence to Xiangshun in 2010. The area had been in production between 2013 and 2015. The current scale of production is restricted as the remaining resources in this area are limited.
- Q198: a mining licence was granted to Weinan Gold Mining from 1992 to 2006. In 2007, the mining licence was granted to Qinlu Mining who transferred the licence to Xiangshun in 2010. A ramping down of production within Q198 is underway as closure planned.
- Q4114: an exploration licence was granted to Xiangshun in 2012 and was expired on 2 August 2016. However, a consolidated area, covering the expired Q4114 licence area and the adjoining area of Q401 has been included in the exploration licence application.



Regional Map
Location of Licences



Figure 2-1: Location of Tongguan Project

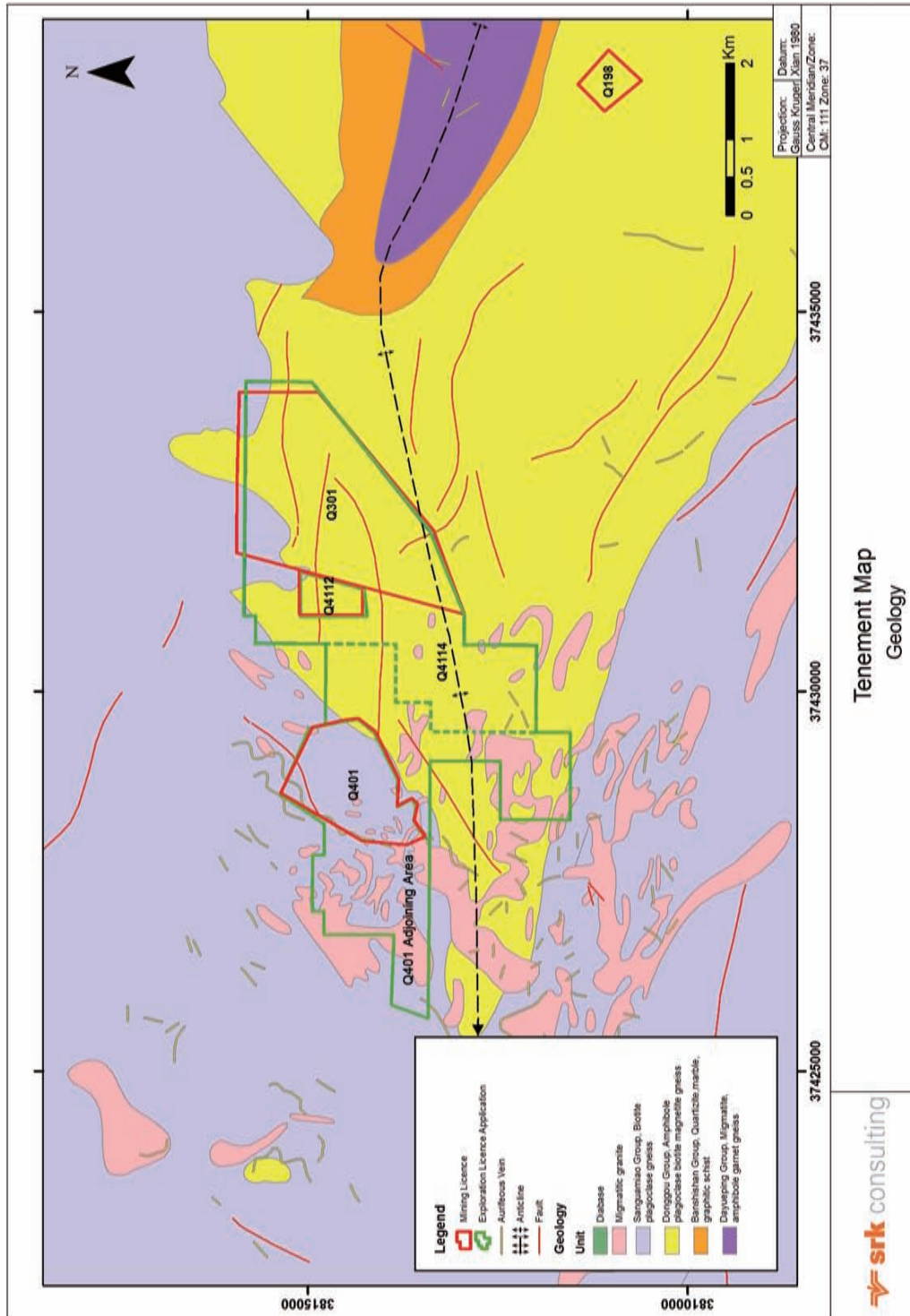


Figure 2-2: Tenement locations shown on the simplified geological map

Table 2-1: Tenement details

Licence Type	Project area	Licence No.	Ownership	Mine/project name	Ore type	Mining method	Mining capacity (ktpa)	Area (km ²)	From	To	Elevation limit (m)
Mining	Q401	C6100002011044120110592	Tongguan County Xiangshun Mining Development Co. Ltd.	Q401 Gold Vein, Tongyu Gold Field, Tongguan	Gold, iron ore	Underground	15	1.8765	6-May-2015	6-May-2018	1250 — 900
Mining	Q4112	C6100002013064110130335	Tongguan County Jinxing Mining Co. Ltd. ¹	Q4112 Gold Vein, Haochayu Gold Field, Tongguan Jinxing Mining Co. Ltd.	Gold	Underground	30	0.388	22-Jun-2016	22-Jun-2019	1280 — 950
Mining	Q301	C6100002009084120031621	Tongguan County Xiangshun Mining Development Co. Ltd.	Q301 Gold Vein, Tongguan Xiangshun Mining Development Co. Ltd.	Gold	Underground	15	5.2002	30-May-2016	30-May-2018	1240 — 1080
Mining	Q198	C6100002010034120059580	Tongguan County Xiangshun Mining Development Co. Ltd.	Q198 Gold Vein, Tongguan Xiangshun Mining Development Co. Ltd.	Gold	Underground	15	0.3328	9-July-2015	9-July-2017	1250 — 1020

¹ A change of company name to Xiangshun is underway

Table 2-2: Exploration licence application

Area	Area (km ²)
Q4114	8.8
Q401 adjoining area	7.43
Total	16.23

2.4 Access, local resources and infrastructure

The mine and exploration activities are approximately 10 km to the south of Tongguan, or approximately 155 km to the east of Xi'an, capital of Shaanxi Province. Access to the mining operations from Xi'an is through Freeway G65/G30 for 121 km, and then paved provincial road (301) for approximately 34 km. The mine is connected to the processing plant by the paved provincial road (X204) for 6 km and G301 for approximately 8 km (Figure 2-1).

The Longhai railway line is approximately 10 km to the north of the mine. The closest commercial airfield is at Xi'an, where there are daily flights to other major cities in China and Hong Kong. The closest major regional centre is at Tongguan, which has a population of about 150,000. There are more than 20 mining operations in the vicinity of Tongguan, which is used as the main source of supplies for the Project.

SRK considers the current infrastructure of the Project area to be adequate for the current and planned scale of operation and transportation between the mine and the processing plant.

2.5 Climate and physiography

The climatic conditions are characteristic of the North China plain, where annual temperatures vary between winter lows of -8°C to summer highs of 21°C. The climate is generally arid, with seasonal precipitation of about 545 mm per year, mostly falling during July and August.

The mine and exploration activities are located at elevations that range from 1,100 m above sea level (ASL) to approximately 1,600 m ASL. The topographic relief is moderate and severe and generally consists of high ridges with steep side slopes and deep narrow valleys, with more than 200 m of relief in the immediate area.

3 GEOLOGY

Regionally, the Project forms part of the Xiaoqinling gold field, which is located in the northernmost Qinling Terrane. The Xiaoqinling gold field represents the second largest gold belt in China and is highly prospective for high-grade, narrow-vein gold deposits (Figure 3-1).

The Qinling Terrane is bounded by the Taiyao Fault to the north and the Xiaohe Fault to the south. The geology is represented by the Archean to Paleoproterozoic Taihua Supergroup, which was metamorphosed to amphibolite to granulite facies between 1.95 and 1.82 Ga (Zhou et al., 2015). It consists mainly of gneisses, marbles, quartzites, banded iron formations, biotite/ amphibole gneisses and amphibolites.

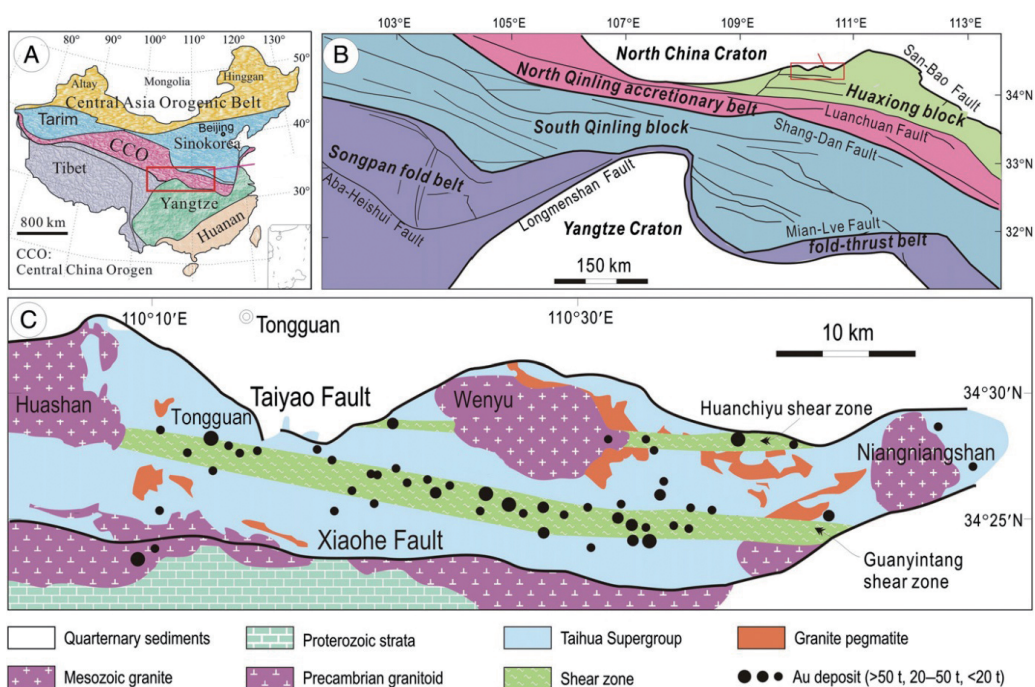


Figure 3-1: Tectonic subdivisions of China

- A: Location of Qinling Terrane;
 B: Tectonic subdivision of the Qinling Terrane, showing the Xiaoqinling gold field;
 C: Geological map of the Xiaoqinling gold field and the location of the Tongguan gold project.

Source: Zhou et al., 2015

Locally, the Taihua Supergroup is represented, from the bottom to the top, by the Dayueping Group migmatite, amphibole garnet gneiss, followed by the Banshishan Group quartzite, marble and graphitic schist. The succession is further overlain by the Donggou Group amphibole plagioclase biotite (magnetite) gneiss and the Sanguamiao Group biotite plagioclase gneiss. The gneisses are cut by migmatitic granite, pegmatitic granite and diabase in places (Figure 3-1).

Structurally, the Project area is marked by a primary east-west trending structure that marks the axis of an anticline. The width of this structure varies between several to tens of metres wide and can be traced for kilometres. A secondary conjugate set of north west and north east trending fractures that probably representing accommodation structures of the east-west trending structure are present. These fractures can be traced for up to a few hundred metres along strike. A north-south trending set of fractures, interpreted as the third-order structure is also present. Gold mineralisation tends to be associated with second- and third-order structures. Radiometric dating of the mineralisation revealed that the Xiaoqinling gold mineralisation occurred in the Early Cretaceous (Zhou et al., 2015).

The Project displays structural features typical of gold mineralisation of an orogenic affinity. Orogenic gold deposits are associated with regionally metamorphosed terranes of all ages (Archean to Present). Ores were formed during compressional to transpressional deformation processes in accretionary and collisional orogens. Subduction-related thermal events initiate and drive long distance hydrothermal fluid migration, with the resulting gold-bearing quartz veins being emplaced some 15-20 km to the near-surface environment. Pervasive wall-rock alteration and mineralisation often accompany gold-bearing veins.

There is strong structural control of mineralisation at a variety of scales of these deposits. They are generally located in second- or third-order structures, most commonly near large-scale structures. Although the controlling structures are commonly ductile to brittle in nature, they are highly variable in type (Robb et al., 2007).

4 MINERALISATION

The gold mineralisation is composed of quartz veins and sulphides and both constitute a visual guide to mineralisation. Quartz veins are considered to be syn-mineralisation. Ductile to brittle shear zones, characterised by sericite-chlorite schist appear to be favourable for the development of quartz and sulphide veins. Associated sulphides commonly include pyrite, chalcopyrite, sphalerite and galena. Multiple vein sets are present in the overall mineralised envelope, and veins commonly pinch and swell along-strike and down-dip. Quartz veining is white, medium-crystalline. In places, quartz veins have been brecciated and healed by late-stage deformation. Alteration appears to be limited to pyrite, sericite and chlorite adjacent to quartz-sulphide veins (Figure 4-1).



Figure 4-1: Auriferous quartz veins are commonly associated with A: pyrite and B: chalcopyrite/malachite

At least a dozen auriferous veins have been discovered in the Project area. Currently, mining has been focused on Q401-3 and Q301. Q4112 and Q198 have also been mined in the past. Five more auriferous veins, namely Q4114, Q429, Q1403, Q401-3, Q401-4 v1 and Q401-4 v2 have been discovered to date, but are not being mined (Figure 4-2).

The thickness of these veins ranges from 0.2 m to 4.2 m. The dimension of these veins varies from 200 m to 1,100 m along-strike and extends from 120 m to 750 m down-dip. The orientation of these veins can be broadly divided into three groups. Group 1 veins dip steeply towards north west, Group 2 veins dip steeply towards

north east and Group 3 veins dip gently towards north or are nearly sub-horizontal. The structural and mineralogical characteristics of the Project are consistent with other vein-hosted structurally controlled gold deposits found in other orogenic belts around the world.

In SRK’s opinion, the vein systems at Tongguan represent a well-developed and aerially extensive orogenic lode gold deposit. Although the local geology of the deposits is well understood, the along-strike and down-dip extent of some of these vein systems, such as Q401-4, have not been well tested. Cross sections of these veins are shown in Figure 4-3 to Figure 4-7 and the characteristics are summarised in Table 4-1.

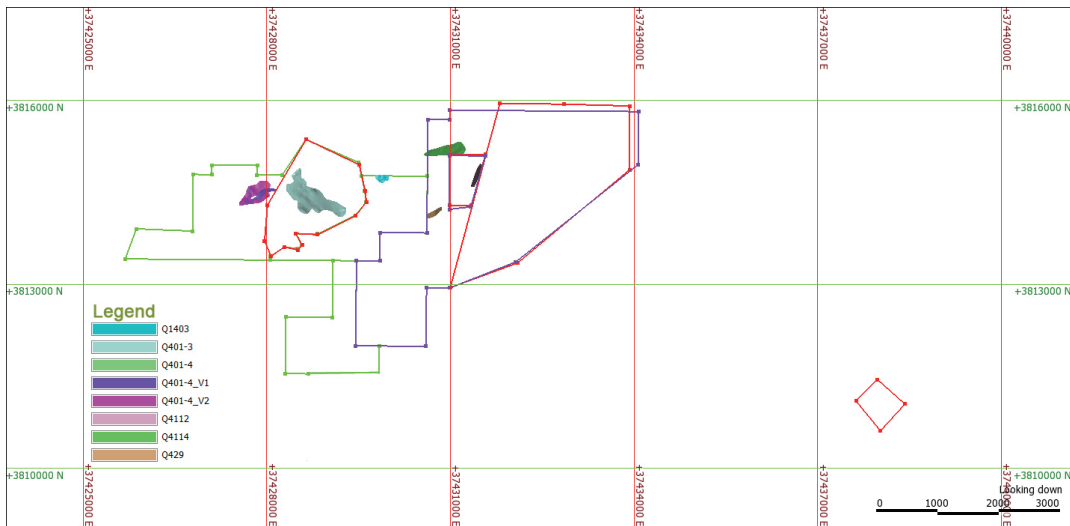


Figure 4-2: Plan view of the auriferous veins with the Project area

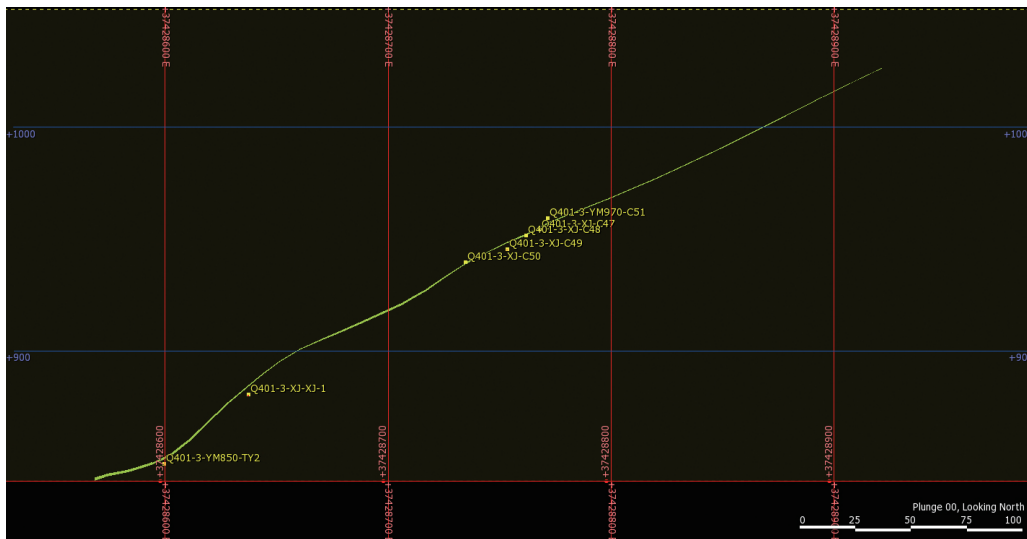


Figure 4-3: Cross section of Q401-3, looking north

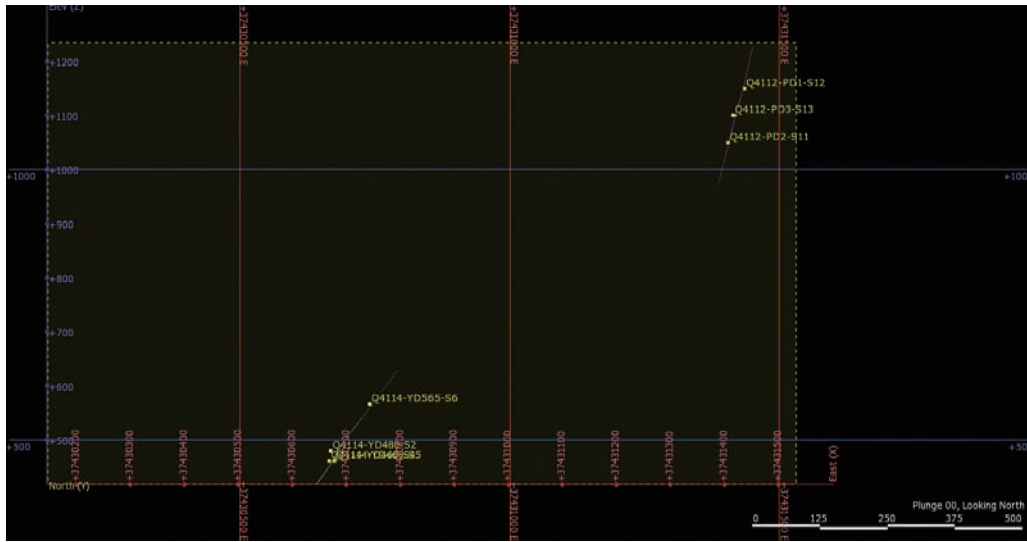


Figure 4-4: Cross section of Q4112 and Q4114, looking north

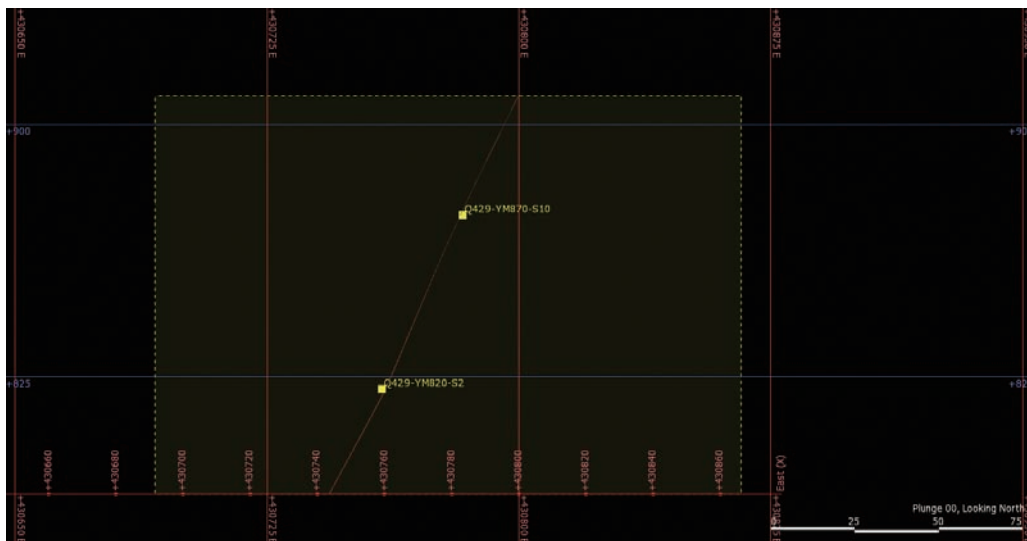


Figure 4-5: Cross section of Q429, looking north

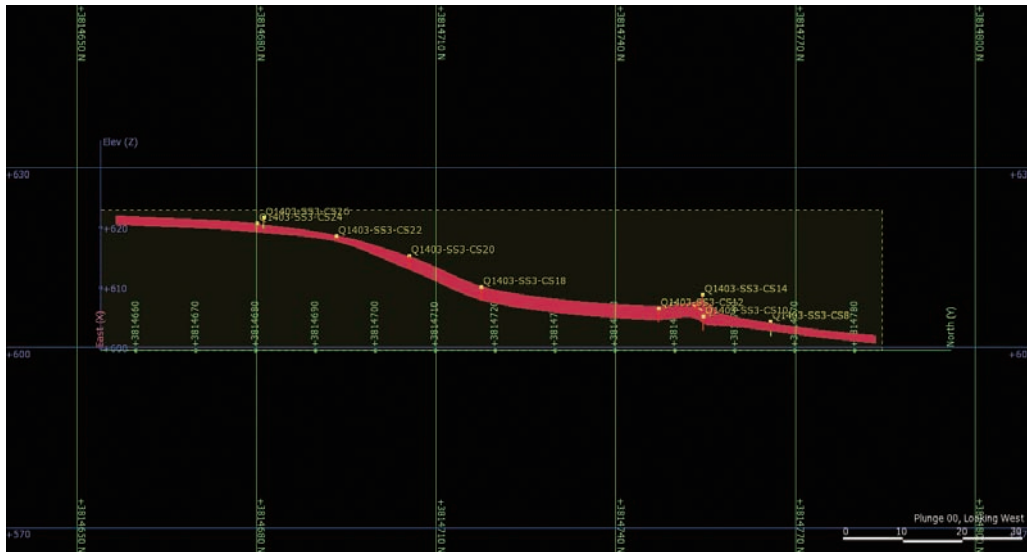


Figure 4-6: Cross section of Q1403, looking west

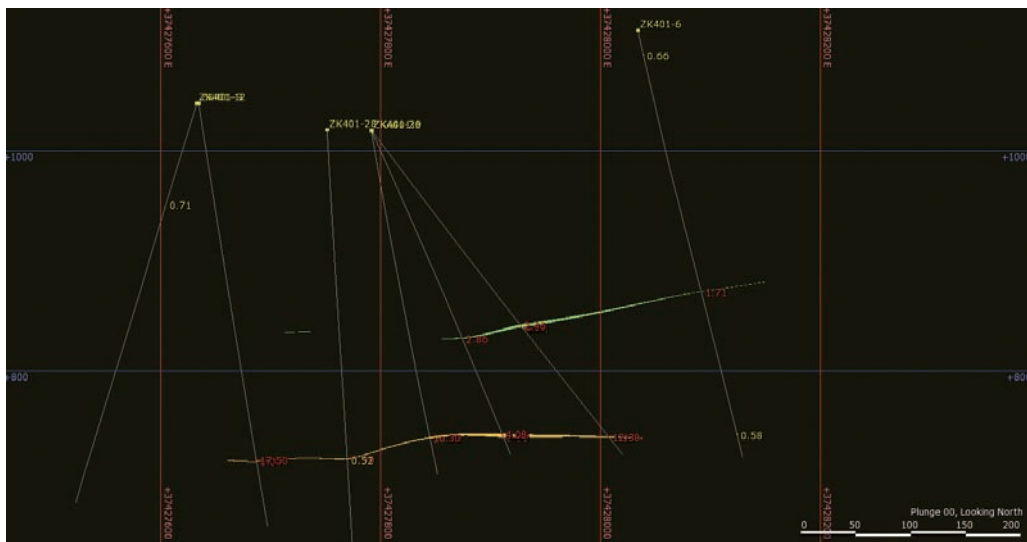


Figure 4-7: Cross section of Q401-4, looking north

Table 4-1: Characteristics of Tongguan gold veins

Licence type	Project area	Domain	Vein	Dimension (m) (strike × down-dip)	Thickness (m)	Grade (g/t Au)	Orientation	Comment
Mining	Q401	Q401-3	Q401-3	1100 × 400	0.2-3.5	7.1	30° → 320°	Partly mined for 10 years by Xiangshun and previous operator and produced 400,000 t ore @5-7 g/t Au.
Mining	Q4112	Q4112	Q4112	380 × 270	0.2-1.7	5.1	70° → 280°	Detailed exploration conducted in 2007. Auriferous sulphide veins developed along shear zones, characterised by sericite-chlorite schist.
Mining	Q301	Q301	Q301	150 × 160	0.5-0.7	5.1	75° → 330°	Auriferous veins developed along major structure. 40,000 t ore has been mined since 2004.
Mining	Q198	Q198	Q198	560 × 200	0.5-2.0	3.9	73° → 055°	Auriferous sulphide veins developed along shear zones, characterised by sericite-chlorite schist
Exploration Licence Application	Q4114	Q4114	Q4114	290×750	0.2-1.5	8.2	75° → 350°	Auriferous sulphide veins developed along shear zones, characterised by sericite-chlorite schist
		Q429	Q429	270×140	0.3-3.2	7.2	75° → 345°	Auriferous sulphide veins developed along shear zones, characterised by sericite-chlorite schist
	Q401 adjoining area	Q1403	Q1403	200×120	0.3-3.0	6.9	10° → 000°	Controlled by underground channel sampling. Pyrite, chalcopyrite and galena are commonly associated with gold . Veins are developed along ductile shear zones.
		Q401-3	Q401-3	1100 × 400	0.2-3.5	7.1	30° → 320°	Partly mined for 10 years by Xiangshun and previous operator and produced 400,000 t ore @5-7 g/t Au.
		Q401-4	Q401-4 v1	500 ×200	0.4-3.5	2.9	Subhorizontal	Discontinuous sub-horizontal veins, mylonite and phyllite are present. Lateral extension of mineralisation has not been well tested yet.
			Q401-4 v2	610×330	0.4-4.2	7.6	Subhorizontal	Sub-horizontal veins occur along a major shear zone. Lateral extension of mineralisation has not been well tested yet.

5 EXPLORATION HISTORY

5.1 Introduction

Discovery of the deposit occurred in pre-modern times. Modern exploration commenced in the late 1960s and has comprised surface and underground geological mapping, trenching, underground channel sampling and surface drilling, by Xiangshun, previous operators and geological teams engaged by these companies.

Since 2009, two geological teams have worked in the Project area, namely Shaanxi Geological Bureau Team 6 (Team 6) and Northwest Nonferrous Geological Bureau Team 712 (Team 712). Details of their exploration works have been properly recorded. The production records between 2013 and May 2016 for Q401, Q4112 and Q301 project areas are shown in Table 5-1.

Table 5-1: 2013-May 2016 Production records for Q401, Q4112 and Q301 project areas

Project area	2013		2014		2015		Jan-May 2016	
	Tonnes (t)	Grade (g/t Au)	Tonnes (t)	Grade (g/t Au)	Tonnes (t)	Grade (g/t Au)	Tonnes (t)	Grade (g/t Au)
Q401	18,468	6.3	6,835	6.1	15,664	6.4	14,561	5.6
Q4112	25,964	6.1	18,420	6.2	31,597	6.2	—	—
Q301	2,104	5.7	18,660	5.8	3,992	5.8	14,080	4.6
Total	46,536	6.1	51,699	5.9	51,253	6.2	28,641	5.1

5.2 Surveying

All surface and underground surveying was completed on Xi'an 1980/Gauss Kruger projection, Central Median 111/Zone 37 datum. The electronic total station method was employed to survey collar and underground workings. The scale of the survey was 1:2,000.

5.3 Geological mapping

Extensive surface and underground geological mapping has been completed to define structure, lithology, mineralisation and alteration in the last 50 years.

5.4 Trenching

Trenching across auriferous veins exposed on the surface started in the 1970s and continued through to the 2000s. The orientation of these trenches is mostly perpendicular to the mapped veins. The surface trench was excavated by hand to approximately 1 m below the surface. Channel samples were collected along the walls of the trenches, and bagged and labelled for analysis.

5.4.1 *Underground channel sampling*

The underground channel sampling method has been widely employed to collect samples along underground workings by Xiangshun, and previous operators and geological teams engaged by these operators. The underground channel sampling was described to have been done by hand-cut channels, 5 cm wide and 3 cm deep at 0.5-2 m intervals. The sample was collected on a plastic sheet laid on the floor, labelled and placed in a bag for dispatch to the laboratory. Sampling was restricted to remnant material accessed by historical mining operations where access is allowed. SRK visited some of the underground workings and confirmed that the cut channels from which the samples were taken are clearly visible in many instances and are reasonably consistent in width and depth. Because the Project has a long mining history (since 1970s), many resources defined by the old channel sampling were mined out. Table 5-2 shows the summary statistics of underground channel sampling suitable for the current resources validation by SRK in March 2016.

Table 5-2: Summary of underground channel sampling

Project area	Domain	Samples collected	Metres
Q401	Q401-3	217	167.9
Q4112	Q4112	66	66.0
Q4114	Q4114	62	58.0
Q4114	Q429	25	10.0
Zone I	Q1403	21	40.5
Total		391	342.5

5.4.2 *Drilling*

Drilling has been carried out by two separate geological teams in the Project area – Team 6 in 2009 and 2011, and Team 712 in 2014/ 2015. All drill holes were diamond drill holes and were drilled from the surface, with the exception of one underground drill hole conducted in 2009 by Team 6. The core recoveries of all drill holes were reported to range from 98% to 100%. A summary of this work is presented in Table 5-3.

Table 5-3: Summary of drilling

Project area	Commissioning Company	Geological Team	Year	Type	Size (mm)	No. of holes	Metres	Average Recovery
Q4112	Tongguan County Jinxing Mining Co. Ltd.	Team 6	2009	UG	PQ/HQ	1	89.5	100.0%
Q4112/ Q429	Tongguan County Xiangshun Mining Development Co. Ltd.	Team 6	2011	Surface	HQ/NQ	5	2,021.5	97.3%
Q401-4	Tongguan County Xiangshun Mining Development Co. Ltd.	Team 712	2014/ 2015	Surface	HQ/NQ	41	15,724.7	97.9%
Total						47	17,835.7	

With the exception of one underground drill hole, all drill holes were initially drilled HQ size and reduced to NQ size after passing through the weathered zone. All cores were geologically logged, and sawed for sampling. The retained half of the core is stored on site (Figure 5-1).



Figure 5-1: Drill cores from the historical drilling campaigns are systematically stored on site

All holes were logged on paper and then entered into Excel spreadsheets. The diamond holes were logged to assay intervals for recovery, lithology, vein mineralogy, sulphides, alteration and structures.

Downhole surveys were taken every 50 m. There is generally little deviation in azimuth and dip along the drill holes.

The diamond drill core was cut in half and then sampled to variable lengths to honour the geological features. A nominal length of 1.0 m was used for most of the samples.

5.4.3 Assay

The underground channel and drill cores were assayed through absorption by foaming plastics and finish by atomic absorption spectroscopy (AAS) at Shaanxi Province Geological Bureau Laboratory, Xi'an Geological Resource, Northwest Nonferrous Geological Bureau Team 712 Laboratory. All laboratories hold Chinese accreditations for gold assaying.

The samples were prepared according to the Chinese national standard. The samples were weighed on receipt, dried, crushed in a jaw crusher to 75% less than 2 mm, split to a 250 g subsample using a riffle splitter, and pulverised in a ring mill to 85% <75µm. A 10 g subsample was split from the pulp and analysed for gold through absorption by foaming plastics and finish by AAS.

5.5 Bulk density

Samples for bulk density measurements were collected in various exploration campaigns between 2009 and 2016. A total of 193 samples were collected. The samples were collected either from underground workings or drill cores, and were weighed and sealed by wax. The bulk density was measured by the water displacement method (Table 5-4). The average density values span a short range of 2.68-2.88 t/m³.

Table 5-4: Bulk density summary statistics

Geological team	Year	Project area	No. of samples	Grade (g/t Au)	Density (t/m ³)	Average density (t/m ³)
Team 712	2016	Q1403	34	1.6-104.0	2.37-3.95	2.88
Team 712	2015	Q4114	50	1.3-105.0	2.22-3.61	2.88
Team 712	2015	Q401-3	41	1.0-53.9	2.35-3.03	2.68
Team 6	2011	Q4112/Q429	36	Not available	Not available	2.72
Team 6	2009	Q4112/Q429	32	2.4-6.3	Not available	2.86

5.6 Sample security

Samples were numbered and placed in bags before being sent directly from the site to the laboratories in Xi'an. There were no security measures on the sample bags. Samples were weighed on dispatch from the site and on receipt at the laboratories; however, it is not clear whether these weights were ever compared.

5.7 Quality assurance and quality control

5.7.1 Certified reference materials

A limited number of certified reference materials (CRMs) were routinely inserted into the sample batches in order to test the degree of accuracy of the laboratory results submitted by Team 6. In the 2011 campaign of the Project Q4114 and Q429, it was described that four Chinese National CRMs were inserted in the sample at a frequency of 1 in 50 samples. The result was described as satisfactory. However, the original data were not available to SRK to review.

5.7.2 Laboratory duplicates

Laboratory duplicates were used as a standard quality control protocol to test the reproducibility of the laboratory analysis. Results of each campaign were described as satisfactory. Table 5-5 shows the laboratory duplicate statistics for the Q4112 exploration campaign conducted by Team 6 in 2009, showing that the pulp duplicates had good reproducibility.

Table 5-5: Laboratory duplicate statistics

Original			Duplicate			No. of pairs	Correlation coefficient
Mean	Standard deviation	Median	Mean	Standard deviation	Median		
2.89	2.70	1.88	2.90	2.73	1.75	31	0.999

5.7.3 Inter-laboratory check

An inter-laboratory check was also part of the standard quality control protocol. The results of the inter-laboratory checks were described as satisfactory.

Table 5-6 shows the inter-laboratory check statistics for the Q4112 exploration campaign conducted by Team 6 in 2009. A high degree of correlation between the results of two laboratories is demonstrated. The primary laboratory is Shaanxi Province Geological Bureau Laboratory, while the umpire laboratory is Ministry of Land and Mineral Resources Supervision and Inspection Center of Xian.

Table 5-6: Inter-laboratory check statistics

Primary laboratory			Umpire laboratory			No. of pairs	Correlation coefficient
Mean	Standard deviation	Median	Mean	Standard deviation	Median		
2.75	2.41	2.16	2.64	2.52	1.9	30	0.975

5.8 Validation

The underground channel and drilling data from previous exploration campaigns were provided to SRK as a series of Excel spreadsheets and reports. All the provided data, including collars, assays, and surveys were compiled in a database. The combined database was validated using Leapfrog and Surpac software packages to search for errors such as missing or overlapping intervals, correct hole or channel ID, azimuths, dips and duplicated samples.

SRK undertook a verification program that included re-assay of 10 drill core samples and 69 pulp samples. A total of 38 samples were also collected from underground twin channels. With respect to bulk density, 10 core samples and 45 channel samples were taken for check bulk density measurement. All these samples were collected by SRK with the assistance of Xiangshun technical personnel from the onsite or geological team storage areas and underground workings. All the check samples were analysed at ALS Chemex (Guangzhou) Co. Ltd. (ALS) by fire assay with AAS finish for gold, and by the water displacement method for bulk density measurement.

Table 5-7: Summary statistics of the verification program

Sample type	No. of mineralised samples (Au \geq 1.0 g/t)	Drill core re-assay	Twin channel sample	Pulp re-assay
Channel	374	—	38	60
Drill hole	70	10	—	9

5.8.1 Drill core duplicate

A total of 10 quartered drill core samples were taken, representing 14.3% of total samples in the mineralised zones. The drill core pairs show a similar gold grade trend, as shown in Figure 5-2. There are apparent differences between the two analysis results (Table 5-8; Figure 5-2), which should be caused by the uneven natural gold mineralisation distribution, known as nugget effect within the drill cores. Overall, SRK considered the drill core duplicate analysis shows that the historical drilling result is reliable.

Table 5-8: Drill core duplicate results

Original grade (g/t Au)	Check grade (g/t Au)
10.30	6.26
36.20	75.90
16.80	31.50
89.20	58.2
7.37	0.094
6.42	9.590
12.00	20.60
5.30	1.53
1.40	2.95
1.00	4.81

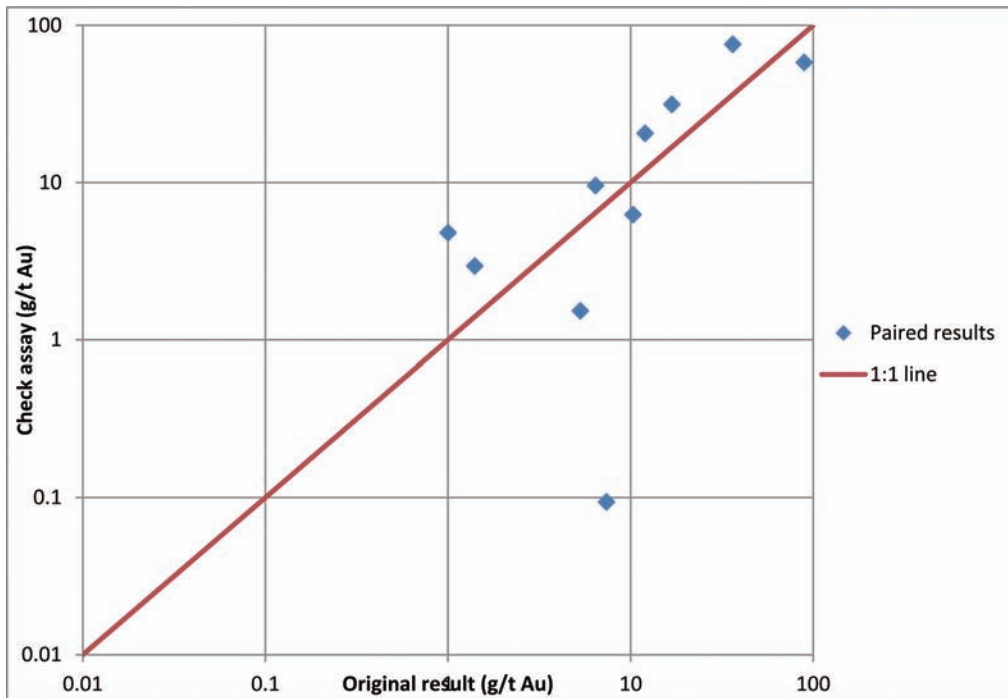


Figure 5-2: Field drill core duplicates analysis

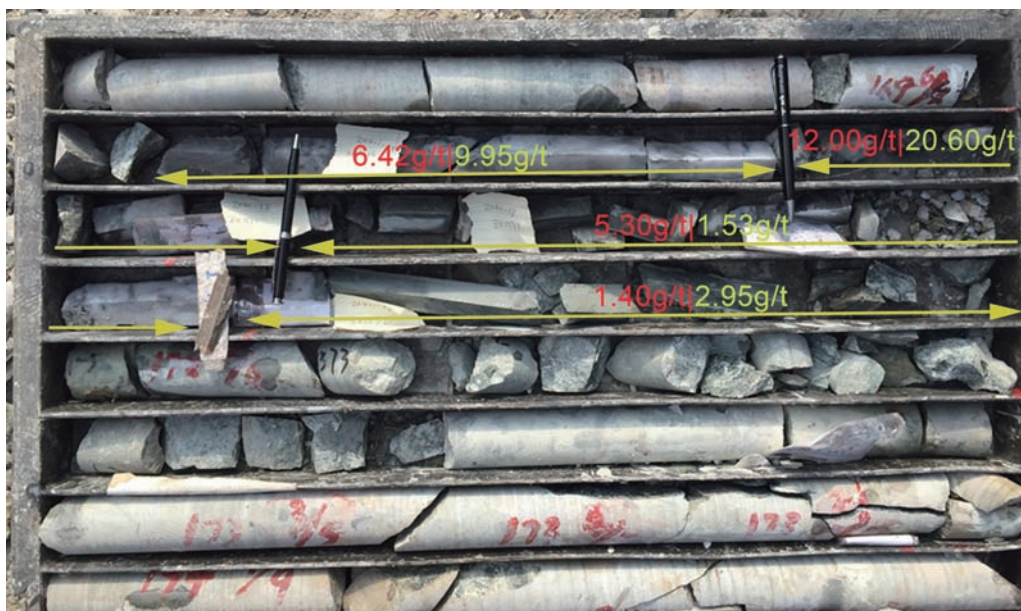


Figure 5-3: Drill core duplicates

Red: original values; Green: ALS check values

5.8.2 *Twin underground channel*

The underground channel samples were taken adjacent to the previous channel sample locations, at the same interval length, in order to compare with the historical results. A total of 38 channel samples, representing 10.2% of the total mineralised intervals were taken from three areas.

Figure 5-4 represents the very clear similar gold grade trend between the original and the check results. SRK is of the opinion that the historical channel sampling results are reliable.

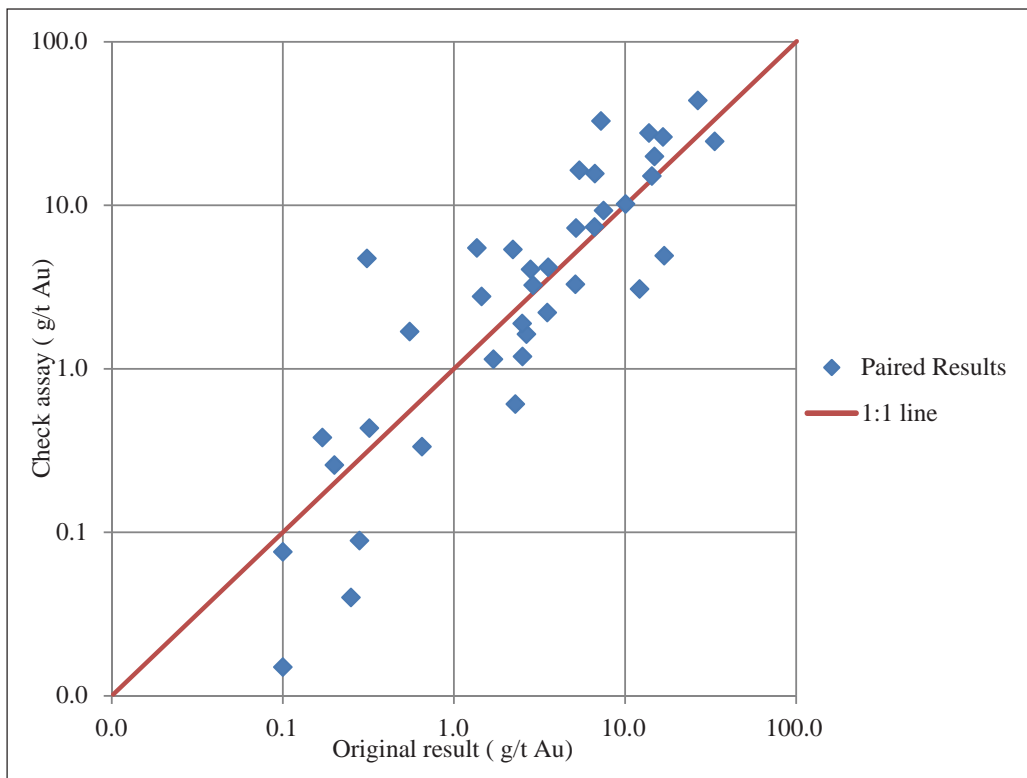


Figure 5-4: Twin channel sample results

5.9 Pulp sample

A total of 69 pulp samples, representing 15.5% of the total mineralised intervals were selected. The pulp check samples show a good correlation to the original sample (Figure 5-5). SRK is confident in the repeatability of the sample preparation and analysis of the samples.

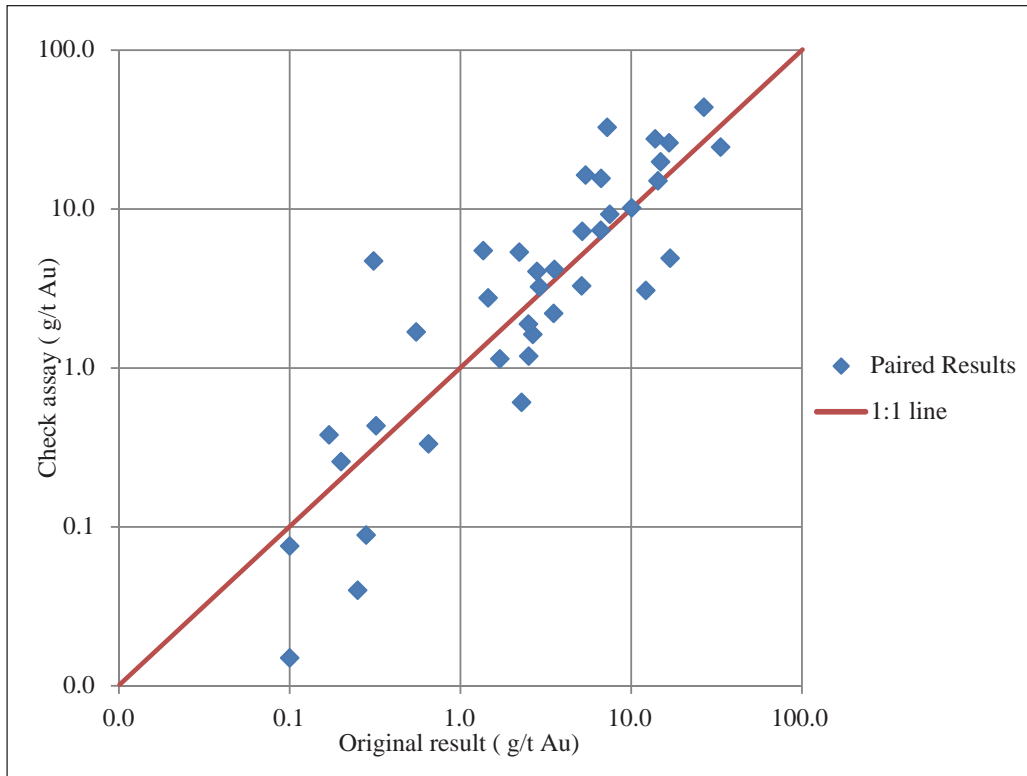


Figure 5-5: Correlation graph between original data and check duplicates

5.10 Bulk density

A total of 10 core and 45 channel samples were collected for bulk density check analysis. The samples were sealed by wax; weighed and measured using the water displacement methods. When the check data are compared with the historical data, they are within similar ranges, with the exception of the data of Q401-4 (Table 5-9).

The average check bulk density for this domain is much higher than the historical average density data. SRK found that this distortion was caused by one sample numbered S9003, of which the density was 4.96 t/m³ at an average grade of 75.9 g/t Au. If this high grade sample is removed, the average check result is 2.86 t/m³, which is the same as the historical result.

SRK is of the opinion that the historical bulk density data is appropriate for use in the Mineral Resource estimate.

Table 5-9: Bulk density comparison

Project area	Historical data		Check	
	Sample number	Average density	Sample number	Average density
Q401-3	41	2.68	16	2.66
Q1403	34	2.95	21	2.93
Q4114-Q429	51	2.72	8	2.65
Q401-4	12	2.86	10	3.10 (2.86)

6 MINERAL RESOURCE ESTIMATION

6.1 Introduction

Through the validation program and geostatistical analysis, SRK is of the opinion that the quality of the historical data is reasonable and can be used for Mineral Resource estimation in accordance with the JORC Code (2012).

The JORC Code states that, ‘A *Mineral Resource* is a concentration or occurrence of solid material of economic interest in or on the Earth’s crust in such form, grade (or quality), and quantity that there are reasonable prospects for eventual economic extraction’. Mineral Resources are classified as Measured, Indicated and Inferred according to the degree of geological confidence (Figure 6-1).

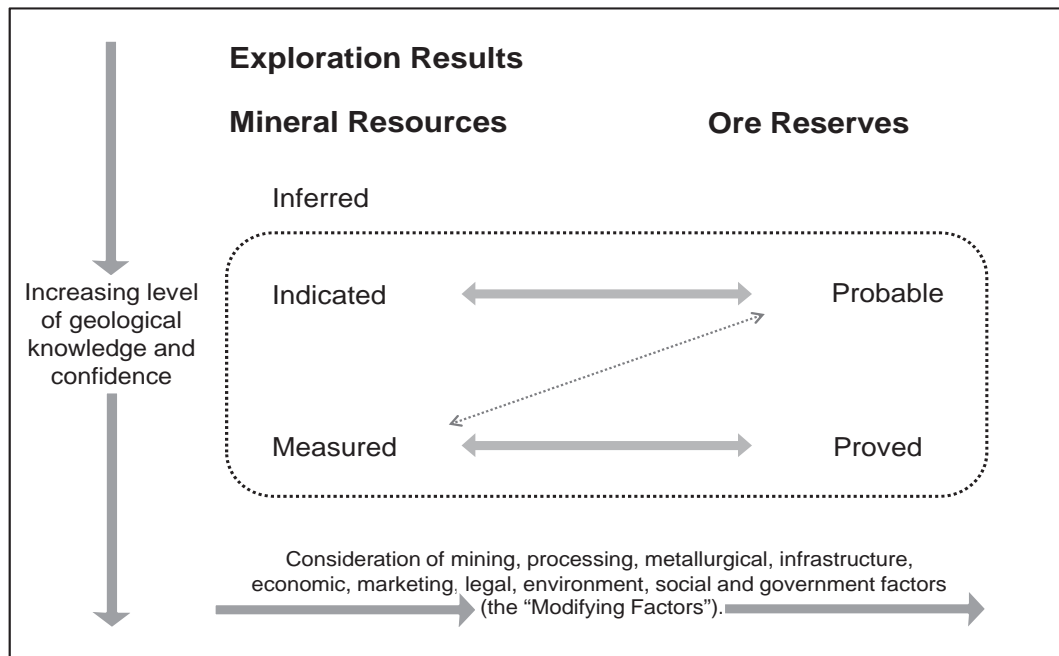


Figure 6-1: General relationship between Exploration Results, Mineral Resources and Ore Reserves (JORC 2012)

6.2 Mineral Resource estimation procedures

The resource evaluation involves the following steps:

- Database compilation and verification
- Definition of resource domains by grade shell
- Exploratory data analysis and geostatistical analysis using variography

- Block modelling and grade interpolation
- Resource estimation and validation
- Classification of the Mineral Resources.

6.3 Database compilation and validation

All the available historic collars, assays, and surveys from exploration campaigns were digitised and compiled in a database. The combined database was validated using Leapfrog and Surpac software packages to search for errors such as missing or overlapping intervals, correct hole or Channel ID, azimuths, dips and duplicated samples.

The database consists of samples from Q401-3, Q4112, Q4114, Q429, Q1403 and Q401-4(V1&V2) domains, as summarised in Table 6-1 and detailed in Appendix B. All the outlined domains are below the surface. The mined-out areas were surveyed in March 2016, and were also excluded during the resource statements. The projection of collars and the geological and resource models generated during this project were in XI'AN 80 3-degree zone GK Zone 37.

Table 6-1: Summary of database used for the resource estimation

Domain	No. of channel/drill holes	Assay records	Type
Q401-3	218	246	Channel
Q4112	67	69	Drill hole & Channel
Q4114	67	133	Drill hole & Channel
Q429	25	25	Channel
Q1403	21	50	Channel
Q401-4	41	973	Drill hole

6.4 Wireframe modelling

The wireframe models for the Project were built using Leapfrog. A 1.0 g/t Au cut-off was used to constrain the mineralised intervals. Mineralised intervals were selected on each cross section. The contact points between ore and waste were generated using the “vein selection” function and the mineralised envelopes were built by the “vein modelling” and “domain” functions. The main domains, consisting of Q401-3, Q4112, Q4114, Q429, Q1403 and Q401-4 (V1 and V2) were modelled, as shown in Figure 6-2.

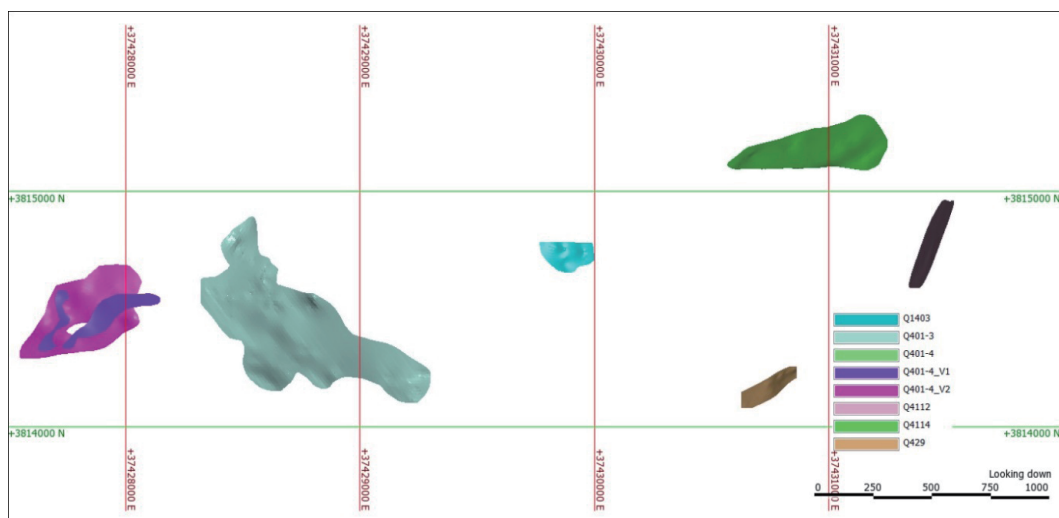


Figure 6-2: Distribution of interpreted domains

6.5 Exploratory data analysis

SRK undertook the basic exploration data analysis for gold grade on raw samples within the domains, as represented in Table 6-2.

Table 6-2: Basic statistics for gold grade on raw samples within the domains

Item	Q401-3	Q4112	Q4114	Q429	Q1403	Q401-4_V1	Q401-4_V2
Number of samples	199	63	72	24	44	13	44
Minimum value (g/t Au)	0.05	0.60	0.04	1.40	0.24	0.21	0.05
Maximum value (g/t Au)	123	7.87	25.20	35.00	23.60	6.42	89.20
Mean (g/t Au)	7.22	5.09	5.62	8.10	7.18	2.86	8.98
Median (g/t Au)	3.3	5.03	3.63	6.56	5.70	2.11	6.07
Variance	160.78	3.66	32.11	51.12	47.05	3.93	197.92
Standard Deviation	12.68	1.91	5.67	7.15	6.86	1.98	14.07
Coefficient of variation	1.76	0.38	1.01	0.88	0.95	0.69	1.57

6.5.1 Compositing

An analysis of the sample lengths within the mineralised domains shows that almost all the sample lengths were within 1 m; SRK therefore chose a 1 m composite length. Composites were generated from drill holes and channels and were limited to domain boundaries (Table 6-3).

Table 6-3: Basic statistics for gold grade on 1 m composites

Item	Q401-3	Q4112	Q4114	Q429	Q1403	Q401-4_V1	Q401-4_V2
Number of samples	219	121	79	24	43	13	41
Minimum value (g/t Au)	0.05	0.60	0.05	1.40	0.24	0.86	0.05
Maximum value (g/t Au)	123.00	7.87	25.20	35.00	23.18	6.42	76.11
Mean (g/t Au)	7.43	5.16	5.99	8.10	6.75	2.94	9.07
Median (g/t Au)	3.34	5.11	3.77	6.56	5.61	2.11	6.14
Variance	159.58	3.57	34.66	51.12	31.60	3.64	152.77
Standard Deviation	12.63	1.89	5.89	7.15	5.62	1.91	12.36
Coefficient of variation	1.70	0.37	0.98	0.88	0.83	0.65	1.36

6.5.2 Grade capping

Grade capping was applied for domains Q401-3, Q4114, Q429 and Q401-4_V2, based on the analysis of cumulative frequency. The grade caps of 44.2 g/t Au, 22.2 g/t Au, 26.5 g/t Au and 26.9 g/t Au were used for domains Q401-3, Q4114, Q429 and Q401-4_V2, respectively. The gold grades of the composites above the capping thresholds in each domain were replaced by the threshold grades. No grade caps were applied for the domains Q4112, Q1403 and Q401-4_V1. The basic statistics for the gold grade on 1 m composites is presented in Table 6-4, which shows that the coefficients of variations are decreased after the grade capping.

Table 6-4: Basic statistics for gold grade on 1 m composites after grade capping

Item	Q401-3	Q4112	Q4114	Q429	Q1403	Q401-4_V1	Q401-4_V2
Number of samples	219	121	79	24	43	13	41
Minimum value (g/t Au)	0.05	0.60	0.05	1.40	0.24	0.86	0.05
Maximum value (g/t Au)	44.2	7.87	22.20	26.50	23.18	6.42	26.94
Mean (g/t Au)	6.87	5.16	5.92	7.74	6.75	2.94	7.64
Median (g/t Au)	3.34	5.11	3.77	6.56	5.61	2.11	6.14
Variance	86.17	3.57	31.96	34.95	31.60	3.64	38.74
Standard Deviation	9.28	1.89	5.65	5.91	5.62	1.91	6.22
Coefficient of variation	1.35	0.37	0.96	0.76	0.83	0.65	0.81

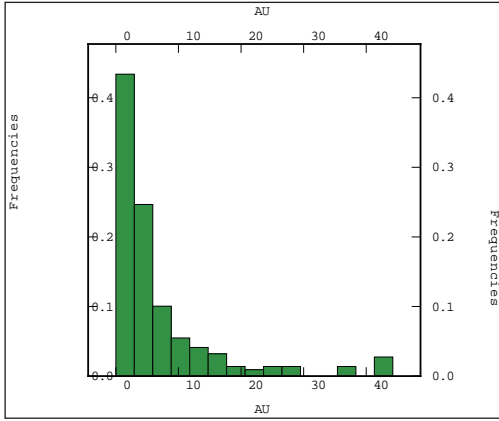


Figure 6-3: Frequency statistics of Q401-3 domain

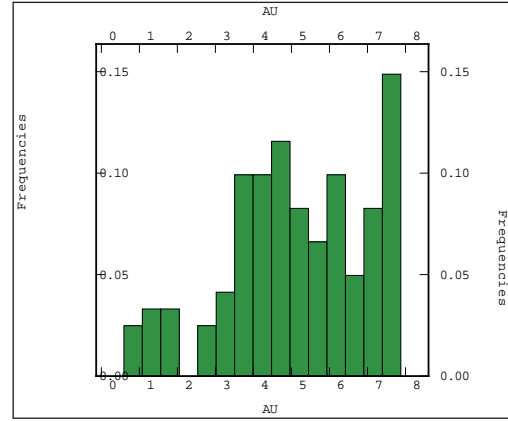


Figure 6-4: Frequency statistics of Q4112 domain

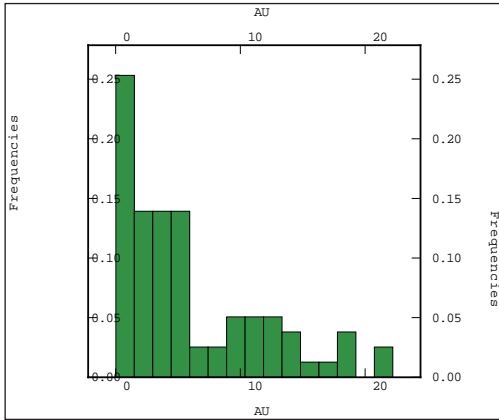


Figure 6-5: Frequency statistics of Q4114 domain

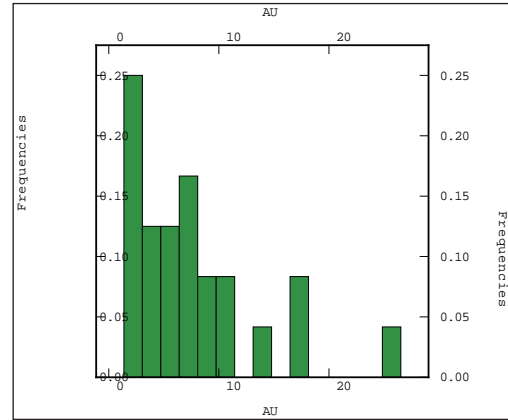


Figure 6-6: Frequency statistics of Q429 domain

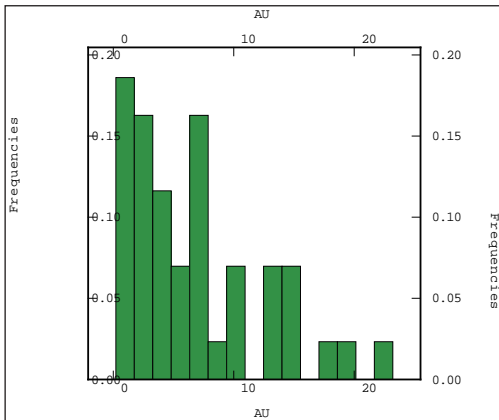


Figure 6-7: Frequency statistics of Q1403 domain

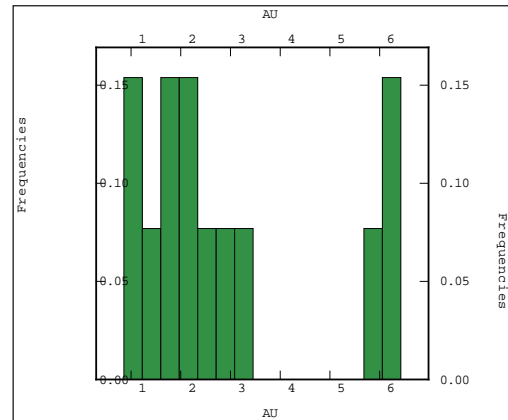


Figure 6-8: Frequency Statistics of Q401-4_V1 domain

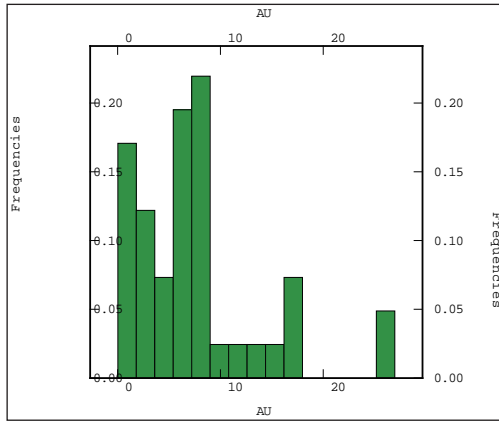


Figure 6-9: Frequency statistics of Q401-4_V2 domain

6.5.3 Variogram modelling

Variogram modelling was performed using Datamine software for domains Q401-3, Q4112, Q4114, Q1403 and Q401-4_V2, respectively. For domains Q429 and Q401-4_V1, insufficient samples were available to support meaningful variograms. Variogram fitting was completed in the following steps:

- An omni-directional experimental variogram was calculated and used to model the nugget component.
- The direction of maximum continuity within the plane was taken as the major axis of the variogram anisotropy ellipsoid, and the perpendicular direction (within the plane) was taken as the intermediate axis of the anisotropy ellipsoid.
- The variogram model was set to fit the two principal directions, and checked against other directions.

The experimental variograms with the fitted models of Domain Q401-3 are shown in Figure 6-10. The experimental variograms and fitted models for other domains are shown in Appendix C.

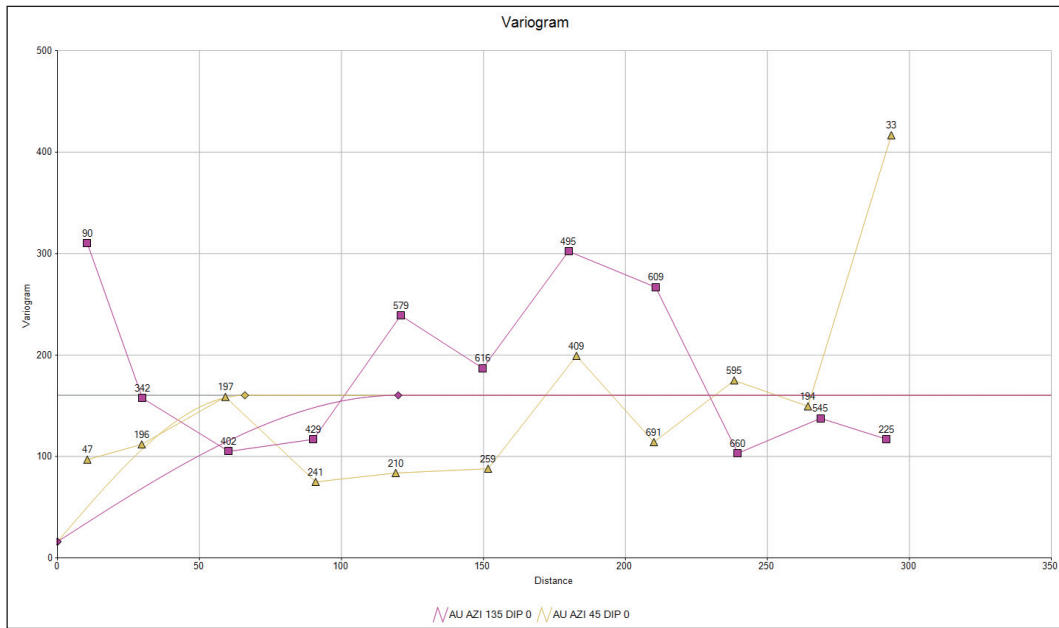


Figure 6-10: Modelled and experimental variograms – Domain Q401-3

6.6 Block model and grade estimation

6.6.1 Block model parameters

SRK produced the block models for all domains with dimensions of 10 m × 10 m × 1 m. For domains Q4112, Q4114 and Q429, the block models were rotated to fit the grade shells in order to improve the resource modelling accuracy and quality.

6.6.2 Grade interpolation

Block grades of domains Q401-3, Q4112, Q4114, Q1403 and Q401-4_V2 were estimated using the Ordinary Kriging (OK) method. The kriging neighbourhoods used for the estimates were based on the variogram models. Block grades of domains Q401-4_V1 and Q429 were estimated using the inverse distance cubed weighted (IDW) method rather than OK due to the lack of sample data for modelling meaningful variograms.

6.7 Model validation

SRK undertook block model validation to confirm the reasonableness of the estimation parameters and estimation results. The following methods were adopted by SRK for the validation:

- Visual validation of block grades against drill hole grades;
- Statistical validation of mean composite grades versus block estimates;
- Trend analysis.

SRK conducted visual validation of the longitudinal views and cross section view of the drill holes or channel grades and block model grades, which demonstrated a good correlation between local block estimations and nearby samples, without excessive smoothing in the block model.

Table 6-5 shows a comparison of composites grade with block mean grades; the results are considered to be reasonable and within the acceptable tolerance.

Table 6-5: Comparison of declustered composites and blocks

Domain	Declassified composite mean (grade capped) (g/t Au)	Block mean (g/t Au)	Difference (%)	Absolute difference (g/t Au)
Q401-3	6.51	5.95	-9.34	0.56
Q4112	4.94	5.06	2.32	0.12
Q4114	5.52	5.17	-6.69	0.35
Q429	6.49	6.38	-1.73	0.11
Q1403	6.61	6.86	3.62	0.25
Q401-4_V1	2.94	2.94	-0.01	0.00
Q401-4_V2	7.34	7.56	2.93	0.22

As a final check, average composite grades and average block estimates were compared along different directions for domains. This involved calculating de-clustered average composite grades and comparison with average block estimates along directions.

Figure 6-11 and Figure 6-12 show the swath plots of the Q401-4_V2 domain, for example in the east-west and north-south planes. No vertical comparison between composites and block was plotted, due to almost no vertical grade variation for this horizontal narrow thickness domain.

The validation results of Domain Q401-4_V2 show that the current resource estimate is a good reflection of drill hole composited data.

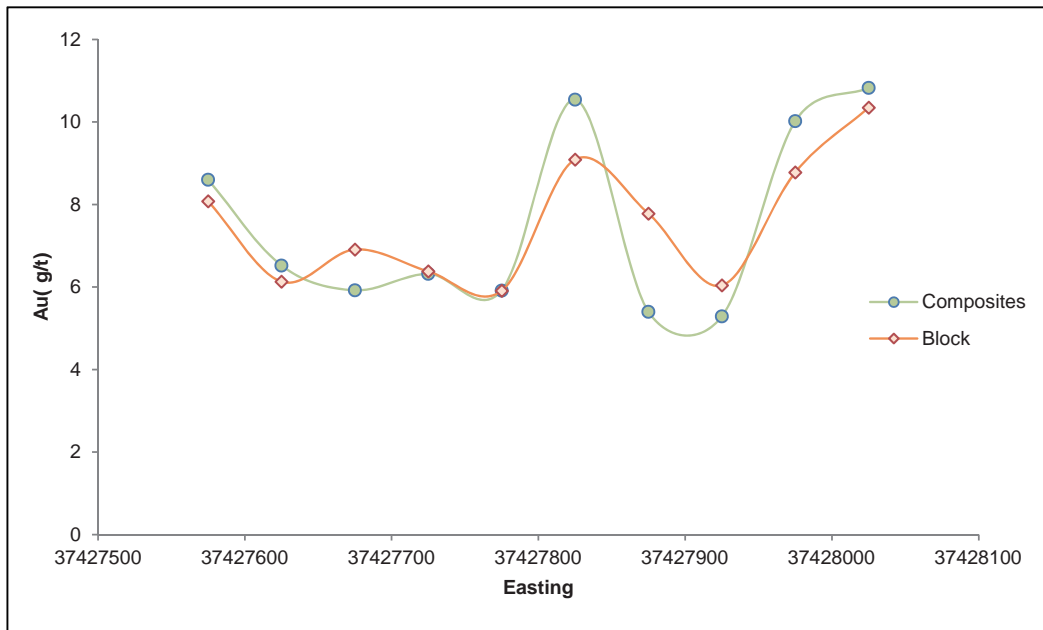


Figure 6-11: Swath plot along the east-west direction – Domain Q401-4_V2

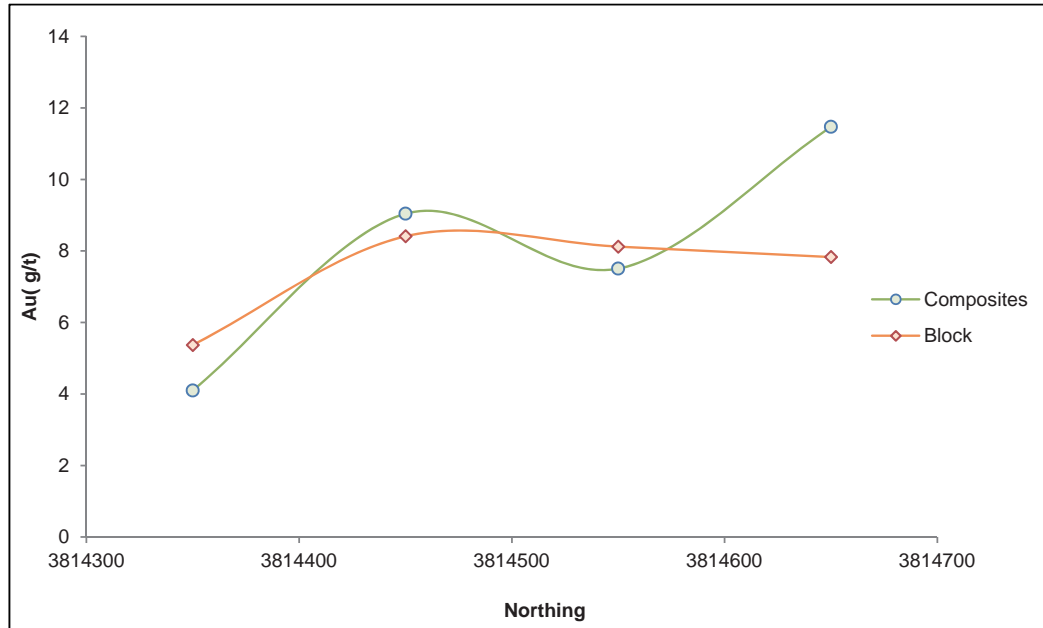


Figure 6-12: Swath plot along the north-south direction – Domain Q401-4_V2

6.8 Bulk density

The bulk density used in the resource estimation is summarised in Table 6-6. For domain Q4112, the bulk density of 2.86 t/m³ was applied in the resource estimation. This value originated from an annual resource verification report compiled by Xiangshun. No further information, such as the number of samples and associated gold grade, was provided to SRK. Although no details of the data are available, SRK is of the opinion that the bulk density used in the resource estimation can reasonably be assumed to be similar to the bulk density of other veins.

Table 6-6: Bulk density used in resource estimation

Project area	Number of samples	Grade (g/t Au)	Bulk density (t/m ³)
Q401-3	41	9.81	2.68
Q1403	34	19.16	2.95
Q4114-Q429	51	23.1	2.72
Q401-4	12	11.68	2.86

6.9 Mined-out area

The latest survey of mined-out areas was conducted by Xiangshun in May 2016. The resources located in the mined-out areas were deducted after the block grade interpolation.

6.10 Classification

Mineral Resource classification is typically a subjective concept; industry best practices suggest that resource classification should consider the confidence in the geological continuity of the mineralised structures, the quality and quantity of exploration data supporting the estimates, and the geostatistical confidence in the tonnage and grade estimates. Appropriate classification criteria should aim at integrating all of these concepts to delineate regular areas under similar resource classification.

The following guidelines have been applied to the resource classification of the Project:

- Geological continuity
- Quality of the historic exploration campaign data and the validation results
- Classification criteria as shown in Table 6-7.

For the resources within Q301 and Q198, SRK selected the traditional polygon method for the resource validation, due to the limited resources and available samples.

Table 6-7: Resource classification criteria used in the estimation

Domain	Resource classification criteria	Exploration work
Q401-3	Indicated Resources: the channel sampling spacing is within 50 m	Channel sampling
	Inferred Resources: the channel sampling spacing is more than 50 m, or the extension of the Indicated Resources	
Q4112	Indicated Resources: the channel sampling spacing is within 50 m	Channel sampling and drilling
	Inferred Resources: the channel sampling spacing is more than 50 m, or the extension of the Indicated Resources	
Q4114	Indicated Resources: the channel sampling spacing is within 50 m	Channel sampling and drilling
	Inferred Resources: the channel sampling spacing is more than 50 m, or the extension of the Indicated Resources	
Q429	Indicated Resources: the channel sampling spacing is within 50 m	Channel sampling
	Inferred Resources: the channel sampling spacing is more than 50 m, or the extension of the Indicated Resources	
Q1403	Indicated Resources: 25 m buffer spacing of channel sampling	Channel sampling
	Inferred Resources: 50 m buffer spacing of channel sampling or the extension of the Indicated Resources	
Q401-4-V1	All the resources are Inferred	Drilling
Q401-4-V2	All the resources are Indicated. The drilling spacing is around 70 m and almost all the conditional bias slope (CBS) is more than 0.8	Drilling

6.11 Mineral Resource Statement

6.11.1 Conceptual block cut-off grade

The conceptual economic cut-off grade for blocks is assumed at 1.00 g/t Au. Here, cut-off specifically means the grade that is applied to the block model to determine which portion of the model qualifies as Mineral Resources. Because of the sharp contact between mineralised and non-mineralised material, and the assumed underground mining methods, all blocks within the mineralised domains are reported in the Mineral Resources at a 1.00 g/t Au cut-off. Within the mineralised domain though, the minimum block grade is 0.14 g/t Au, and only a very few blocks (34 blocks) are less than 1.00 g/t Au.

6.11.2 Mineral Resource statement

The Mineral Resource estimate for the Project is tabulated in Table 6-8.

Table 6-8: Mineral Resource statement – Tongguan Project as of 1 June 2016

Licence type	Project short name	Domain	Category	Inventory (kt)	Grade (g/t Au)	Contained Metal (t)	Contained Metal (koz)	
Mining	Q401	Q401-3ML	Indicated	98.9	7.25	0.72	23.1	
			Inferred	115.7	6.93	0.80	25.8	
	Q4112	Q4112	Indicated	149.8	5.31	0.80	25.6	
			Inferred	113.5	4.90	0.56	17.9	
	Q301	Q301	Inferred	16.4	5.10	0.08	2.7	
	Q198	Q198	Inferred	19.3	3.87	0.07	2.4	
	Total			Indicated	248.7	6.08	1.51	48.6
				Inferred	264.9	5.72	1.52	48.7
Exploration Licence Application	Q4114	Q4114	Indicated	75.8	6.01	0.46	14.6	
			Inferred	139.0	9.32	1.30	41.7	
		Q429	Indicated	7.8	7.81	0.06	2.0	
			Inferred	7.0	6.46	0.05	1.5	
	Q401 adjoining area	Q1403	Indicated	56.9	6.70	0.38	12.3	
			Inferred	52.8	7.03	0.37	11.9	
		Q401-3ELA	Indicated	40.4	7.88	0.32	10.2	
			Inferred	20.9	6.01	0.13	4.0	
		Q401-4	Indicated	420.0	7.60	3.19	102.6	
			Inferred	103.0	2.95	0.30	9.8	
	Total			Indicated	600.9	7.34	4.41	141.7
				Inferred	322.7	6.64	2.14	68.8

- Notes:
1. Differences may occur due to rounding.
 2. 1.00 g/t Au cut-off grade applied for the resource block model.
 3. Q401-3 ML and Q401-3 ELA domains refer to the portion of Mineral Resources within the mining licence and exploration licence application respectively.

Competent Persons' Statement: The information in this report that relates to Mineral Resources is based on information compiled by Drs Jinhui Liu and (Gavin) Heung Ngai Chan, who are both Members of The Australasian Institute of Mining and Metallurgy. Drs Liu and Chan are full-time employees of SRK Consulting (Hong Kong) Limited, and have sufficient experience that is relevant to the style of mineralisation, type of deposit under consideration and to the activity which they undertake to qualify as Competent Persons as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' (The JORC Code). Drs Liu and Chan consent to the inclusion in this report of the matters based on the information in the form and context in which it appears.

6.12 Reconciliation

This is the first Mineral Resource estimate of the Project, prepared according to the JORC Code. No systematic reconciliation has been undertaken by Xiangshun. However, it is noted that the estimated average Resource grade of 6.66 g/t Au is similar to the 2015 average mined grade of 6.20 g/t Au (Table 7-1).

7 MINING AND ORE RESERVES

7.1 Introduction

The Project area has been developed and mined by a number of companies since the 1970s. Xiangshun commenced operation in Q401 in 2012, and expanded their operation to Q4112 and Q301 in 2013 (refer Section 2.3). In October 2015, the operation within Q4112 was suspended in order to upgrade the production safety measures. The operation resumed in late June 2016. A ramping down of production within Q198 has begun as closure planned. The production records between 2013 and May 2016 are presented in Table 7-1. The mined ore was trucked to the Company's processing plant (total nameplate production capacity of 157 ktpa).

Table 7-1: 2013 - May 2016 Mining production records

Year	Production area	Mined ore (t)	Grade (g/t Au)	Mining loss (%)	Dilution (%)
2013	#1 (Q301)	2,104	5.69	12.36	8.57
	#2 (Q401)	18,468	6.30	13.24	8.48
	#3 (Q4112)	21,899	6.05	12.77	7.70
	#4 (Q4112)	4,065	6.30	12.90	7.83
	#5 (Q401)	-	-	-	-
	Total	46,536	6.15	12.92	8.02
2014	#1 (Q301)	18,660	5.75	13.07	8.38
	#2 (Q401)	6,835	6.39	12.63	7.18
	#3 (Q4112)	11,585	6.16	11.66	7.35
	#4 (Q4112)	-	-	-	-
	#5 (Q401)	14,619	5.77	13.63	8.12
	Total	51,699	5.93	12.67	7.98
2015	#1 (Q301)	3,992	5.75	13.15	7.56
	#2 (Q401)	15,664	6.37	14.12	7.41
	#3 (Q4112)	15,560	6.20	12.22	7.82
	#4 (Q4112)	16,037	6.13	12.15	8.45
	#5 (Q401)	-	-	-	-
	Total	51,253	6.20	12.85	7.87
Jan-May 2016	#1 (Q301)	14,080	4.64	11.75	8.63
	#2 (Q401)	14,561	5.62	12.19	7.37
	#3 (Q4112)	-	-	-	-
	#4 (Q4112)	-	-	-	-
	#5 (Q401)	-	-	-	-
	Q198	3,888	4.62	11.93	8.19
	Total	32,529	5.08	11.97	8.01

Note: Mining loss is the production ore loss only. “Designed loss” such as uncovered pillars are not inclusive.

The current mining capacity (Table 7-2) is insufficient to meet the nameplate capacity of the processing plant. To investigate the feasibility of increasing the mining capacity, XAENFI was engaged to conduct an FS on expanding the mining capacity to meet the processing plant nameplate production capacity (157 ktpa). The results of the FS were compiled in a report entitled “*Feasibility Study on Orebody Q401-3, Q401-4, Q4114, Q4112 and Q1403 of Tongguan County Xiangshun Mining Development Co., Ltd.*” in May 2016.

The FS was based on the defined Mineral Resources within the mining licence, as well as those in the pending exploration licence application (Table 2-1 and Table 6-8). The FS has also identified the existing facilities of the project areas that require maintenance or improvement and the associated costs. The expanded maximum approved or designed mining capacity of each domain is presented in Table 7-3.

A review of the current mining conditions of the active project areas (Q401 and Q4112) and Ore Reserves estimate is presented in this chapter. The FS on the production expansion is discussed in Chapter 8.

Table 7-2: Current mining capacity

Licence Type	Domain	Approved maximum mining capacity (ktpa)	Mining capacity status	Mining target
Mining Licence	Q401-3 ML	15	Approved	Ore Reserve
Mining Licence	Q4112	30	Approved	Ore Reserve

Table 7-3: Expanded mining capacity

Licence Type	Domain	Approved/ Designed maximum mining capacity (ktpa)	Mining capacity status	Mining target
Mining Licence	Q401-3 ML	15	Approved	Ore Reserve
Mining Licence	Q4112	30	Approved	Ore Reserve
Exploration Licence Application	Q4114	50	Designed	Mining Inventory
Exploration Licence Application	Q429	7	Designed	Mining Inventory
Exploration Licence Application	Q1403	66	Designed	Mining Inventory
Exploration Licence Application	Q401-3 ELA	15	Designed	Mining Inventory
Exploration Licence Application	Q401-4	140	Designed	Mining Inventory

7.2 Geotechnical

The Project area is located in a mountainous region and the weathering profile is shallow. The lithology is represented by migmatitic granite, amphibolite, quartzite and gneiss. UCS tests have been conducted on these rocks, collected from the hanging wall and footwall of the lodes, showing that their dry UCS ranges from 16.1 to 170.1 MPa, with an average value of 89.9 MPa (Figure 7-4). The rock mass in this area is mainly hard and the stability is good. However, the UCS of altered rocks or areas affected by faulting is low and support is required.

This Project is an operational mine and has empty stopes near the surface and unused drifts. SRK recommends that consideration be given to restricting access to these areas.

Table 7-4: Rock mechanical test results

Sample ID	Drillhole/ Adit ID	Rock type	Depth (m)	Dry *UCS (MPa)	Saturated *UCS (MPa)	Softening coefficient	Saturated shear strength (MPa)
LT01	ZK502	Migmatitic granite	74.50	39.1	32.6	0.83	5.92
LT02	ZK302	Amphibolite	19.00	170.1	61.9	0.36	7.34
LT03	ZK302	Amphibolite	27.90	132.4	97.9	0.74	8.64
LT04	ZK302	Migmatitic granite	38.80	127.0	103.0	0.81	6.13
LT05	ZK302	Migmatitic granite	7.34	115.4	55.0	0.5	6.87
LT06	PD58	Quartzite	-	56.9	34.1	0.60	8.27
LT07	PD58	Altered Migmatite	-	69.6	67.8	0.97	5.86
LT08	PD58	Altered rock	-	52.6	20.2	0.38	4.21
LT09	YD940	Altered gneiss	-	66.8	40.0	0.60	7.58
LT10	YD940	Altered Migmatite	-	96.8	91.6	0.95	8.79
LT11	YD565	Altered rock	-	44.2	31.8	0.72	5.5
LT12	YD565	Quartz vein	-	93.5	85.1	0.91	8.5
LT13	YD565	Altered rock	-	125.6	85.4	0.68	6.17
LT14	YD565	Migmatitic granite	-	101.9	76.4	0.75	5.37
LT15	Q4112	Gneiss	Surface	156.4	86.0	0.55	6.59
LT16	Q4112	Migmatitic granite	Surface	47.7	22.9	0.5	3.28
LT17	Q4112	Amphibolite	Surface	85.2	61.8	0.73	5.63
LT18	Q301	Altered Migmatite	-	16.1	6.1	0.38	2.82
LT19	Q301	Gneiss	-	89.5	51.9	0.58	6.4
LT20	Q301	Orebody	-	30.0	12.6	0.4	1.37
LT21	ZK429	Gneiss	166.30	106.7	69.9	0.66	7.62

Sample ID	Drillhole/ Adit ID	Rock type	Depth (m)	Dry *UCS (MPa)	Saturated *UCS (MPa)	Softening coefficient	Saturated shear strength (MPa)
LT22	ZK429	Migmatite	294.00	125.0	73.3	0.59	6.51
LT23	ZK201	Gneiss	92.95	118.4	56.1	0.5	6.03
LT24	ZK202	Gneiss	86.78	123.1	48.8	0.4	5.38

*Note: UCS refers to uniaxial compressive strength

7.3 Hydrogeology

Regional groundwater flow is from the south to the north. It follows the general trend of the topography, where the elevations vary from 860 m ASL to 1,300 m ASL. The topography in the area is characterised by V-shaped valleys, with slope gradients of generally more than 30°.

The Shancheyu River, Mayu River, Songchayu River and Tongyunei River flow past the Project area. They are perennial rivers, with flow rates of up to 100 L/s during the wet season. The river flow rate is steady and no more than 20 L/s in the dry season.

Groundwater mainly occurs in loose rock mass as fault pore-fracture water and as pore phreatic water. The loose rock mass pore phreatic water is distributed at the foot of slopes, around 1-2 m beneath the surface with a thickness of 2-3 m.

The fault pore-fracture water in weathered rock is distributed along the surface or superficial bedrock and has a thickness of 20-50 m. Springs are seen in some local sections. The flow of the springs is 0.02-5 L/s and varies with the change of seasons. Fissure water has a poor connection to the other surface water. The groundwater is recharged by precipitation, surface water infiltration and runoff draining into valleys.

The historical drainage records of the water inflow of the main adits are presented in Table 7-5.

Table 7-5: Historical inflow records of main adits

Project area	Location	Inflow (m ³ /d)
Q401-3	965 m ASL Adit	25.8
Q4112	950 m ASL Adit	48.3
Q4114	790 m ASL Adit	125.5
Q4114	863 m ASL Adit	80.6

The principal reason for water inflow is fault pore-fracture water in the bedrock. Table 7-6 shows the drainage capacity and the inflow estimate of the project areas of Q401-3 (South and Central), Q4112 and Q4114.

Table 7-6: Estimated inflow of main project areas

Project area	Average inflow (m ³ /d)	Maximum inflow (m ³ /d)
Q401-3 South	40.8	480
Q401-3 Central	150.0	1,800
Q4112	48.3	240
Q4114	250.6	2,880

During SRK's site visit in March 2016, little water had drained out from underground. SRK observed that from underground (Q401-3, 950 m ASL), there were no observable water droplets coming down from both development roofs and walls. However, SRK's site visit was undertaken during the dry season.

7.4 Mining methods

The mining target and mining methods selected for each domain are presented in Table 7-7. Based on the operational practice, orebody geometry and geotechnical conditions, two mining methods have been selected for the Project. The SHS method accounts for 67% of the total ore mined and the remaining ore is mined by the R&P method. The technical parameters for each mining method are presented in Table 7-8.

Table 7-7: Mining method for each domain

Domain	Vein	Bearing (°)	Dip (°)	Thickness (m)	Mining Method
Q401-3 ML	South	220	20~25	0.2~3.5, 1.2 in average	R&P
	Central	260	15~20	0.2~3.5, 1.2 in average	R&P
Q4112	Q4112	290	75	0.82~1.74, 1.44 in average	SHS

Table 7-8: Technical parameters for selected mining methods

Method	Dilution (%)	Mining loss (%)	Production rate (tpd)
R&P	8	13	80
SHS	10	14	70

7.4.1 Short hole shrinkage mining method

Stope structure

The stopes, each 50 m long, are designed along the vein and follow the dip of the vein. The designed height is 50 m and the width is based on the horizon thickness of the vein. The stoping panel includes a 5 m thick sill pillar, a 3 m thick crown pillar and a 6 m wide rib pillar. The draw point and hoppers are spaced 5 - 6 m apart. The cutting raise and access piercing are located in the rib pillar. The schematic stope layout of the SHS method is as shown in Figure 7-1.

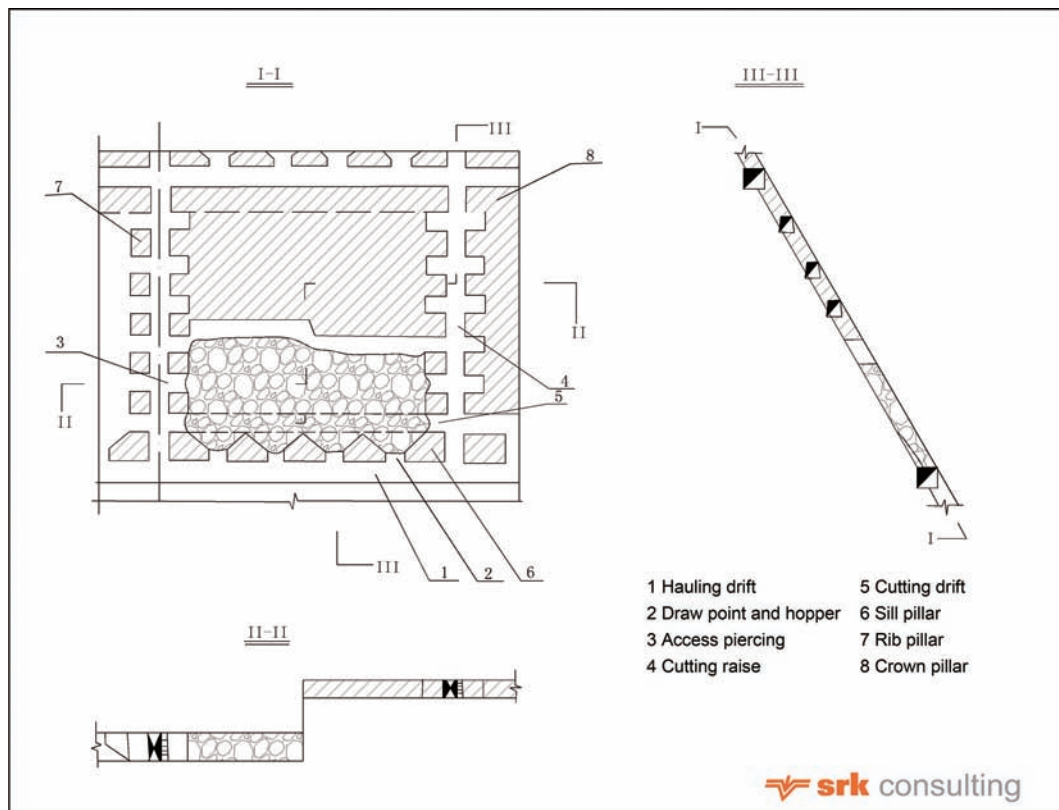


Figure 7-1: Sketch diagram of the short hole shrinkage mining method

Stope preparation and cutting

The haulage drift is designed to be 5-8 m from the vein in the footwall. Cross cuts are designed at 50 m spacing along the haulage drift. The cutting raise starts in the cross cut and is set within the vein. The access ways are designed on both sides of the cutting raise every 5 m. The cutting drift is located 5 m higher than the bottom of the haulage drift. The draw point and hopper are separated every 5 m and connected to the cutting drift and haulage drift.

Stoping

Stoping includes drilling and blasting, ore removal, and support if necessary. The ore is mined in horizontal slices starting at the bottom of the stope and moving upwards. Each slice is 2-2.5 m high. A YT28 short-hole air leg drill is employed for drilling the upwards blasting hole. A part (two thirds) of the broken ore will be removed from the stope, with the rest supporting the stope walls and serving as a working platform for mining of the ore above. As the mining advances to the crown pillar, all the broken ore in the stope is removed together.

After removal of all the stope ore, the crown pillar and upper-level sill pillar will be mined together via the long-hole caving method. The rib pillar will be mined by drilling horizontal short holes and blasting in the cutting raise. Mining will commence from the top and move downward to the bottom of the stoping panel.

Stope ventilation

After blasting, a JK58-1No.24 local fan is installed to circulate fresh air from the level hauling drift, cutting raise and access ways to the stope. The exhaust air returns from the other side of the cutting raise upper drift, and then passes through the air return shaft or adit to the surface.

Stope support

Split sets and mesh are employed to provide localised support as required with additional support provided by leaving pillars in low grade areas of the stope.

7.4.2 Room-and-pillar mining method*Stope structure*

The stopes, each 62.5 m long, are designed along the vein, dipping at an angle that aligns with the dip of the vein. The stope height varies from 20 to 25 m based on the varying orebodies, which have different development systems with existing levels. The width of the stope is based on the horizon thickness of the vein.

A 5 m thick sill pillar, 3 m crown pillar and 5 m rib pillar have been designed. The draw point and hopper are located in the sill pillar. The schematic stope layout of the R&P method is as shown in Figure 7-2.

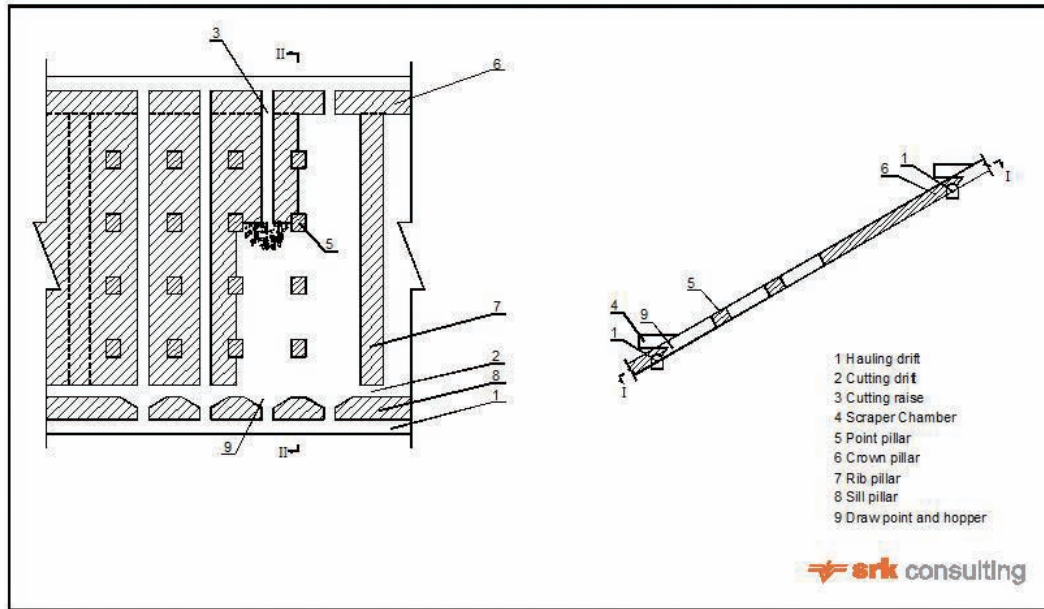


Figure 7-2: Sketch diagram of the room-and-pillar mining method

Stope preparation and cutting

Cutting raises (2.0 m × 1.8 m), designed at 13.5 m centres along the stope, separate the stope into five panels. The cutting drift is approximately 4 m away from the hauling drift. A hopper is excavated at the intersection of the cutting raise and drift, and a scraper chamber is set in the hanging wall near the draw point.

Stoping

Stoping consists of drilling and blasting, ore removal, and ground support. The ore is mined in 2 m horizontal slices, starting at the bottom of the stope and moving to the upper part. Two adjacent panels are mined simultaneously, one of which has an up-dip distance of 15-20 m ahead of the other. A YT28 short-hole air leg drill is employed for drilling the horizon blasting hole. After blasting and stope ventilation, ore is removed by a 30 kW scraper from the draw point to the ore car and loaded in the hauling drift.

Stope ventilation

After blasting, a JK58-1No.4.0 local fan is employed to force ventilation, blowing fresh air from the level hauling drift and cutting raise to the stope. The exhaust air returns from the cutting raise within the crown pillar to the upper drift, and then passes through the air return shaft or adit to the surface.

Stope support

Within the mining panels, regular point pillars are retained for supporting the stope at every 10 m (updip spacing). The pillars are 3 × 4 m. In order to reduce mining loss, manual pillars of cemented waste can be used instead of the ore pillars. This depends on the grade of the ore and on the operation practice used. However, SRK has assumed that no manual pillars are used in this stage of study.

Split sets (2 m long) and mesh are used when rock mass stability of the hanging wall is poor. The grid of the supporting split set would be 1.5 × 1.2 m. Reducing or increasing the split set spacing depends on the practical hanging wall stability.

7.4.3 SRK comments

SRK considers that the R&P and SHS mining methods are suitable given the orebody geometry, stability, and surrounding rock mass. Furthermore, these two mining methods are already widely practised and have been used for this Project for many years. These mining methods can effectively provide stability to the surrounding rocks and can achieve the production capacity of each mining method. They provide for selective mining, and the mining loss and dilution are reasonable. If the thickness of the vein is less than 0.6 m and economic, SRK considers the rescue mining method to be favourable.

The current design of the R&P method has not considered recovering the crown, sill, rib and point pillars. For R&P mining, SRK's Mining Loss includes an allowance for the planned pillars that are contained within the designs which are not designed to be recovered. SRK calculated the theoretical design loss of these unrecovered pillars based on the standard stope diagram, resulting in a 26% "Designed Loss". SRK's view is that further study or trial practice should be undertaken to find a way of recovering the R&P stope pillars – at the very least, the crown pillars. The design loss was combined with the "Mining Recovery" to determine the "Mining Loss".

7.5 Development and haulage

Independent development access exists for each project area, with some development accesses still in operation. To take full advantage of this development and to reduce the investment and the time required for construction, the existing level drifts and main access of each domain are incorporated in the design. Some of the drifts or main access will require rehabilitation to improve the quality of the ground support. Table 7-9 and Table 7-10 show the development system of each domain.

Table 7-9: Mine design parameters

Development	Section (w × h[m])	Support	Remarks
Adit and level drift	2.2 × 2.4	Generally no support, local support with shotcrete	In the orebody footwall
Decline	2.6 × 2.6	Split set and shotcrete	
Air-return raise/ ventilation shaft	2 × 2	Generally no support, local support with shotcrete	With ladders for emergency

Table 7-10: Development system

Domain	Development system	Maximum production capacity (ktpa)	Mining levels (ASL)
Q401-3 ML	Adits and declines	15	1020 m, 1005 m, 975 m, 950 m, 925 m, 900 m
Q4112	Adits	30	1200 m, 1150 m, 1100 m, 1050 m, 1000 m, and 950 m

Note: The levels are based on m ASL.

Q401-3 ML

A dual access declines system with hoisting facilities is proposed, as shown in Figure 7-3. Decline 1 is from the 1,005 level and is designed to extend to the 820 level adit from the bottom of the 950 level at an angle of -20°. Level drifts above the 900 level adit are designed in the current plan. The rest of this development system serves the expansion case for domain Q401-3 ELA.

Decline 2 is designed from the 967 level adit to the 896 level adit in the southern part of the orebody.

The existing level drifts, and the adits at 1,005 m, 975 m, 950 m, 925 m, and 900 m are planned to be used.

Ore, waste, material and equipment are all loaded at the bottom of the development by humanpowered ore cars. They are then loaded by ore cars hoisted through these declines. At the top of the declines, the ore car trip trains are hoisted via electrical locomotive to the surface through the adits. All declines are located in the footwall of the orebody. Based on the FS, these declines should be upgraded with the installation of refuge pockets, human cars, footways and parapets.

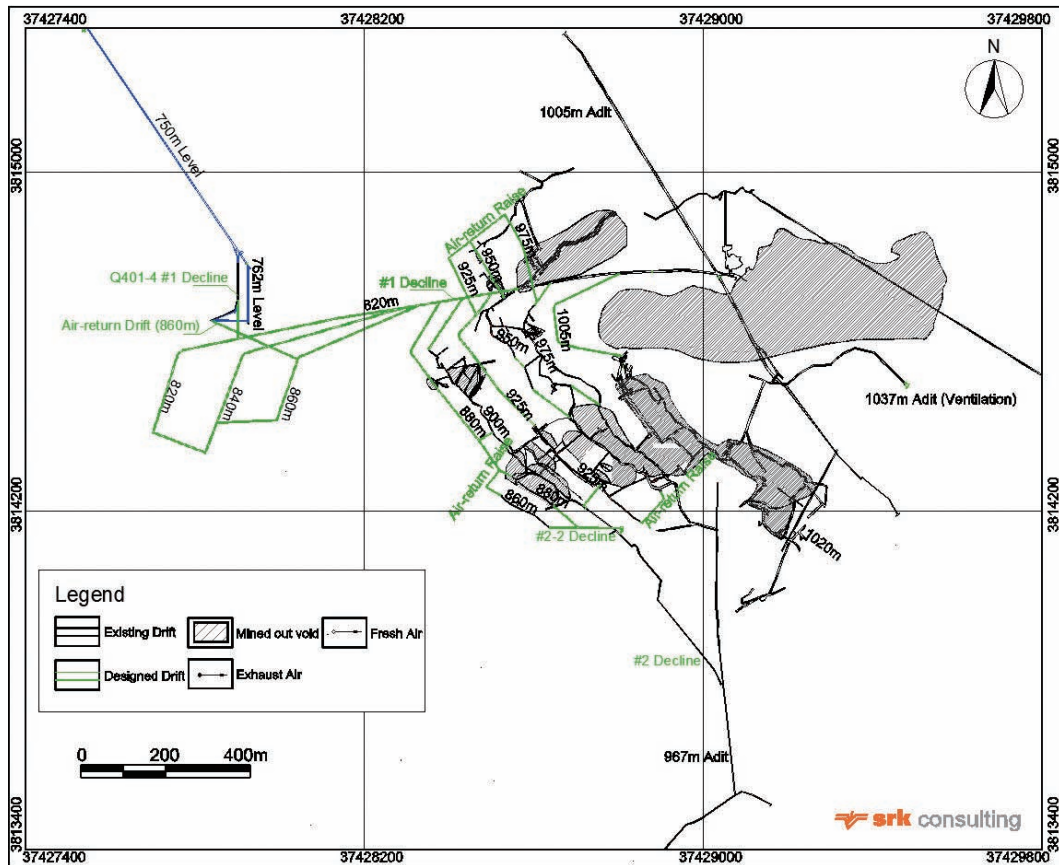


Figure 7-3: Plan view of the development system – Domain Q401-3 ML and Q401-3 ELA

Q4112

Figure 7-4 shows the existing and proposed development system in the mine design for Q4112.

The existing adits at 1,200 level, 1,150 level, 1,100 level, 1,050 level, 1,000 level and 950 level are located on the east hillside of Songchayu Hill. Based on the FS, the existing development will be used and is incorporated in the design. The current development can achieve the requirements of mining production, but a new ventilation shaft is required to increase the ventilation capacity. The ventilation raise is planned to be installed near the south edge of the orebody. The raise has a depth of 200 m, from 1,250 level to 1,050 level, with a section of 2 m × 2 m. This shaft is equipped with ladders as an emergency exit. On the other edge of the vein, air return raises are also designed to connect each level. Ore, waste, material and equipment are all transported through the adits.

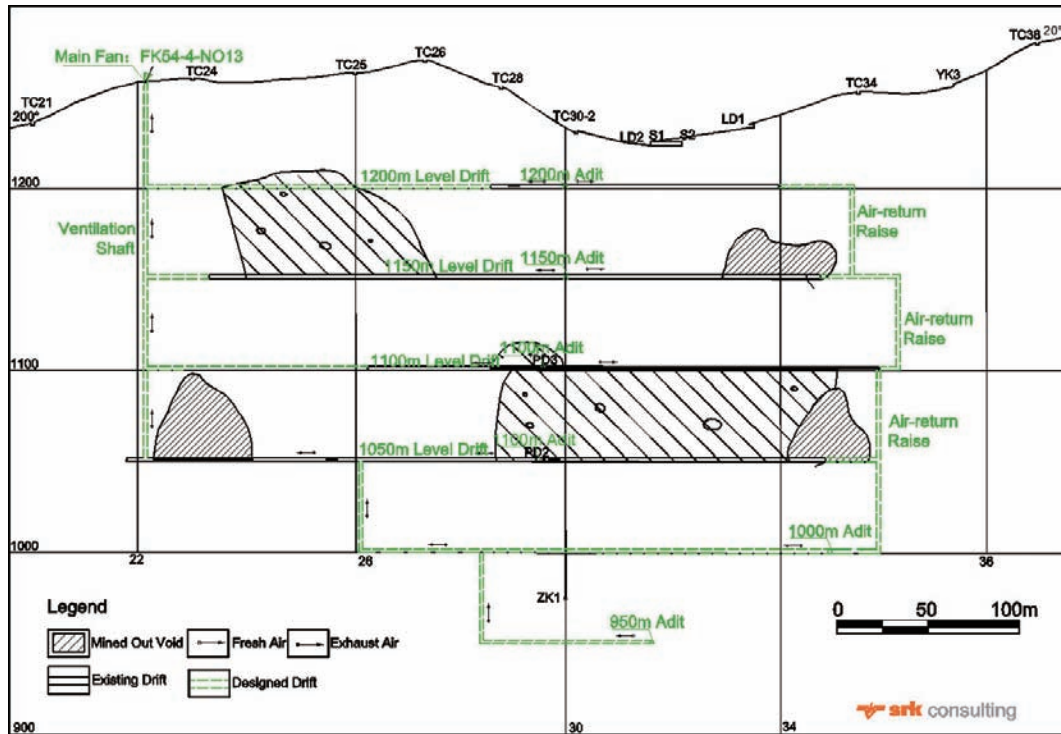


Figure 7-4: Sketch map of the development system – Domain Q4112 (section view)

7.6 Mining services

7.6.1 Power supply

The Oujiacheng transformer station is located 6 km away from the project areas. It supplies 10 kilovolt (kV) electrical power to the project areas. It is SRK’s opinion that the power supply is able to meet the mine’s operational requirements – around 1,736 kilowatts (kW).

7.6.2 Ventilation

Table 7-11 shows the ventilation parameters of each domain, designed by XAENFI.

Table 7-11: Ventilation design parameters

Domain	Air intake	Air exhausted	Required airflow (m ³ /s)	Exhausted pressure (Pa)	Main fan model
Q401-3 ML	Adits and declines	1037 m air-return adit	24 × 2	2290	FKD54-6-N220
Q4112	Adits	ventilation shaft	23	761	FK54-4-N13

Q401-3 ML

Ventilation circuit I: Fresh air enters from the 1,005 m level adit and Decline 1, then passes through crosscuts at all levels and through the footwall drift to enter the stope. Exhaust air is exhausted through the other raise of the stope to enter the upper-level return drift, where it is exhausted through the airreturn raise to the 1,005 m level air-return drift and finally exhausted outside through the air-return raise (from 1,005 m to 1,037 m) and 1,037 m level air-return adit.

Ventilation circuit II: Fresh air enters from the 965 m adit, Decline 2, and Decline 2-2, then passes through crosscuts at all levels and through the footwall drift to enter the stope. Exhaust air is exhausted through the other raise of the stope to enter the upper-level return drift where it joins the exhaust from Circuit I.

Each circuit's total ventilation requirement is 18 cubic metres per second (m^3/s) and about 24 m^3/s after considering air loss. The overall exhausted pressure is 2,290 Pascals (Pa). One main fan (Model FKD54-6-N220) with a capacity of 41.5 - 114 m^3/s airflow and 1,600 - 4,130 Pa pressure is designed to be installed at the outlet of the air-return raise in the 1,037 m adit.

Q4112

The level adits are used as the air intake. Fresh air is planned to pass through each adit to enter the stope. Exhaust air is exhausted through the raise of the stope to the entry-level return airway, where it is exhausted through the ventilation shaft (newly designed).

The total amount of air needed at the mine is 23 m^3/s , and the overall exhausted pressure is 761 Pa. One main fan (Model FK54-4-N13) with a capacity of 12-43 m^3/s airflow and 413–1,410 Pa pressure is designed to be installed at the outlet of the ventilation shaft.

It is SRK's opinion that the designs for the ventilation of Q401-3ML and Q4112 are appropriate and fit for purpose.

7.6.3 Mine drainage and dewatering*Q401-3 ML*

The underground water of this domain is collected by two pump-equipped sumps at 820 m and 860 m levels. Drainage water is collected by the 820 m sump. The water is gravity fed to the 1,005 m adit and then flows out along the adit. The water in the 860 m sump is pumped to the 965 m adit. Each adit portal has a settling pond for underground water.

Q4112

The water flows along the adit to a settling pond.

7.6.4 Compressed air

Q401-3

The maximum underground compressed air requirement is calculated to be 30 m³/minute; all required compressed air will be supplied from the surface at the 1,005 m adit. The design recommends three 22 m³/minute screw air compressors. Two are in operation and one is on standby.

Q4112

The maximum underground compressed air requirement is calculated to be 22 m³/minute; all required air will be supplied from the surface. The design recommends one 10 m³/minute screw air and two 22 m³/minute screw air compressors.

All compressed air will be delivered to underground levels by a seamless steel tube with a diameter of 133 mm and 108 mm.

7.6.5 Mining equipment

The existing development, production and auxiliary underground equipment will continue to be used, with additional equipment purchases as required to maintain the current production capacity (Table 7-12). The equipment type and quantity can meet the requirement of a total of 45 ktpa mining capacity.

Table 7-12: Mining and auxiliary equipment

Item	Type	Unit	Amount	Remarks
Ore car	YFC0.7-6	Set	22	Q401-3 and Q4112
Stringing electrical locomotive	ZK3-6/250	Set	1	Q401-3 designed to purchase
Miner car	XRB15-6/6 (15 people per a car)	Set	1	Q401-3 designed to purchase
Hoister	JTP1.6×1.5 with 135kw motor	Set	1	Q401-3 Decline 1
Hoister	JTP1.2×1.0 with 55kw motor	Set	1	Q401-3 Decline 2
Air-legs Jack drill and air leg	YT28	Set	6	Q401-3 existing
Air-legs Jack drill and air leg	YSP-45	Set	2	Q401-3 existing
Air compressor	LGS22/8G (22m ³ /min, 2m ³)	Set	3	Q401-3 1005m adit, existing 1 and 2 additional purchase
Main Fan	FKD54-6-N220	Set	1	Q401-3 designed to purchase
Pump	D46-30X6 with 37kw motor	Set	3	Q401-3 860m sump designed to purchase
Pump	D12-25×10 with 22kt motor	Set	3	Q401-3 820m sump designed to purchase
Air-legs Jack drill and air leg	YT28	Set	2	Q4112 existing
Air-legs Jack drill and air leg	YSP-45	Set	3	Q4112 existing
Air compressor	L2-10/8-1	Set	1	Q4112 existing
Air compressor	LGS22/8G (22m ³ /min, 2m ³)	Set	2	Q4112, existing 1 and 1 additional purchase
Main Fan	FK54-4-N13	Set	1	Q4112 designed to purchase

7.7 Mine planning

7.7.1 Operating schedule

The roster system applied in the FS is 330 working days per year, 3 shifts per day and 8 hours per shift. The planned total production capacity is 45 ktpa, based on the approved production capacity (Table 7-2).

7.7.2 Production schedule

A production schedule with a Life of Mine (LoM) of five years has been prepared by SRK (Table 7-13). The schedule is based on the available Ore Reserves, approved production capacity and mining technical conditions, including the maximum production limit of each domain hauling system.

There is no construction period, and the existing development upgrade and maintenance will occur concurrently with mining production.

Table 7-13: Production schedule

Domain	June-Dec 2016	2017	2018	2019	2020	LoM Total
Q401-3 ML (kt)	1.4	15.4	15.2	15.3	15.1	62.6
Q4112 (kt)	23.8	30.3	30.0	27.4	15.2	126.6
Total (kt)	25.2	45.7	45.3	42.7	30.3	189.2
Grade (g/t Au)	4.7	5.9	5.5	5.5	5.7	5.5
Contained metal (kg)	119	270	249	236	174	1,048
Contained metal (koz)	3.8	8.7	8.0	7.6	5.6	33.7

7.8 Ore Reserve estimate

7.8.1 Introduction

The JORC Code (2012) states that, “An Ore Reserve is the economically mineable part of a Measured and/or Indicated Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined or extracted and is defined by studies at Pre-Feasibility or Feasibility level as appropriate that include application of Modifying Factors. Such studies demonstrate that, at the time of reporting, extraction could reasonably be justified” (Figure 6-1).

From the Mineral Resources defined in Chapter 6, a mine plan was designed based on the technical parameters set out in the FS, which were reviewed and modified by SRK. No Measured Resources have been declared for the Project. The Indicated Resource within the mine plan was converted to Probable Ore Reserve.

7.8.2 Ore Reserve block model

Seven Resource block models for domains Q401-3, Q4112, Q4114, Q429, Q1403 and Q401-4 have been prepared, of which the Q401-3 and Q4112 domains have been evaluated for Ore Reserve estimation. The parameters of each Resource model are presented in Table 7-14. The Resource block models have been rotated to correspond

with the orebodies’ features in order to minimise potential dilution. The stope strike length for each mining method is greater than 50 m. After considering the advantages and disadvantages of the block size, SRK considers that the block size used in the Resource model is suitable for Ore Reserve estimation.

Table 7-14: Resource block model parameters

Licence Type	Model	Bearing	Dip	Block Size (m)	Comment
Mining Licence	Q401-3	0	0	10×10×1	Including both Q401-3 ML and Q401-3 ELA
	Q4112	20	74	10×10×1	

7.8.3 Mining targets and level layouts

The stoping block designs and associated ore drive development were evaluated against Indicated Mineral Resources. Figure 7-5 shows a plan view of Q401-3 ML domain stopes. A summary of mining targets selected by SRK to estimate Ore Reserves is presented in Table 7-15.

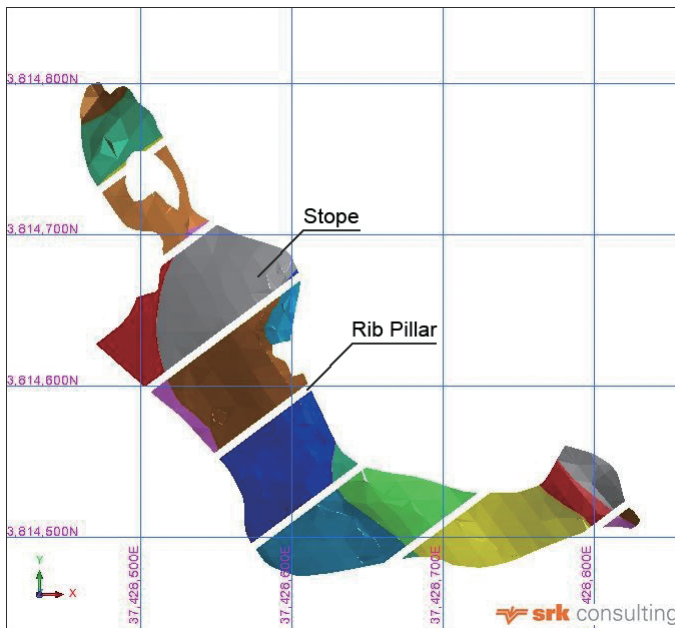


Figure 7-5: Plan view of Q401-3 stopes

Table 7-15: Mining target and layout of levels for each domain

Licence Type	Domain	Mining Levels (ASL)	Level Height (m)	Mining method selected
Mining License	Q401-3 ML	1020 m, 1005 m, 975 m, 950 m, 925 m and 900 m	25 to 30	R&P
	Q4112	1200 m, 1150 m, 1100 m, 1050 m and 1000 m	50	SHS

Note: Q401-3 ML refers to the part of the Q401-3 domain that is within the mining licence area (above 900 m ASL).

7.8.4 Mining loss and dilution rates

The mining targets were converted to Ore Reserves through the application of modifying factors, followed by an analysis to exclude stope and development below their respective cut-off grades.

The R&P and SHS mining methods have been selected. The designed loss from “Mining Recovery” and dilution rates for the R&P method and SHS methods are 8% and 10% respectively, with respective dilution rates of 13% and 14%. XAENFI estimated these mining loss and dilution rates by rule of thumb.

In SRK’s opinion, the loss from “Mining Recovery” and dilution rates of the SHS mining method are within a reasonable range.

For R&P mining, SRK’s Mining Loss includes an allowance for the planned pillars that are contained within the designs which are not designed to be recovered. SRK calculated the theoretical design loss of these unrecovered pillars based on the standard stope diagram, resulting in a 26% “Designed Loss”. The design loss was combined with the “Mining Recovery” to determine the “Mining Loss”.

SRK’s view is that further study or trial practice should be undertaken to find a way of recovering the R&P stope pillars, at the very least the crown pillars. The mining loss and dilution rate for each domain are presented in Table 7-16.

Table 7-16: Mining loss and dilution rates of each domain

Domain	Mining Method	Mining Loss (%)	Dilution Rate (%)
Q401-3 ML	R&P	24.6%	11.2%
Q4112	SHS	10.0%	13.9%

7.8.5 Cut-off grade

The following formula was used by SRK to calculate the break-even cut-off grade.

$$A = \frac{Cd + Ce + Cm + Cp + Co + Cp + Cq + Cr}{P \times R \times F}$$

The parameters used for determining the break-even cut-off grade are presented in Table 7-17.

Table 7-17: Calculation of break-even cut-off grade

Item	Unit	Value	Description
Cd	RMB/t ore	410	Mining
Ce	RMB/t ore	84	Operating development
Cm	RMB/t ore	95	Processing
Cp	RMB/t ore	16	Transportation
Co	RMB/t ore	29	General and Administration
Cq	RMB/t ore	30	Environmental
Cr	RMB/t ore	84	Royalty
R	%	96	Processing gold recovery
F	%	90	Coefficient of metallurgical refinery
P	RMB/g	242	Forecast long term gold price

Notes:

1. The above values are based on the Company forecast, reviewed by SRK.
2. The forecast long term gold price is based on Consensus Market Forecast and converted to RMB based on the Bloomberg exchange rate forecast, as described in Chapter 10.

Based on the input parameters, a 3.5 g/t Au cut-off grade was determined and used for Ore Reserve estimation.

It is important to note that the cut-off grade shown was calculated based on certain technical and economic assumptions. These assumptions will change as time passes, and so different cut-off grades, which will have an effect on the Ore Reserve estimate can be produced. A sensitivity analysis of the cut-off grade calculation is shown in Figure 7-6. The analysis shows that gold price is the most sensitive parameter, followed by mining and processing costs.

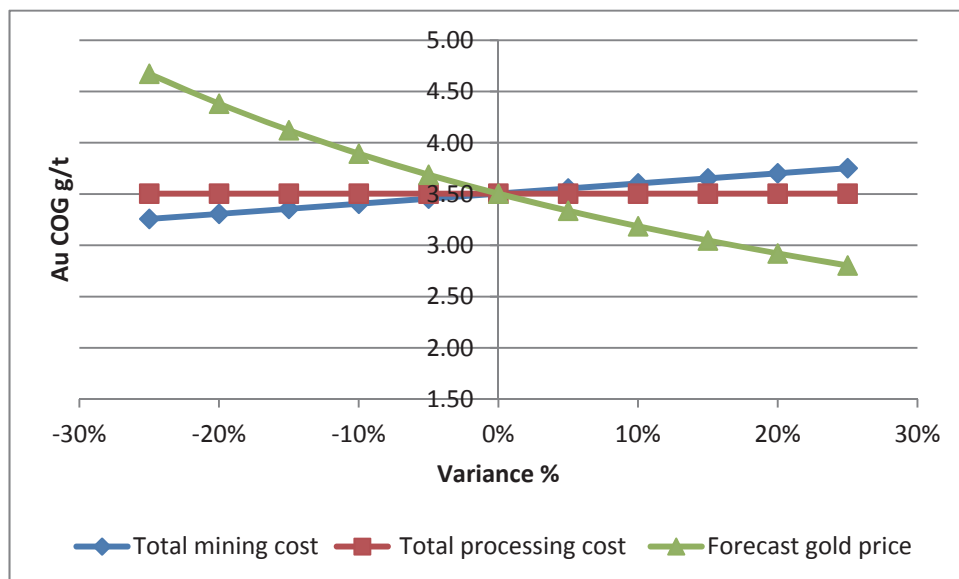


Figure 7-6: Univariate sensitivity analysis of cut-off grade

7.8.6 Ore Reserve Statement

The Ore Reserve estimate for the Project is tabulated in Table 7-18. The economically minable part of the Indicated Resource was converted to Probable Ore Reserve. The Project is estimated to host 189,200 t of Probable Reserve at a grade of 5.54 g/t Au, equivalent to 1,048 kg or 33,688 oz of contained Au, using a 3.50 g/t Au cut-off.

Table 7-18: Ore Reserve statement — Tongguan Project as of 1 June 2016

Domain	Category	Inventory (kt)	Grade (g/t Au)	Contained Metal (kg)	Contained Metal (koz)
Q401-3 ML	Probable	62.6	7.3	454	14.6
Q4112	Probable	126.6	4.7	594	19.1
Total	Probable	189.2	5.5	1,048	33.7

Notes:

1. The mining loss rates of Q401-3 ML and Q4112 are 24.6% and 10% respectively.
2. The dilution rates of Q401-3 ML and Q4112 are 11.2% and 13.9% respectively at 0.0 g/t Au.
3. A 3.5 g/t Au cut-off grade has been applied.
4. The Ore Reserves are inclusive in the Mineral Resources.

5. A gold price of RMB242/g is applied, using a USD:RMB exchange rate of 6.65 and a gold price of USD1,130/oz.
6. Rounding might cause some computational discrepancies in totals.
7. Commodity prices applied are gold price of USD1,130/oz and exchange rate RMB:USD of 6.65.

***Competent Person's Statement:** The information in this report that relates to Ore Reserves is based on information compiled by Mr Falong Hu, a Member of The Australasian Institute of Mining and Metallurgy. Mr Hu is a full-time employee of SRK Consulting (China) Limited and has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Hu consents to the reporting of this information in the form and context in which it appears.*

8 FEASIBILITY STUDY ON PRODUCTION EXPANSION

8.1 Introduction

SRK reviewed the FS Report on production expansion (expansion case), prepared by XAENFI. The FS has considered all Resources within the mining licences, and the pending exploration licence application. Those Resources within the pending exploration licence application cannot be converted to Ore Reserves, subject to the conversion of licences to mining licences and an increase of the approved production capacity to 157 ktpa.

The level of technical work supporting the proposed expansion is consistent with that described in Chapter 7. SRK has applied the term "mining inventory" to represent the planned production targets of the expansion case.

8.2 Mining method

The mining target and mining methods chosen for each domain are presented in Table 8-1. The SHS and R&P mining methods are selected for the Project. The R&P method accounts for 85% of the total ore, while the SHS method accounts for the remaining 15%.

Table 8-1: Mining method for each domain for Expansion Case

Domain	Bearing (°)	Dip (°)	Thickness (m)	Mining method
Q4114	290	75	0.82~1.74, 1.44 on average	SHS
Q429	338	65	0.3~3.2, 1.28 on average	SHS
Q1403	2	5~10	0.6~2.8	R&P
Q401-3 ELA	260	15~20	0.2~3.5, 1.2 on average	R&P
Q401-4	230	2~15	0.38~3.4, 1.36 on average	R&P

8.3 Development and haulage

The mine design parameters are presented in Table 8-2, and the development system for each domain is presented in Table 8-3. SRK considers that some levels should be re-evaluated as only Inferred Resources are present on those levels. These levels should only be developed after upgrading the Resources category.

Table 8-2: Mine Design parameters

Development	Section (Width × Height [m])	Supporting	Remarks
Adit and Level Drift	2.2 × 2.4	Generally no supporting, local supporting with shotcrete	Orebody footwall
Decline	2.6 × 2.6	Split set and shotcrete	
Air-return Raise	2 × 2	Generally no supporting, local supporting with shotcrete	With ladders for emergency
Ramp	4.5 × 4	Generally no supporting, local supporting with split set and shotcrete	Existing

Table 8-3: Development system

Domain	Development System	Maximum Capacity of Production (ktpa)	Mining Levels designed by FS (ASL)	SRK Comments
Q4114	Adits and declines	50	820 m, 770 m, 720 m, 670 m, 610 m, 565 m, 510 m, 460 m and 420 m	Levels upper of 670 m should be reconsidered
Q429	Adits and declines	7	863 m and 820 m	
Q1403	Ramp	66	640 m, 620 m and 600 m	620 m should be reconsidered
Q401-3 ELA	Adits and declines	15	880 m, 860 m, 840 m and 820 m	820 m should be re-considered
Q401-4	Ramp and declines	140	742 m, 722 m, 702 m and 682 m	

Q4114

A dual access system with adits and declines with hoisting facilities are in place. The 790 m adit and 863 m adit are the main points of access to this domain (Figure 8-1).

The main accesses and underground works of the 790 m adit are:

- Decline 1 of the 790 m adit is from the 790 level down to 460 level, and Decline 1-2 is from the 435 level down to 350 level. Both of these declines will be used.
- A new ventilation raise 1 is designed at the edge of the orebody from the 700 level up to 910 level. This ventilation raise will connect each level drift and will ultimately connect to the air return adit at the 910 level.
- The existing level drifts are connected to Decline 1, which can be used at 910 m, 840 m, 790 m, 740 m, 700 m, 660 m, 610 m, 565 m, 510 m, and 460 m levels.
- The existing level drifts connected to relay Decline 1-2 are at 420 m and 350 m levels.

The design for the development of the 863 m adit is as follows:

- Decline 2 from this adit is down to 670 m with an angle of -25° .
- Level drifts are at 820 m, 770 m, 720 m, and 670 m levels.
- Ventilation 2 raise.

SRK notes that there are no Indicated Resources above the 720 m level. SRK recommends that additional drilling is undertaken to identify and convert the Mineral Resources above the 720 m level prior to commencing development of those levels.

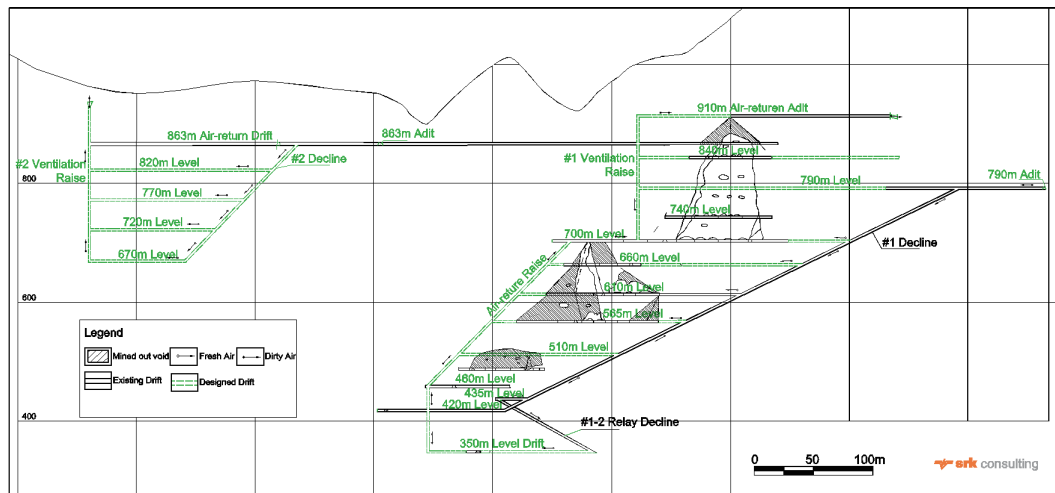


Figure 8-1: Sketch map of the development system – Domain Q4114 (section view)

Q429

The existing decline is in the middle of the orebody and is not suitable for future mining. A new decline, Decline 1, is designed on the eastern edge of the orebody, and an air-return raise is designed on the western edge. Decline 1 is from the 863 m level down to 820 m level with a dip of -25° (Figure 8-2).

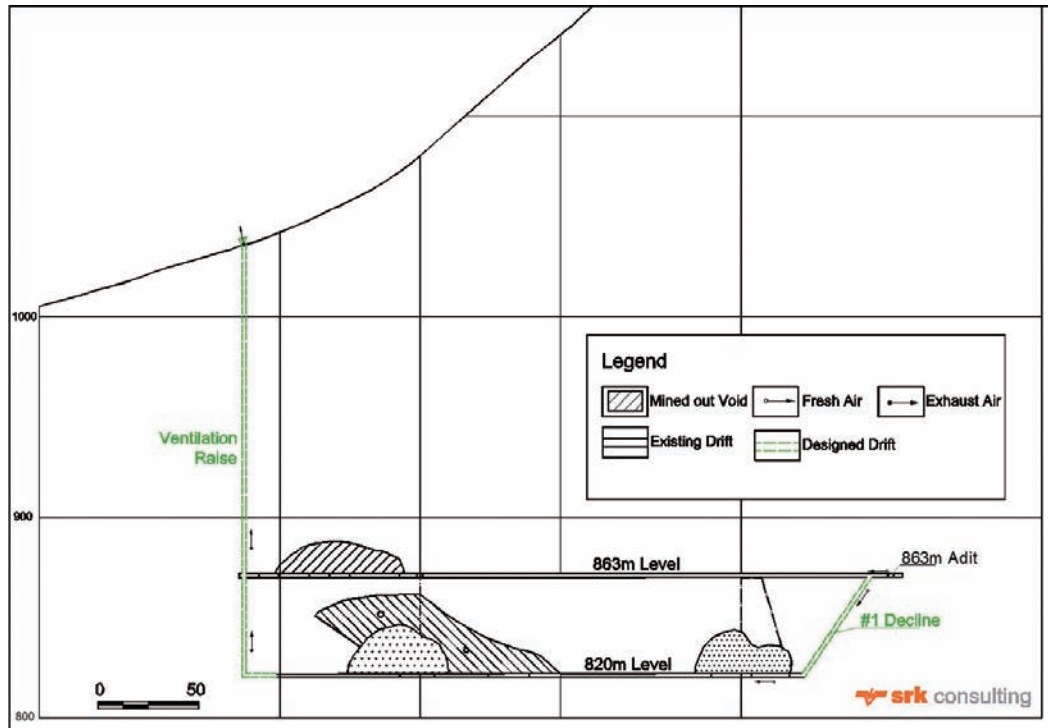


Figure 8-2: Sketch map of the development system – Domain Q429 (section view)

Q1403

A ramp development system is designed for this orebody, consisting of Ramp 1, its east hauling roadway and a drift, all of which are at the 600 m level. Figure 8-3 shows the proposed development for the mining area.

The main accesses and underground works are as follows:

- Ramp 1 and the 600 m level east hauling roadway are the main accesses to the orebody.
- One upwards access Ramp 1-1 connecting the 600 m level to the other levels is designed.
- Level roadways have been designed to connect with access Ramp 1-1 at the 620 m and 640 m levels.
- Two air-return raises are designed for each edge of the orebody and are to be connected to each level. At the 640 m level, an air-return drift is also designed to connect the air-return raise (east edge) to the existing ventilation raise of Ramp 1.

Ore, waste, material and equipment are all transported via Ramp 1. Ore and waste from each level are hauled via mini-truck to ore or waste bins, located at the 600 m level close to Ramp 1, and are then loaded to underground 15-tonne dump trucks through the ore pass.

SRK recommends that the Company develops on the 600 m level and constructs an air-return raise first. The upper levels should only be developed after more geological confidence is gained.

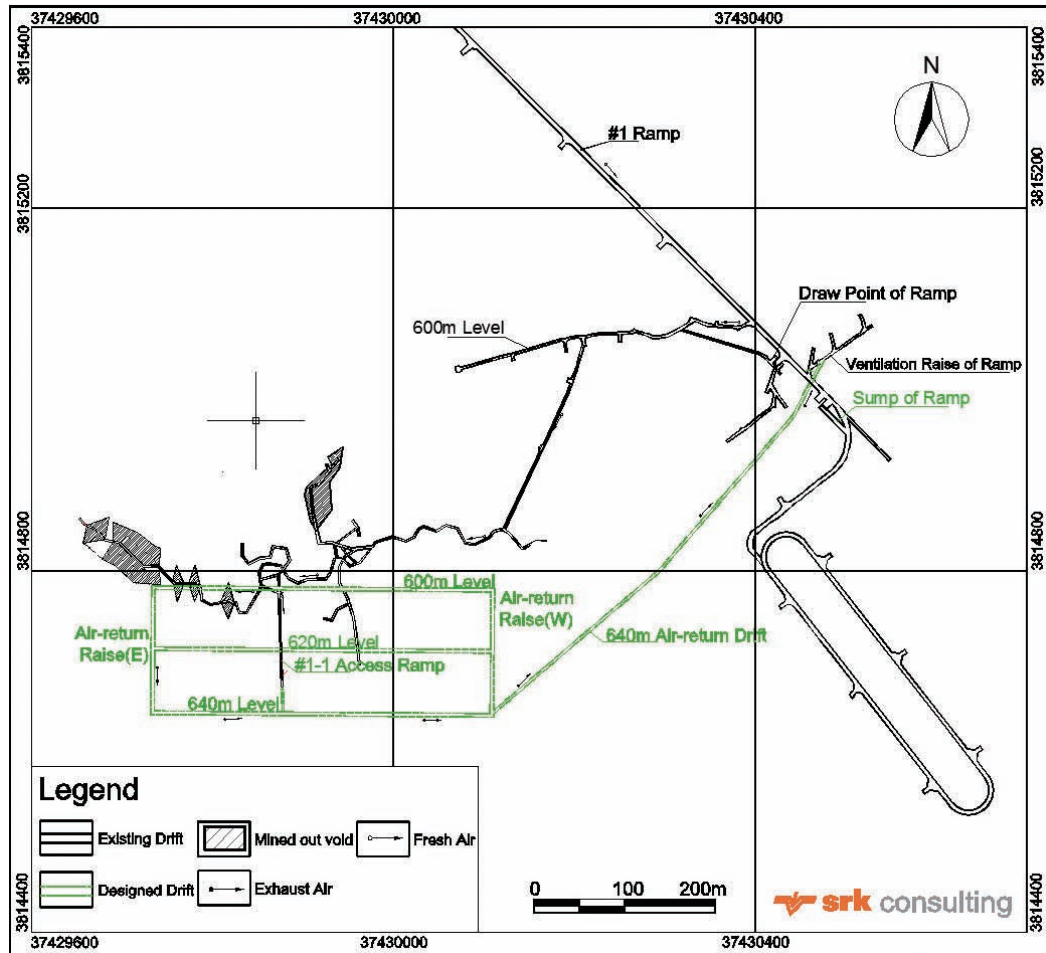


Figure 8-3: Sketch map of the development system – Domain Q1403 (plan view)

Q401-3 ELA

A dual access system with adits and declines with hoisting facilities are already in place. The main accesses are as follows:

- Decline 1, as per domain Q401-3 ML, is from the 1,005 m level adit and is designed to extend to the 820 m level adit from the bottom of the 950 m level at an angle of -20° .
- Decline 2, as per domain Q401-3 ML, connects the 967 m level adit to the 896 m level adit in the southern part of this orebody.
- A new relay Decline, 2-2, is designed to extend from the 900 m level adit down to the 860 m level adit at -25° .

The existing level drifts and adits at the 880 m and 860 m levels are included in the design and may require ground support rehabilitation. Two mining levels, 840 m and 820 m levels, are designed.

However, based on SRK's Mineral Resources estimation, the Indicated Resources occur above the 840 m level. Additional grade control drilling is recommended to define the Resources below this level.

Ore, waste, material and equipment are transported in the same way as domain Q401-3 ML presented in the current mine design.

Q401-4

A dual access system with ramp and declines with hoisting facilities are already in place. Ramp 1 and its west hauling roadway are at 750 m, at which level the decline is employed. Figure 8-4 describes the development system.

The main accesses and underground works are as follows:

- Ramp 1 and the 750 m level west hauling roadway are the main accesses to Q401-4.
- Decline 1 is from the 750 m level and is designed to extend to the 682 m level at the current angle of -25° .
- The level drifts connected to Decline 1 are at 742 m, 722 m, 702 m, and 682 m. Additionally, at 762 m there is an air return drift, which extends from the existing 762 m level to the north and connects to the ventilation raise.

Ore, waste, material and equipment are all loaded at the station of decline bottom by human-powered ore cars. They are then loaded by ore car trip trains and hoisted through Decline 1 to ore bins and waste bins. These bins are used to transfer ore and waste via vibrating feeders to underground 15 t dump trucks for haulage to the surface.

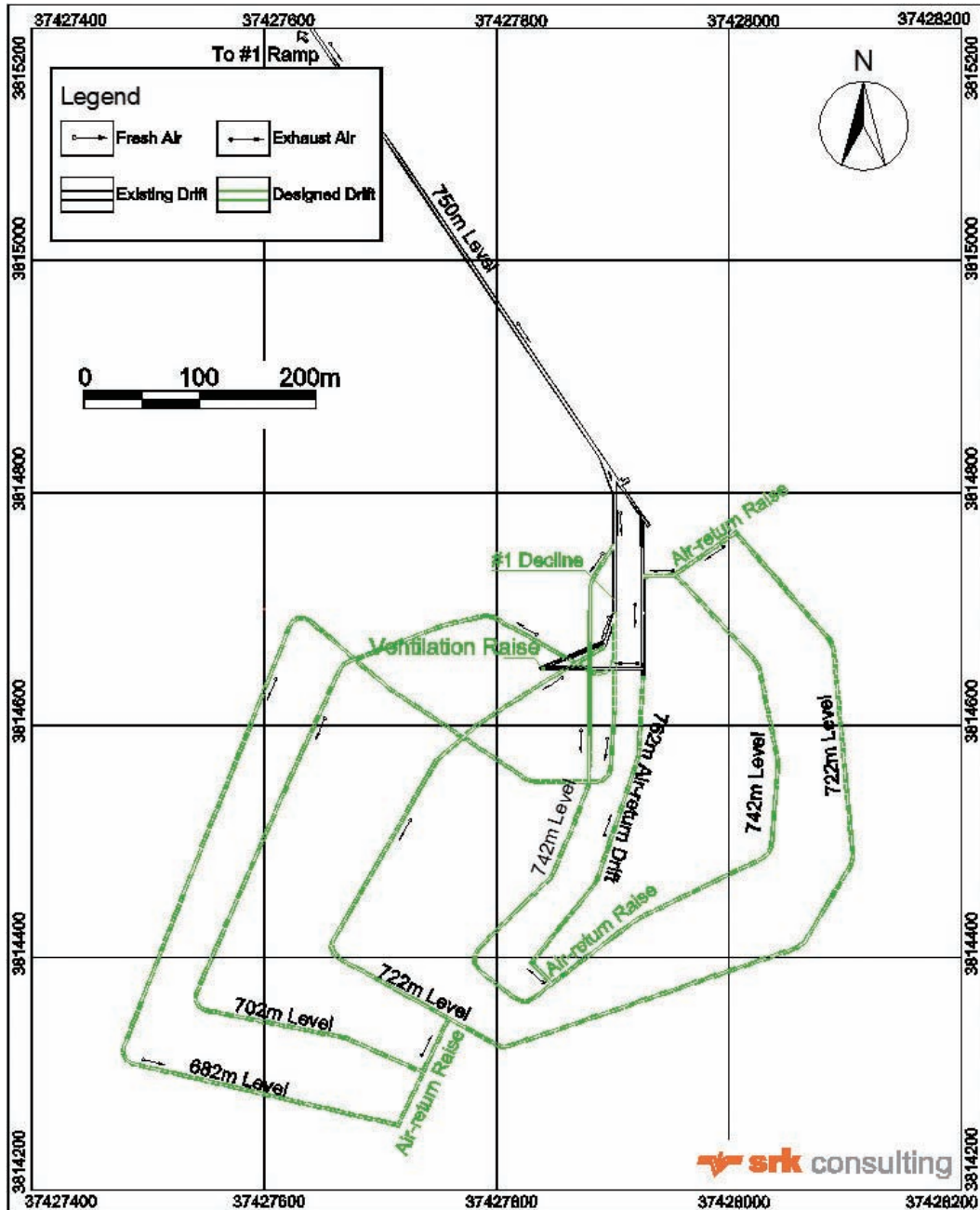


Figure 8-4: Plan view of the development system – Domain Q1403

8.4 Mining Services

8.4.1 Ventilation

Table 8-4 shows the ventilation circuit and design parameters of each domain.

Table 8-4: Summary of ventilation parameters of Expansion Case

Domain	Air intake	Air exhausted	Required airflow (m ³ /s)	Exhaust pressure (Pa)	Main fan model
Q4114	Adits and declines	910 m air-return Adit and #2 ventilation raise	23 + 4.5	1678	FKD60-6-N18
Q429	Adits and declines	ventilation shaft	4.5		
Q1403	Ramp	ventilation shaft	27	1237	K-2-NO12
Q401-3 ELA	Adits and declines	1037 m air-return Adit	24 × 2	2290	FKD54-6-N220
Q401-4	Ramp and declines	ventilation shaft in Xifugou	37	2300	DK-6-NO17

Q4114

Ventilation Circuit I: Fresh air enters from the 790 m adit, Decline 1, and relay Decline 1-2, then passes through crosscuts at all levels and through the footwall drift to enter the stope. Exhaust air is exhausted through the other raise of the stope to enter the upper-level return drift, where it is exhausted through the air-return raise to the 700 m air-return drift, then through the ventilation 1 raise to the 910 m level exhaust air-return adit.

Ventilation Circuit II: Fresh air enters through the 863 m adit and Decline 2. The air is exhausted through the ventilation 2 raise.

The designed total amount of air required is 23 m³/s. The overall exhausted pressure is 1,678 Pa. One main fan (Model FKD60-6-N18) with a capacity of 18-68 m³/s airflow and 750-2,450 Pa pressure is designed to be installed at the outlet of each ventilation raise.

Q429

Ventilation circuit: Fresh air enters from the 863 m adit, Decline 1, then passes through crosscuts at the 820 m level and through the footwall drift to enter the stope. Exhaust air is exhausted through the exhaust raise of the stope to pass through the air-return raise to the 863 m air-return drift, and through the ventilation raise to surface.

Q1403

Ventilation circuit: Fresh air enters from the Ramp 1, east hauling roadway, and 750 m drift, then passes through the level drift and crosscuts to enter the stope. Exhaust air is exhausted through the other raise of the stope to enter the upper-level return drift, where it is exhausted through the air-return raise to the 640 m air-return drift and is exhausted to surface through the air-return raise on the east edge of the orebody.

The designed total amount of air required is 37 m³/s. The overall exhausted pressure is 2,300 Pa. One main fan (Model K-2-NO12) with a capacity of 22.5-42.3 m³/s airflow and 804-1,542 Pa pressure is designed to be installed at the outlet of the ventilation raise.

Q401-3 ELA

Mining within Q401-1 utilises the same ventilation system as domain Q401-3 ML.

Q401-4

Ventilation circuit: Fresh air enters from Ramp 1, west hauling roadway, and the 750 m drift, then passes through the decline and crosscuts to enter the stope. Exhaust air is exhausted through the other raise of the stope to enter the upper-level return drift, where it is exhausted through the air-return raise to the 762 m air-return drift and is finally exhausted outside through the air-return raise in Xifugou.

The designed total amount of air required is 37 m³/s. The overall exhausted pressure is 2,300 Pa. One main fan (Model KD-6-N17) with a capacity of 30.4-78.3 m³/s airflow and 1,400-2,759 Pa pressure is designed to be installed at the outlet of the ventilation raise.

8.4.2 Mine drainage and dewatering

Q4114: The water above 790 m will flow, by gravity, along the adit. The water below 790 m will be collected in three water sumps, which are located at 600 m, 420 m, and 350 m levels. Drainage water collected in the sumps can be pumped to the 790 m adit and can then flow out to the settling pond.

Q429: The water sump is designed at the bottom of Decline 1 at 820 m. Drainage water will be pumped to the 863 m adit through the decline and will then flow to the settling pond out of the portal of the 863 m adit.

Q1403: The water of this domain will follow the same path as that of Q401-4, but the sump is located at the 600 m level.

Q401-3 ELA: The underground water of this domain is collected in two pump-equipped water sumps at 820 m and 860 m levels. Drainage water collected in the 820 m sump can be pumped or gravity fed to the 1,005 m adit and can then flow along the adit to discharge. The water in the 860 m sump can be pumped to the 965 m adit. Each adit portal has a settling pond for underground water.

Q401-4: The water sump is set at the bottom of Decline 1 at 682 m. Drainage water will be pumped to the 750 m drift and will then flow to the 750 m sump. This sump water will be pumped to the main sump located in the ramp.

8.4.3 Compressed air

Compressed air will be sent to the underground levels by a seamless steel tube with a diameter of 133 mm and 108 mm.

It should be noted that the FS design for Q401-4 and Q1403 uses air compressors that are equipped on Q4112 and Q301 when these orebodies are mined out.

- **Q4114:** The maximum underground compressed air consumption is 22 m³/minute, the same as Q4112. The equipment selected is the also the same as for Q4112.
- **Q1403:** The maximum underground compressed air consumption is 30 m³/minute.
- **Q429:** This domain is small and the underground compressed air could use the existing air compressor.
- **Q401-3:** Uses the same compressed air system as domain Q401-3 ML of the current setup.
- **Q401-4:** The maximum underground compressed air consumption is 33 m³/minute; all required air will be supplied from the surface. The design recommends three 22 m³/minute screw air compressors.

8.4.4 Mining equipment

The mining equipment designed in the FS Report is presented in Table 8-5. SRK considers that the selected equipment type and quantity together with those used, designed with 45 ktpa mining capacity (Table 7-12), can meet the requirement of 157 ktpa mining capacity of the expansion case.

Table 8-5: Mining and auxiliary equipment

Item	Type	Unit	Amount	Remarks
Underground truck	15 t	Set	6	All domains total
Ore car	YFC0.7-6	Set	53	All domains total
Stringing electrical locomotive	ZK3-6/250	Set	2	All domains total
Miner car	XRB15-6/6 (15 people per car)	Set	1	Q4114
Air-legs Jack drill and air leg	YT28	Set	15	All domains total
Air-legs Jack drill and air leg	YSP-45	Set	7	All domains total
Hoister	JTP1.2×1.0 with 55 kw motor	Set	1	Q401-3 ELA 2-2 relay decline each
Hoister	JTP1.6×1.5 with 95 kw motor	Set	1	Q4114 #1 decline
Hoister	JTP1.2×1.0 with 55 kw motor	Set	1	Q4114 #1-2 relay decline
Hoister	JTP1.6×1.2 with 132 kw motor	Set	1	Q401-4
Main Fan	FKD60-6-N18	Set	1	Q4114
Main Fan	DK-6-NO17	Set	1	Q401-4
Main Fan	K-2-NO12	Set	1	Q1403
Air compressor	LGS22/8G (22 m ³ /min, 2 m ³)	Set	2	Q4114 two existing, one additional purchase
Air compressor	LGS22/8G (22 m ³ /min, 2 m ³)	Set	6	Will be transferred from Q401-3 and Q4112 to Q401-4 and Q1403 three sets each
Air compressor	LG10/8 (10 m ³ /min, 2 m ³)	Set	1	Q4114 existing
Pump	D85-45×6 with 132 kt motor	Set	3	Q4114
Pump	D88-30×4 with 22 kt motor	Set	3	Q401-4

8.5 Mining inventory

Based on the technical parameters set out in the FS, which were reviewed and modified by SRK, a conceptual mine plan was prepared. SRK has used the same parameters as described in Section 7.8 to convert the defined Indicated Resources in all tenements to the mining inventory presented in Table 8-6.

SRK notes that the mining inventory is not part of the Ore Reserves. This is because some of the mining inventory is located outside the existing mining licences and thus cannot be mined until all the exploration licence application is converted to mining licences and all required approvals are in place.

Table 8-6: Expansion Case — Mining inventory

Licence Type	Domain	Resource Category	Inventory (kt)	Grade (g/t Au)	Contained Metal (koz)	Contained Metal (kg)
Mining Licence	Q401-3 ML	Indicated	63	7.3	15	454
	Q4112	Indicated	127	4.7	19	594
Exploration Licence Application	Q4114	Indicated	54	5.9	10	320
	Q429	Indicated	6	6.4	1	35
	Q1403	Indicated	31	6.8	7	212
	Q401-3 ELA	Indicated	28	7.5	7	208
	Q401-4	Indicated	277	7.0	62	1,940
Total		Indicated	585	6.4	120	3,764

8.6 Mine planning

8.6.1 Operating schedule

The roster system applied is 330 working days per year, 3 shifts per day and 8 hours per shift. The planned production capacity is 157 ktpa.

8.6.2 Production schedule

SRK understands that the Company anticipates that the pending exploration licence application will be converted to mining licences in January 2018.

Based on the expected timeline, a production schedule with a LoM of 7 years has been prepared by SRK (Table 8-7). The schedule is based on the available mining inventory (Table 8-6), anticipated dates of grant of mining licences and mining

technical conditions. The schedule also assumes one year of construction. No Inferred Resources have been considered in the schedule.

Table 8-7: Expansion Case — Production schedule

Licence Type	Domain	Unit	June- Dec 2016	2017	2018	2019	2020	2021	Total LoM
Mining Licence	Q401-3 ML	kt	1.4	15.4	15.2	15.3	15.1	0	62.3
	Q4112	kt	23.8	30.3	30.0	27.4	15.2	0	126.4
Exploration Licence Application	Q4114	kt	0	0	0	19.2	7.6	27.2	54.0
	Q429	kt	0	0	0	5.5	0	0	5.5
	Q1403	kt	0	0	0	31.4	0	0	31.4
	Q401-3 ELA	kt	0	0	0	15.1	12.5	0	27.6
	Q401-4	kt	0	0	0	42.9	106.3	127.9	277.1
	Tonnage	kt	25.2	45.7	45.3	156.8	156.7	155.1	584.8
	Grade	g/t	4.7	5.9	5.5	7.2	6.5	6.3	6.4
	Contained Metal	kg	119.2	269.5	248.8	1,125.7	1,021.7	978.7	3,763.6
koz		3.8	8.7	8.0	36.2	32.8	31.5	121.0	

9 METALLURGY AND PROCESSING

9.1 Metallurgy

9.1.1 Ore properties

Xiangshun collected composite samples from the Q401, Q4112, Q301, and Q4114 project areas and commissioned the Mining and Metallurgy Institute of Jinjian Engineering Design Co. Ltd. (Jinjian) to conduct chemical composition analysis and metallurgical testing in July 2014. Jinjian completed the chemical composition analysis based on the results of spectral analysis and identified the main chemical components of composite samples. These chemical components are listed in Table 9-1. The economically recoverable minerals occurring in the samples are mainly gold, followed by silver, copper, lead, and sulphur. Other minerals within the ore, because of their low content, are not recoverable. Harmful elements in the gold concentrate, namely arsenic and antimony, are only present at trace levels and thus are not expected to affect the quality of the concentrate.

Table 9-1: Ore chemical components

Element	Au*	Ag*	Cu	Pb	Zn	S	As
Content (%)	4.19	14.93	0.14	0.45	0.16	1.52	0.01
Element	Sb	C	Fe	Al ₂ O ₃	CaO	MgO	SiO ₂
Content (%)	0.02	0.32	2.59	2.59	1.99	1.23	85.53

Note: An asterisk (*) denotes a unit measurement of g/t.

In April 2015, the Northwest Nonferrous Metal Geological Research Institute conducted microscopic polished section and thin-section analysis on 34 ore samples to identify mineral components and particle size. Similar to most of the gold mines in the Xiaoqinling gold belt, the Project is also an auriferous quartz vein deposit. Ore occurring in the mine is primary ore with low sulphur content. Gold minerals include mainly native gold and electrum. Non-metallic minerals include mainly quartz, with a content of 85%, followed by calcite and barite and a small amount of chlorite and mica. Metallic minerals consist mainly of pyrite, followed by galena and chalcopyrite and a small amount of sphalerite, malachite, and limonite.

Gold occurring in the fractures of the sulphide minerals accounts for up to 65% of total gold occurrence. It occurs in fine vein, needle, rod-like, melon vein, dendritic and granulous shapes in the microfractures of pyrite and is closely associated with galena, chalcopyrite and pyrite. Gold occurring between mineral particles accounts for up to 24% of the total gold occurrence. It occurs in particulate, irregular, and triangular shapes between particles of metal sulphide and gangue. Gold occluded by sulphide minerals accounts for up to 11% of the total gold occurrence. It occurs usually in round, subhedral and isometric granular shapes. Table 9-2 shows the statistics on gold particle sizes. Although fine- and micro-particle gold represents a large proportion of all gold particles, their weight and surface area ratios are nevertheless very low, which is helpful for gold dissociation during the grinding process. Gold particles are relatively small, but they occur mainly in mineral fractures; this property is useful for releasing gold from its carrier minerals. Pyrite is the main gold-carrying mineral and has a particle size larger than that of gold, which facilitates processing.

Table 9-2: Gold particle size statistics

Particle size	Distribution by amount (%)	Distribution by area (weight) (%)
Micro-particles (≤ 0.01 mm)	52.42	0.48
Fine particles (0.01–0.04 mm)	32.12	7.28
Medium-sized particles (0.04–0.07 mm)	8.85	9.89
Coarse particles (≥ 0.07 mm)	6.60	82.36
Total	100	100

9.2 Metallurgical testwork

Jinjian conducted metallurgical testwork in July 2014. Composite test sample is a mixture of samples collected from different orebodies. The properties of the composite sample are consistent across the whole area of interest and are similar to the general behaviours of the gold ores around the Xiaoqinling gold belt. Therefore, the sample may be viewed as representative and the typical metallurgical behaviours well understood.

Batch flotation and gravity concentration tests were conducted as part of the testwork program. A series of flotation tests at different grind size, reagent types, and reagent dosages was completed. Xiangshun selected the best results to complete a locked cycle flotation test, the process of which included one stage of roughing, two stages of scavenging, one stage of cleaning, and middlings recycling. The locked cycle flotation test used butyl xanthate and sodium isoamylxanthate as collecting reagents at a scale of 1:1, terpenic oil as the frothing agent, and ore ground to 55% passing 74 μm . Results of the locked cycle test are shown in Table 9-3. The recoveries are in line with plant operational experience even though the feed grade was lower than typical feed grade. The concentrate grade was high and the silver grade in the concentrate was at a saleable level.

Table 9-3: Xiaoqinling locked cycle testwork results

Products	Yield (%)	Grade (g/t)		Recovery (%)	
		Au	Ag	Au	Ag
Gold concentrate	6.69	60.15	212.26	96.04	95.12
Tailings	93.31	0.18	0.78	3.96	4.88
Ore feed	100.00	4.19	14.93	100.00	100.00

9.3 Ore amenability

Both the ore property and processing test show that ore occurring in the Xiangshun Gold Mine has a simple mineral composition, dissemination status, and metallurgical behaviour. Therefore, a simple flotation process and common reagent usage can be used to obtain a high recovery rate. This indicates that ore is easily processed. The results supported the suitability of this feed to the existing Xiangshun processing plant. Processing testing did not include recovery of other metallic minerals, such as copper or lead.

9.4 Production

9.4.1 History

The processing plant is located to the south of Beidong Village, Daiziying Town, Tongguan County. The site has good infrastructure access, with the National Road 301 just 200 m away and the Longhai Railway line just 10 km from the operation. The plant was converted from the existing Weinan Gold Mine processing plant, which was shut down and under care-and-maintenance. This plant had been designed in 1992 by XAENFI and constructed by the Third Construction Company of the former Bureau of Metallurgy. Trial production commenced in 1993, and commercial production started in 1995 with a designed production capacity of 100 tpd.

Production continued until April 2006, when the Weinan Gold Mine declared bankruptcy and was sold to Weinan Qinlu Mining Development Co., Ltd (Qinlu). In 2011, Xiangshun obtained the plant through equity transfer, and in 2012, conducted modifications and upgrades to expansion production to upgrade the plant capacity from 100 to 175 tpd, and built a second production line next to the old one. Construction of the second line increased the total processing capacity to 475 tpd, the equivalent of 157 ktpa, based on a total plant utilisation of 330 working days per year (90.4%). The plant changes included the use of flotation to produce a gold concentrate product, which was then sold to a local smelting plant. Mined ore was transferred to the plant by subcontracted dump trucks. The plant is located about 10-17 km from the project areas. Figure 9-1 is a photograph of the Xiangshun processing plant.



Figure 9-1: Xiangshun processing plant

9.4.2 Processing flowsheet

The 175 tpd processing plant flowsheet is simple and conventional. It incorporates a two-stage open crushing circuit, one closed grinding circuit followed by flotation which includes one stage of roughing, three stages of cleaning, and three stages of scavenging. The 300 tpd processing plant flowsheet is also simple and conventional and similar to the smaller plant. It incorporates a two-stage open crushing circuit, one closed grinding circuit followed by flotation which includes one stage of roughing, two stages of cleaning, and four stages of scavenging. The feed ore metallurgical behaviour is considered to be conventional. As a result, both flotation processes used in the plant are simple, are capable of achieving good levels of production, and yield favourable technical processing parameters including throughput, gold recoveries and reagent consumptions. The 300 tpd processing flowsheet is shown in Figure 9-2, and is described in the following sections.

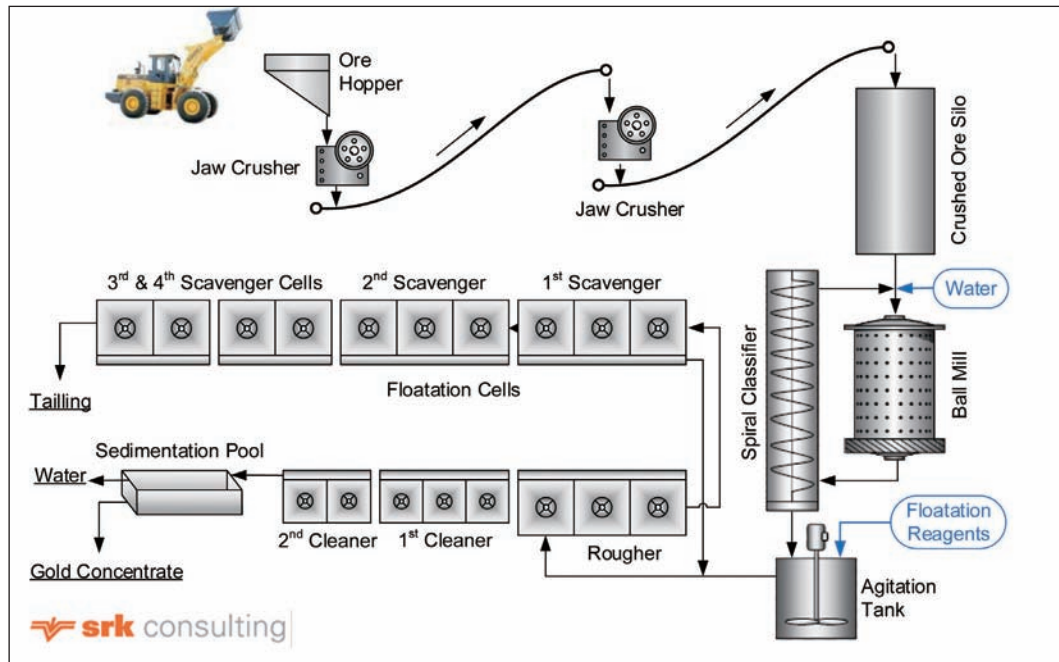


Figure 9-2: 300 tpd processing flowsheet

Crushing

Mined ore with a top size of no more than 300 mm is sent by trucks to the ore dump, which is about 10-15 km from the project areas in the processing plant. It is then transferred to the crushing system via a vibrating ore feeder. The crushing system consists of two jaw crushers in series to crush the ore to 80% passing 25 mm. Crushed ore is then conveyed to the fine-ore bin. The fine-ore bin works as a buffer to ensure the continuity of grinding.

Grinding

A grate ball mill and spiral classifier make up one closed circuit of the grinding process to grind the ore to 55% - 60% passing 0.074 mm. Fine grinding is not required, which saves on the corresponding grinding costs. Classification of the mill discharge products is through a spiral classifier. This would normally be used to separate particles based on their specific gravity as well as particle size, so in this case, aims at recovering and regrinding the heavy fraction increasing the grinding of the heavier specific gravity (SG) sulphide minerals containing the gold to improve flotation recovery.

Flotation

Ground ore (overflow from the spiral classifier) is mixed with flotation reagents in the agitated conditioning tank, then fed to flotation to produce gold concentrate after one stage of roughing, four stages of scavenging and two stages of cleaning. Flotation uses the simple and common reagents of butyl xanthate as the collector and terpenic oil as the frothing agent, the dosages of which are 120 g/t Au and 80 g/t Au, respectively.

Dewatering

Gold concentrate obtained from flotation is dewatered in the sedimentation pool to yield a concentrate with a moisture content of 15% - 20%. It is then sun-dried to yield the final product, with a moisture content about 12%, for sale. Compared with mechanical dewatering, sedimentation dewatering is of low efficiency, but is simple and cost-effective.

9.4.3 Production facility

The main mechanical equipment used in the processing plant is listed in Table 9-4. The 175 tpd production line has two grinding circuits. Equipment allocation in the plant is considered to be appropriate. However, the lack of sufficient auxiliary/spare equipment in reserve, such as a vibrating ore feeder, may negatively affect production efficiency.

Table 9-4: Main processing mechanical equipment

Equipment	Model	Power (kW)	Quantity
<i>175 tpd production line</i>			
Jaw crusher	PE400X600 mm	30	1
Jaw crusher	PE150X750 mm	15	1
Vibrating feeder	GZ5	0.22	1
Ball mill	MQG1500X3000 mm	95	1
Spiral classifier	FLG1500	7.5	1
Vibrating feeder	GZ3	0.22	1
Ball mill	MQG1200X2500 mm	45	1
Spiral classifier	FLG1200	5.5	1
Agitator	XB2000	7.5	1
Flotation cell	XCF/BSK-4 m ³	15	4
Flotation cell	XCF/BSK-4 m ³	7.5	5
Flotation cell	XJK-1.1GAJF-4A	5.5	6
Roots low pressure air blower	L43LD	11	1

Equipment	Model	Power (kW)	Quantity
300 tpd production line			
Jaw crusher	PE400X600 mm	30	1
Jaw crusher	PE1200X250 mm	45	1
Vibrating feeder	GZ5	0.22	1
Vibrating feeder	GZ3	0.22	1
Ball mill	MQG2100X3600 mm	180	1
Spiral classifier	FLG2000	15	1
Agitator	XB2000	7.5	1
Flotation cell	XCF/BSK-4 m ³	18.5	5
Flotation cell	XCF/BSK-4 m ³	7.5	8
Flotation cell	SF-1.2 m ³	5.5	5
Roots low pressure air blower	L5310	18.5	1

9.4.4 Power and water supplies

The processing plant is connected to a nearby transformer station, located 1 km away. The plant is fitted with four transformers with a total capacity of 1,500 kVA. The processing plant is fitted with an underground water supply system. The plant requires 1,662.5 m³ of water per day, with 80% of the required water recycled from the tailing storage facility (TSF). SRK opines that the power and water supplies are reliable and sufficient to support the operation.

9.4.5 Production performance

The key production performance parameters from 2013 to 2015 are shown in Table 9-5. Gold concentrate has a grade of 60 g/t Au and a gold recovery rate of 96.5%. SRK notes that mercury was blended into the ore slurry before the flotation process to produce a gold alloy, but the Company stopped using the mercury in 2013 for environmental protection reasons. Therefore, no alloy has been produced since 2013. Table 9-5 shows that a high gold recovery rate can be obtained by simple flotation processing. It shows a positive trend of increasing throughput and stable recovery, even with the drop in feed grade in 2015, and improving concentrate grades over this period.

Because the Company did not conduct any systematic assay on the associated economically recoverable minerals of lead, silver and copper during production, there is insufficient information on their recovery rates. These minerals were recovered together with gold and sold for a price based on their content detected when sold. Table 9-6 provides the results of random assay testing carried out on sold concentrate. Test results show that grades varied significantly and that silver content had a positive correlation with that of lead.

SRK was advised by the sales and financing personnel of Xiangshun that the gold concentrate has a low content of harmful elements that would incur penalties and that the sale price is never affected by such elements.

Table 9-5: Technical production parameters – Processing plant

Parameters	Unit	2013	2014	2015	Jan-May 2016
Ore feed	t	50,889	69,913	99,185	55,952
Ore grade	g/t Au	6.25	6.58	5.85	5.51
Concentrate output	t	2,873	7,466	8,993	5,101
Gold Grade of the concentrate	g/t Au	46.77	59.71	62.24	58.11
Metal in the concentrate	kg	134.38	445.77	559.78	296.40
Metal in the alloy	kg	171.34	-	-	-
Ore feed/ concentrate	t/t	17.71	9.36	11.03	10.97
Gold recovery rate	%	96.18	96.86	96.41	96.47

Table 9-6: Concentrate assaying results

Date	Results			
	Au (g/t)	Ag (g/t)	Cu (%)	Pb (%)
8-Jun-15	45.00	89	2.67	8.23
9-July-15	45.50	88	2.58	8.50
20-Aug-15	48.00	169	1.45	22.46
23-Sep-15	46.00	176	1.40	21.29
26-Nov-15	47.00	81	2.04	9.60
6-Dec-15	88.50	258	2.54	40.85
11-Dec-15	46.00	66	2.02	8.55
17-Dec-15	48.00	187	1.70	20.15
21-Dec-15	63.00	101	2.65	9.85
Average	53.00	135	2.12	16.61

The production capacity of the processing plant is 475 tpd or 157 ktpa with a designed work schedule of 330 working days per year, and annual operating rate is 90.4%. Production data to date is not able to verify this stated nameplate capacity. Because of low mining capacity, the operating rate of the processing plant is below the nameplate capacity. In order to make better use of equipment, the Plant also has toll treated or purchased ores from other mines since 2014. The corresponding figures from 2013 to 2015 are listed in Table 9-7.

SRK was provided two ore purchase agreements, effective from 1 January 2015, between Xiangshun and two companies. These two companies provide ores to Xiangshun with grades between 3 and 7 g/t. As at 1 January 2015, Xiangshun paid these companies at RMB80/g of contained gold in the ore. However, the agreements state that the price would change according to the grade and gold price.

Table 9-7: Processed ore – amount and equipment utilisation efficiency

Item	Unit	2013	2014	2015	Jan-May 2016
Ore supplied by Xiangshun	t	50,889	51,570	59,459	31,331
Ore purchased from other mines	t	-	-	34,777	24,621
Ore processed for other mines	t	-	18,343	4,948	-
Total ore milled	t	50,889	69,913	99,185	55,952
Designed annual operating rate ¹	%	90.4	90.4	90.4	Not Applicable
Actual capacity utilisation ²	%	32.5	44.6	63.3	Not Applicable

Note: 1. At 330 working days per year, the calculated annual operating rate is 330 days/ 365 days = 90.4%.

2. Actual capacity utilisation rate equals actual milled ore quantity/ designed milling capacity.

9.5 Feasibility Study on Production Upgrade and Expansion

In May 2016, XAENFI conducted an FS with the objective of achieving a unified plan and design for the resources of the Project. According to the FS, the mining and processing capacity was designed at 157 ktpa based on current facilities. The work schedule is 330 working days per year, 3 shifts per day, and 8 hours per shift.

The technical processing parameters used in the FS design are listed in Table 9-8. The gold concentrate has a grade of 50 g/t Au and a gold recovery rate of 96%. Compared with processing tests and historical production statistics, this design is reasonable, but the silver recovery rate is relatively low. According to sales figures, the minimum grade requirements for associated minerals in sold concentrate are 100 g/t of silver, 1% of copper and 13% of lead. Because the gold concentrate has a relatively low grade, the associated minerals cannot meet these requirements. Xiangshun should assess increasing the grinding fineness and the extent of flotation cleaning to improve concentrate grade to the level on which those associated minerals can be paid. If calculations are based on feed grades, only once the concentrate has a gold grade exceeding 70 g/t Au, the associated minerals in the concentrate will be paid. Table 9-9 lists the technical processing parameters suggested by SRK. Because

Xiangshun did not conduct assaying and resource estimation on the copper during the geology exploration period and because no assay work has been carried out on copper recovery for production, the FS did not include copper recovery, nor was profit brought by copper calculated.

SRK suggests that Xiangshun enhance production monitoring and assaying and conduct silver, copper and lead assay work to better control production process and gold concentrate quality.

Table 9-8: Technical processing parameters in the feasibility study

Products	Mass yield (%)	Output (tpa)	Grade			Recovery (%)		
			Au (g/t)	Ag (g/t)	Pb (%)	Au	Ag	Pb
Concentrate	11.15	17,817	50	77.48	9.28	96.00	90.00	90.00
Tailings	88.85	138,933	0.26	1.08	0.13	4.00	10.00	10.00
Ore feed	100	156,750	5.81	9.6	1.15	100.00	100.00	100.00

Table 9-9: Processing parameters suggested by SRK

Products	Mass Yield (%)	Output (tpa)	Grade			Recovery (%)		
			Au (g/t)	Ag (g/t)	Pb (%)	Au	Ag	Pb
Concentrate	7.97	12,490	70	112.05	12.99	96.00	93.00	90.00
Tailings	92.03	144,260	0.25	0.73	0.12	4.00	7.00	10.00
Ore feed	100	156,750	5.81	9.6	1.15	100.00	100.00	100.00

9.6 Tailings storage facility

The currently in-service TSF, Beidonggou, is located to the west of the processing plant. It was constructed by valley cutting and has a storage capacity of 70,500 m³. The tailings dam is an earthfilled dam with a height of 13 m. The embankment surface is 60 m long and 7.5 m wide, and its base is 37.5 m wide. Tailings run down slope from the processing plant into the TSF. Purified water is discharged into the recycling water pool at the foot of the dam through a culvert constructed at the bottom of the tailings pond. A water pump has been built at the recycling water pond to pump water back to the processing plant. The culvert's cross section is 0.8 m by 0.8 m. Given the relatively small cross section of the culvert, a spillway with a length of 2 m and depth of 1 m has also been constructed to assist with water drainage. The culvert and spillway are built of grouted rubble.

The Beidonggou TSF has a low storage capacity and thus can remain in service for no longer than one year; therefore, construction of a new TSF is necessary. Xiangshun elected that the new TSF will be located in Xiniangou Valley, about 1.5 km from the processing plant. During its site visit, SRK noted that Xiniangou

Valley is a loess gully with a small water collection area, making it an ideal spot in which to build a TSF through tailings filling. Moreover, in this particular area, the government encourages construction via gully filling. In the Xiniangou Valley area, the vegetation type is mainly shrubs and grasses and there is no farming or homes.

The Xiniangou TSF has a design storage capacity of 1,450,000 m³ and an effective storage capacity of 1,230,000 m³. Based on a dry tailings density of 1.45, this new TSF can store a total tailings volume of 1.78 Mt, an amount sufficient for the processing plants to be in operation for 12.5 years at full production capacity. There is a height difference of about 50 m between the Xiniangou Valley and the processing plant, so tailings can run down the slope through pipelines to the new TSF. The internal diameter of the tailings transfer pipes is designed at 150 mm. Two pipelines will be constructed using a highpolymer wear-resistant material. When one is in use, the other will be on standby as a backup. The pipelines will be laid along the road to the top of the dam.

The tailings dam of the Xiniangou TSF was designed to be constructed of evenly compacted earth and with a height of 35 m. Its embankment surface is 150 m long and 4 m wide. The elevations of the embankment bottom and embankment top are 440 m ASL and 475 m ASL, respectively. To make daily management of the TSF more convenient and to enhance the stability of the dam, berms with 2 m width will be constructed at 465 m ASL and 455 m ASL. The downstream slope ratio is 1:2.5.

The Xiniangou dam is a single-step construction dam and will not be raised after completion of the construction. Downstream of the TSF, a prismatic-shape permeable rock pile with a 5 m height will be built at the foot of the dam. The top of the rock pile is 445 m ASL and 2 m wide. Filter layers are also to be included between the dam and permeable-rock pile. Because the earth-filled dam has weak water permeability, permeable layers are designed to be paved above the foundation of the starting dam, connecting the permeable-rock pile at the foot of the dam and along the upstream slope. These permeable layers are designed to help discharge seepage from tailings and the lower phreatic line. The permeable layer paved along the upstream slope is 1.5 m thick, and the permeable layer of the dam foundation 3 m thick. Filter layers are also to be paved above and below the permeable layers.

According to TSF construction and design codes and standards of China, the Xiniangou TSF is classified as a “Grade 4” TSF. Its flood control system can survive a storm event whose occurrence frequency is once every 200 years at the site. The designed main flood drainage facilities consist of a drainage well and culvert. Tailings water and flood water will flow into the drainage well and flow out from the culvert. The water drainage well is to be constructed as a frame structure with an inner diameter of 3 m. The culvert is to be built at the bottom of the dam along the Xiniangou Valley with a length of 545 m and be made of concrete with a C30 steel reinforcing bar. The cross section of the culvert has a width of 1.5 m and height of 1.8 m.

A settling basin was designed at the outlet of the culvert to collect water and to reduce the velocity and impact of water flow. Water that flows out from the settling basin will be discharged or pumped back to the processing plants. The basin is made of concrete and a steel reinforcing bar and has a length of 15 m, width of 4 m, and height of 3 m. According to the FS, 85% of tailings water will be recycled, and water inflow will be 50.46 cubic metres per hour (m³/h). The designed tailings water recycling rate is considered by SRK as optimistic. The water recycling rate is recommended to decrease to 80% and the amount of water for the processing plant from the underground water should be increased accordingly. Based on calculations, D133×8 mm steel tubes will be used for water recycling. One water recycling pipeline with a 1.5 km length is to be laid parallel to the tailings discharge pipelines. No auxiliary pipeline will be constructed for water recycling.

The FS also includes design of dam-monitoring facilities – such as those for monitoring dam foundation displacement, phreatic line, the tailings beach, water level, and precipitation – for immediate detection of potential risks and for taking measures to prevent any safety incidents.

The Xiniangou TSF can fully meet the Company's tailings storage requirements. Construction of the Xiniangou TSF is expected to be completed by June 2018. During the transitional period, the Company states that the tailings stored at the Beidonggou TSF are re-used by the local government as landfills, which in turn will extend the service life of the Beidonggou TSF. SRK has been provided with a contract between the local government and Xiangshun of this re-use. SRK suggests that the Company completes land acquisition, topographic surveying, engineering geology exploration, and design as soon as possible so as to ensure a favourable timeline of operations.

10 CAPITAL AND OPERATING COSTS

10.1 Capital costs

Xiangshun has been operating in the area since 2012, and therefore most of the Project capital cost is already a sunk cost that exists at book value on the balance sheet. The FS provided the baseline for capital cost estimates. Costs were updated by Xiangshun's financial team in conjunction with site management and technical staff. Adjustments have also been made by SRK to reflect changes in the forecast production from the LoM schedule (Table 7-13).

The estimated capital cost is estimated at RMB35.6 M (Table 10-1), with most of the costs to be spent on underground capital development, mining equipment and the new TSF. Additional mining and auxiliary equipment will be installed for sustaining or upgrading the current mining operation. The construction of the new Xiniangou TSF includes items for site preparation, construction of the tailings dam, flood control system, tails pipe channel, recycling water system and monitoring

system. Future capital expenditure at the processing plant as included in the current LoM schedule is limited to sustaining capital expenditure requirements. Others include fees for land usage, preliminary design report, environmental evaluation and insurance trail test. A 10% contingency has also been budgeted.

Table 10-1: Forecast capital costs for June 2016-2020

Items	Unit	June- Dec 2016	2017	2018	2019	2020	Total LoM
Q401-3 ML capital development	m	34	370	366	368	-	1,137
Q4112 capital development	m	184	234	232	212	-	862
Capital development	RMB M	0.7	2.2	2.2	2.1	0.0	7.3
Exploration	RMB M	0.5	0.8	0.8	0.8	0.0	3.0
Mining	RMB M	2.5	1.7	0.1	0.1	0.1	4.6
Processing Plant	RMB M	0.2	0.2	0.2	0.3	0.3	1.2
TSF	RMB M	1.9	5.6	1.9	0.0	0.0	9.4
Others	RMB M	6.2	0.4	0.4	0.3	0.3	7.6
Contingency (10%)	RMB M	0.6	1.1	0.6	0.4	0.1	2.7
Total	RMB M	12.6	12.1	6.2	4.0	0.7	35.6

10.2 Operating costs

The actual operating costs for 2015 and the forecast operating costs between June 2016 and 2020 were provided by Xiangshun and modified by SRK to reflect changes in the forecast production from the LoM schedule (Table 7-13). The major assumptions of the forecast operating costs in Table 10-2 and Table 10-3 are based on:

- Actual historical operating costs provided by Xiangshun
- The contracts between Xiangshun and contractors
- A resource tax of RMB4.2/t of ore
- A local resource levy of RMB156/t of ore.

In 2015, Xiangshun processed ores from other mines (Table 9-7). Therefore, some of the operating cost centres, including processing, site services, non-income taxes, royalties and other governmental charges have been adjusted on a pro-rata basis, that is, the amount of tonnes sourced from Xiangshun and other mines.

The LoM unit cash operating cost, including the resource tax and local resource levy is estimated at RMB838/t ore, RMB158/g payable gold or USD738/oz payable gold. SRK has reviewed the detailed breakdown of the operating costs and considers that the estimate prepared by Xiangshun is reasonable.

Table 10-2: Historical and forecast operating costs for 2015-2020

		Historical	Forecast				
Items	Unit	2015	2016	2017	2018	2019	2020
Ore Mined	kt	51.3	25.2	45.7	45.3	42.7	30.3
Ore Processed	kt	51.3	25.2	45.7	45.3	42.7	30.3
Average Grade	g/t	5.8	4.7	5.9	5.5	5.5	5.7
Payable Gold	kg	299.8	114.4	258.8	238.8	226.7	167.2
Payable Gold	koz	9.6	3.7	8.3	7.7	7.3	5.4
Mining	RMB M	21.0	10.5	19.1	18.9	17.8	12.7
Operating development	RMB M	4.3	2.2	3.9	3.9	3.7	2.6
Processing	RMB M	4.9	2.4	4.4	4.4	4.1	2.9
Transportation	RMB M	0.8	0.4	0.7	0.7	0.7	0.5
Site Services	RMB M	0.2	0.1	0.2	0.2	0.2	0.1
Environmental	RMB M	1.6	0.8	1.4	1.4	1.3	0.9
General and Admin	RMB M	1.4	0.7	1.2	1.2	1.1	0.8
Non-income taxes, royalties and other governmental charges	RMB M	4.3	4.0	7.3	7.3	6.8	4.9
Total Cash Operating Cost	RMB M	38.4	21.1	38.3	37.9	35.8	25.4
Total Unit Cash Operating Cost	RMB/ore	749	838	838	838	838	838
	RMB/g	128	184	148	159	158	152
	USD/oz	599	863	693	743	739	711

Note: A USD/RMB exchange rate of 6.65 was used.

Table 10-3: Historical and forecast operating costs by category as per listing rule 18.03

Items	Unit	Historical	Forecast				
		2015	2016	2017	2018	2019	2020
Ore Mined	kt	51.3	25.2	45.7	45.3	42.7	30.3
Ore Processed	kt	51.3	25.2	45.7	45.3	42.7	30.3
Average Grade	g/t	5.8	4.7	5.9	5.5	5.5	5.7
Payable Gold	kg	299.8	114.4	258.8	238.8	226.7	167.2
Payable Gold	koz	9.6	3.7	8.3	7.7	7.3	5.4
Mining	RMB M	21.0	10.5	19.1	18.9	17.8	12.7
Operating development	RMB M	4.3	2.2	3.9	3.9	3.7	2.6
Transportation	RMB M	0.8	0.4	0.7	0.7	0.7	0.5
Workforce employment	RMB M	3.6	1.8	3.3	3.3	3.1	2.2
Consumables	RMB M	1.1	0.5	1.0	1.0	0.9	0.6
Fuel, electricity, water and other services	RMB M	0.6	0.3	0.5	0.5	0.5	0.4
On and off-site administration	RMB M	0.9	0.5	0.9	0.8	0.8	0.6
Environmental protection and monitoring	RMB M	1.6	0.8	1.4	1.4	1.3	0.9
Transportation of workforce	RMB M	0.0	0.0	0.0	0.0	0.0	0.0
Product marketing and transport	RMB M	0.0	0.0	0.0	0.0	0.0	0.0
Non-income taxes, royalties and other governmental charges	RMB M	4.3	4.0	7.3	7.3	6.8	4.9
Contingency allowance	RMB M	0.0	0.0	0.0	0.0	0.0	0.0
Total Cash Operating Cost	RMB M	38.1	21.0	38.2	37.8	35.6	25.3
Total Unit Cash Operating Cost	RMB/ore	744	834	834	834	834	834
	RMB/g	127	184	147	158	157	151
	USD/oz	595	858	690	740	735	708

10.3 Economic viability analysis

An analysis of the economic viability of the Project has been conducted. The analysis is based on the capital and operating costs, and the production schedule (Table 7-13) presented in this Report. A technical economic model (in real terms) of the Project from 1 June 2016 to 31 December 2020. All costs are in 2016 RMB with no provision for inflation and escalation. It is important to note that the purpose of the analysis is only to demonstrate the economic viability of the Project. The derived net present values (NPVs) do not indicate the fair market values or the profitability of the Project.

The key principal assumptions in the preparation of the technical economic model are as follows:

- Gold recovery is 96%
- Concentrate grade is 50 g/t Au
- Other metals including silver, copper and lead are not recoverable and payable
- Smelter charge is RMB1300/t concentrate
- No revenue is sourced from processing ores from other mines
- The forecast sale prices are based on Consensus Market Forecast, while the exchange rate of USD:RMB is based on Bloomberg forecast as at 1 June 2016. The forecast sale price in RMB/g is tabulated in Table 10-4.

Table 10-4: Commodity price and exchange rate forecast

Units	SPOT	2016	2017	2018	2019	2020	2021	Long Term Price
USD/oz	1,200	1,120	1,140	1,130	1,190	1,170	1,130	1,130
US/g	38.6	36.0	36.7	36.3	38.3	37.6	36.3	36.3
US/RMB	6.58	6.60	6.73	6.95	6.7	6.65	6.65	6.65
RMB/g	254	238	247	252	256	250	242	242

In the analysis, a discount rate of 10% was used, based on the considerations of the real, riskfree, long-term interest rate (2.8% for the five year PRC Government Bond Rate), mining project risk (2% to 4%) and country risk (2% to 4%). The determination of the discount rate is considered by SRK as appropriate.

The analysis shows that the after tax (15% corporate income tax) NPV, at a discount rate of 10%, returned RMB17.4 M as of 1 June 2016. A straight line depreciation method was used. Any finance costs or company debt have not been taken into account in this analysis.

A sensitivity analysis (after tax) has also been undertaken with respect to the capital and operating costs, production rate, and sales price (Table 10-5 and Figure 10-1). The results reveal the following changes:

- A 1% increase in OPEX will result in a negative 5.3% change in NPV.
- A 1% increase in CAPEX will result in a negative 1.7% change in NPV.
- A 1% increase in gold price will result in a positive 10.3% change in NPV.
- A 1% increase in mill feed grade will result in a positive 18.9% change in NPV.
- A 1% increase in USD:RMB exchange rate will result in a positive 10.3% change in NPV.

Of these parameters, the mill feed grade is the most sensitive parameter, followed by the gold price. The least sensitive parameter is CAPEX, followed by OPEX.

Overall, the economic analysis of the Project together with the sensitivity analysis have demonstrated that the Project is economically viable and justified the reporting of Reserve determined in Section 7.8, as shown in Figure 10-1.

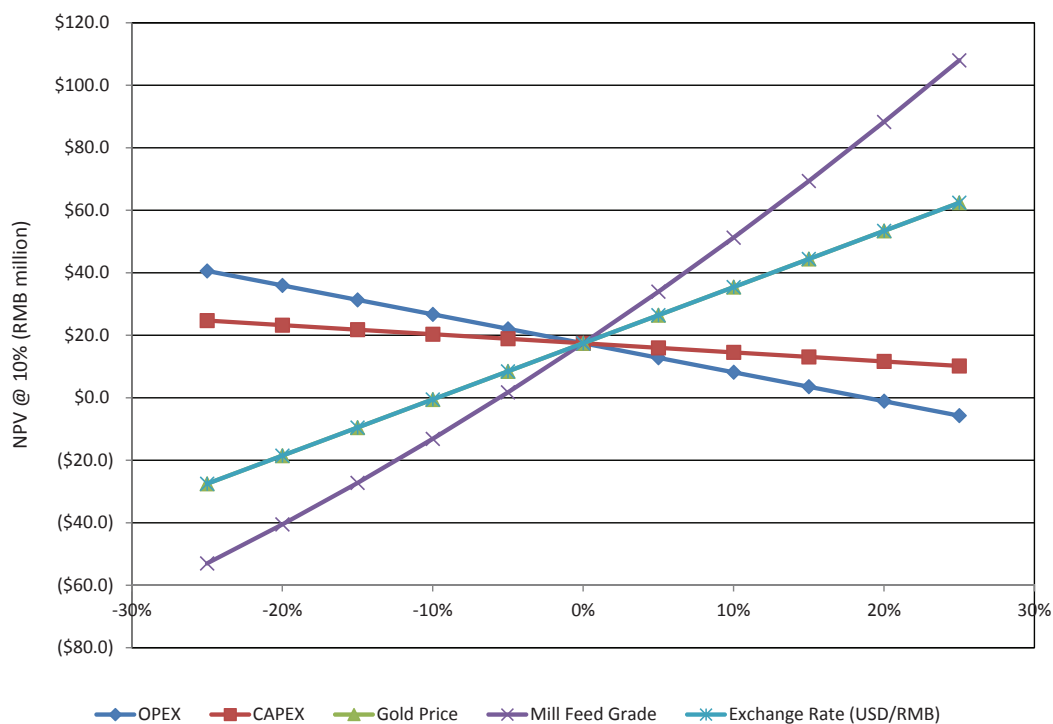


Figure 10-1: After-tax NPV sensitivity analysis of the Project

Table 10-5: Sensitivity analysis for after-tax NPV

Parameters	After-tax NPV variation (RMB M)										
	+25%	+20%	+15%	+10%	+5%	0%	-5%	-10%	-15%	-20%	-25%
OPEX	-5.7	-1.1	3.5	8.2	12.8	17.4	22.1	26.7	31.3	36.0	40.6
CAPEX	10.2	11.6	13.1	14.5	16.0	17.4	18.9	20.3	21.8	23.2	24.7
Gold Price	62.4	53.4	44.4	35.4	26.4	17.4	8.4	-0.6	-9.5	-18.5	-27.5
Mill Feed Grade	108.0	88.3	69.3	51.2	33.9	17.4	1.7	-13.2	-27.2	-40.2	-53.0
Exchange Rate (USD/RMB)	62.4	53.4	44.4	35.4	26.4	17.4	8.4	-0.6	-9.5	-18.5	-27.5

10.4 Expansion Plan capital costs

With respect to the production expansion, the capital cost for the underground capital development, exploration, mining, processing plant, TSF and others (fees for land usage, preliminary design report, environmental evaluation, and insurance trail test) is estimated at RMB107 M. The capital cost estimate includes a 10% contingency (Table 10-6).

The capital cost estimate was based on the FS, which was updated by Xiangshun's financial team in conjunction with site management and technical staff. Adjustments have also been made by SRK, corresponding to the production expansion LoM schedule.

Table 10-6: Expansion plan — Capital cost estimate

Items	Unit	Total LoM Capex
Capital development	m	11,775
Capital development	RMB M	39.0
Exploration	RMB M	8.3
Mining	RMB M	20.0
Processing Plant	RMB M	1.2
TSF	RMB M	9.4
Others	RMB M	19.4
Contingency (10%)	RMB M	9.7
Total	RMB M	107.0

10.5 Expansion Plan operating costs

The operating cost estimate includes mining, operating development, processing, transportation, site services, environmental and general and on- and off-administration. The royalty comprises a resource tax of RMB4.2/t ore and a local resource levy of RMB156/t ore (Table 10-7).

Table 10-7: Expansion plan — Operating cost estimate

Items	RMB/t ore
Mining	418.0
Operating development	85.6
Processing	97.1
Transportation	16.1
Site Services	3.6
General and Administration	26.9
Environmental	31.0
Non-income taxes, royalties and other governmental charges	160
Total	838

11 ENVIRONMENT, PERMITS, AND SOCIAL IMPACTS

11.1 Operational licences and permits

11.1.1 Business Licence

The business licence details for the Project are presented in Table 11-1.

Table 11-1: Details of Business Licence

Business Licence No.	Issued to	Issued by	Issue date	Expiry date	Licensed business activities
916105226911 016944	Tongguan County Xiangshun Mining Development Limited	Tongguan County Industry and Commerce Administration Bureau	26-Jul-06	14-Sep-45	Gold mining and processing

11.1.2 Mining Licence

The mining licences details for the Project are presented in Table 11-2.

Table 11-2: Details of Mining Licences

Mining Licence No.	Issued to	Issued by	Issue date	Expiry date	Area (km ²)	Mining type	Production capacity (tpa)
C61000020100 34120059580	Tongguan County Xiangshun Mining Development Limited Gold Vein Q198	Shaanxi Province Land and Resources Bureau	9-Jul-15	9-Jul-17	0.3328	UG	15,000
C61000020090 84120031621	Tongguan County Xiangshun Mining Development Limited Gold Vein Q301	Shaanxi Province Land and Resources Bureau	30-May-16	30-May-18	5.2002	UG	15,000
C61000020110 44120110592	Tongguan County Xiangshun Mining Development Limited Gold Vein Q401	Shaanxi Province Land and Resources Bureau	6-May-15	6-May-18	1.8765	UG	15,000

Mining Licence No.	Issued to	Issued by	Issue date	Expiry date	Area (km ²)	Mining type	Production capacity (tpa)
C61000020130 64110130335	Tongguan County Jinxing Mining Limited Gold Vein Q4112	Shaanxi Province Land and Resources Bureau	22-Jun-16	22-Jun-19	0.388	UG	30,000

11.1.3 Safety Production Permit

The safety production permit details for the Project are presented in Table 11-3.

Table 11-3: Details of Safety Production Permits

Area	Safety Production Permit No.	Issued to	Issued by	Issue date	Expiry date
Q198	(Shanwei) FM[0001]	Tongguan County Xiangshun Mining Development Limited Gold Vein Q198	Weinan City Safety Production Supervision Bureau	9-Oct-15	7-May-18
Q301	(Shanwei) FM[0013]	Tongguan County Xiangshun Mining Development Limited Gold Vein Q301	Weinan City Safety Production Supervision Bureau	13-Oct-14	31-Dec-16
Q401	(Shanwei) FM[0021]	Tongguan County Xiangshun Mining Development Limited Gold Vein Q401	Weinan City Safety Production Supervision Bureau	19-Dec-14	23-Apr-17
Q4112	(Shanwei) FM[0046]	Tongguan County Jinxing Mining Limited Gold Vein Q4112	Weinan City Safety Production Supervision Bureau	16-May-16	15-May-19
TSF	(Shanwei) FM[0022]	Tongguan County Xiangshun Mining Development Limited Beidonggou TSF	Weinan City Safety Production Supervision Bureau	19-Dec-14	18-Dec-17

11.1.4 Site Discharge Permit

A temporary site discharge permit for the Project was issued by Tongguan County Environmental Protection Bureau on 31 May 2016. The term of validity for this temporary site discharge permit is one year, and the permitted pollutant discharge type is water. The site discharge permit also states that waste water should be fully re-used.

11.1.5 Water Use Permit

The water use permit details for the Project are presented in Table 11-4.

Table 11-4: Details of Water Use Permit

Water Use Permit No.	Issued to	Issued by	Issue date	Expiry date	Water supply source	Water use allocation (m ³)
[2015]10046	Tongguan County Xiangshun Mining Development Limited	Tongguan County Water Bureau	4-May-15	4-May-18	Groundwater	30,500

11.1.6 Land Use Permit

The land use permit details for the Project are presented in Table 11-5.

Table 11-5: Details of Land Use Permit

Land Use Permit No.	Issued to	Issued by	Issue date	Expiry date	Land use	Area (m ²)
Tongguoyong (2013) 011	Tongguan County Xiangshun Mining Development Limited	Tongguan County People's Government	6-Nov-13	26-Aug-56	Industrial Use	27,117.60

Apart from the land use permit, SRK has sighted many Project land lease agreements which cover the mine sites, explosives magazine and TSF.

SRK recommends that the Company acquires the necessary land use permits or agreements for the mine site and processing plant to meet national legal requirements.

11.2 Environmental, Social, Health, and Safety (ESHS) Review Process, Scope, and Standards

The process for verification of environmental compliance and conformance for the Project comprised a review and inspection of the Project's environmental management performance in accordance with the following:

- Chinese national environmental regulatory requirements
- Equator Principles (based on the International Finance Corporation's environmental and social standards and guidelines) and internationally recognised environmental management practices.

The methodology applied for this environmental review of the Project consisted of a combination of documentation review, a site visit, and interviews with Company technical representatives. The site visit for the environmental review was undertaken from 9 to 11 December 2015.

11.3 Status of ESHS approvals and permits

The details of the EIA reports and approvals for the Project are presented in Table 11-6.

Table 11-6: EIA Reports and Approvals

Area	Produced by	Production date	Approved by	Approval date
Q198	Hubei Haomiao Environmental Consulting Co., Ltd	Aug-16	Weinan City Environmental Protection Bureau	9-Sep-16
Q301	Hubei Haomiao Environmental Consulting Co., Ltd	Aug-16	Weinan City Environmental Protection Bureau	9-Sep-16
Q401	Hubei Haomiao Environmental Consulting Co., Ltd	Aug-16	Weinan City Environmental Protection Bureau	9-Sep-16
Q4112	Shaanxi Zhongsheng Environmental Development Co., Ltd	May-15	Weinan City Environmental Protection Bureau	24-Nov-15
Processing Plant	Shaanxi Zhongsheng Environmental Development Co., Ltd	Oct-15	Weinan City Environmental Protection Bureau	17-May-16

Note: "NS" denotes that the licence/ permit has not been viewed.

SRK notes that the EIA approvals for the Q198, Q301 and Q401 areas, were not sighted during the time of this site visit.

No Final Check and Acceptance (FCA) reports and approvals for the Project were sighted as part of this review. SRK recommends that the Company acquires the FCA approvals to meet the requirements of Chinese laws and regulations.

The details of the Water and Soil Conservation Plan (WSCP) reports and approvals for the Project are presented in Table 11-7.

Table 11-7: WSCP Reports and Approvals

Area	Produced by	Production date	Approved by	Approval date
Q198	Xi'an Gerui Ecological Engineering Consulting Co., Ltd	Apr-16	Shaanxi Province Water and Soil Conservation Bureau	16-May-16
Q301	Xi'an Gerui Ecological Engineering Consulting Co., Ltd	Apr-16	Shaanxi Province Water and Soil Conservation Bureau	16-May-16
Q401	Xi'an Gerui Ecological Engineering Consulting Co., Ltd	Apr-16	Shaanxi Province Water and Soil Conservation Bureau	16-May-16
Q4112	Xi'an Gerui Ecological Engineering Consulting Co., Ltd	Apr-16	Shaanxi Province Water and Soil Conservation Bureau	16-May-16

11.4 Environmental Conformance and Compliance

SRK notes that the provided EIA reports and approval for the Project mine sites and processing plant have been compiled in accordance with relevant Chinese laws and regulations. SRK has reviewed the provided EIA reports and approval and has conducted an environmental site visit in Tongguan County in line with recognised international industry environmental management standards, guidelines and practices. At the time of this site visit, SRK observed that the construction of mine sites and processing plant had been completed and that some mine sites and the processing plant were in production. SRK has sighted a statement issued by Tongguan County Environmental Protection Bureau on 8 July 2016 stating that the Company will not be penalized by local EPB due to the EIA related issues.

11.5 Key environmental, social, health, and safety aspects

11.5.1 Land disturbance

The main impact on the surrounding ecological environment is disturbance and the potential for contamination caused by surface stripping, storage of tailings and waste rock, drainage from the mine site and plant, wastewater discharge, explosions, transportation and construction of associated buildings. If effective measures to manage and rehabilitate the disturbed areas are not taken, the surrounding land can become polluted and the land use function changed, causing an increase in land degradation, water loss and soil erosion.

The Project's EIA reports for the four mine sites stipulate the conceptual framework of water and soil conservation. The WSCP reports for the Project delineate the detailed prevention measures to mitigate the negative impacts caused by water and soil erosion. The preventative measures proposed in the WSCP reports consist of topsoil covering, re-vegetation and construction of a drainage ditch, retaining wall and sediment pond. The Project's WSCPs also provide estimates of the areas disturbed by the mining industrial site, temporary waste rock dump, haul road, processing plant and TSF. According to the WSCP reports, the total disturbed areas for the Q198, Q301, Q401 and Q4112 licence areas are estimated to be 2.41 ha, 4.912 ha, 1.63 ha and 0.89 ha respectively.

The disturbed-land estimation of the WSCP reports is generally consistent with SRK's observations at the time of this site visit. In addition, no other documented, estimated, and/or currently surveyed areas of land disturbance or rehabilitated areas for any part of the Project were sighted as part of this review.

SRK recommends that the operational land areas disturbed by the Project be surveyed and recorded on an annual basis.

11.5.2 Flora and fauna

The development of mining and mineral-processing projects may also result in impacts to or loss of flora and fauna habitats. The Project's EIA should determine the extent and significance of any potential impacts to flora and fauna habitats. Where these potential impacts to flora and fauna habitats are determined to be significant, the EIA should also propose effective measures to reduce and manage these potential impacts.

The EIA reports for the Project state that no rare or endangered wild animals were identified in or around the Project site. The vegetation coverage is relatively good in the mine site area, where the main vegetation comprises tung, cedrela, elm, acacia and pine. Separate biological impact assessments have been conducted and are shown within the mine site EIA reports. The EIA reports also state that the negative impact caused by the Project's operations can be mitigated through biological recovery measures and that the impact is generally limited.

11.5.3 Water management

The nearest river to the processing plant is the Shidi River, located 3 km south east of the processing plant. Mines can use large quantities of water, mostly in processing plants and related activities, but also in dust suppression, among other uses. Reduction of surface and groundwater availability is also a concern at the local level and for communities in the vicinity of mining sites, particularly in arid regions or in regions of high agricultural potential. During the time of this site visit, the Company stated that the water used for the processing plant and office is sourced from a well. No actual water use statistics for the processing plant were referred to as part of this review. However, the EIA report for the processing plant states that fresh water use is estimated to be 103.713 cubic metres per day (m³/d): 102.513 m³/d for processing and 1.2 m³/d for domestic use. The EIA reports for the mine sites state that the production and domestic water source is mine water. SRK notes that water balance analysis has been included in the Project's EIA reports. SRK recommends that the Company consults with key stakeholders (e.g. government, social entities, and potentially affected communities) to understand the communities' dependence on water resources, any conflicting water use demands, and any conservation requirements that may exist in the area.

The EIA report for the processing plant states that produced wastewater will be fully re-used for processing and that domestic waste water will be used for irrigation after being treated by a septic system. The Company reported that the supernatant of the tailings and leakage in the processing plant will be collected and re-used. During this site visit, SRK sighted the accident pool next to the processing workshop and pumps used for the tailings supernatant recycling. SRK also noted during the time of this site visit that there was minor wastewater leakage in the processing plant. SRK viewed some settling ponds used for mine water purification. The Company reported to SRK that the purified mine water was used by local villagers for irrigation. At the time of this site visit, SRK observed that some mine water generated by the Q198 and Q401 project areas was discharged to the nearby body of water. However, the EIA report for the Q198, Q301 and Q401 project areas requires that all mine water is to be fully re-used and no discharge is to be achieved. The EIA report also states that the mine water could be re-used for wet drilling and dust suppression. SRK recommends that the Company keeps a record of the discharged mine water of these mine sites.

During the time of this site visit, SRK observed that there had been no construction of a well-designed drainage system in the mining area, waste rock dumps (WRDs), TSF or processing plant. It is SRK's opinion that there is room for improvement with respect to the mine site drainage system. In addition, there were no domestic/wastewater treatment facilities on site. SRK recommends that the Company constructs and updates its drainage system to divert run-off from undisturbed areas around disturbed areas. SRK also recommends that the Company uses surface hardening and constructs a second containment facility, leachate collection pond and groundwater monitoring well to mitigate the water pollution risks.

SRK is of the opinion that the water management measures proposed by the EIA reports are reasonable, and recommends that the Project water management strictly follows the measures proposed in the Project EIA reports and approvals. In addition, SRK did not sight any operational water-monitoring report or planned program for the Project at the time of this site visit. SRK recommends that the Company develops an operational water-monitoring program to ensure the protection of water quality.

11.5.4 Tailings and waste rock management

During the time of this site visit, SRK observed that waste rock was dumped next to the mine project areas and that there were no drainage system or leachate collection facilities constructed for these WRDs. The Company has not provided SRK with the capacity of the WRDs or with the amount of annual waste rock discharge.

SRK recommends that the Company develops a WRD design and constructs a flood drainage system and retaining wall. Furthermore, the topsoil generated by the disturbed land should be collected and stored for future reclamation.

The TSF is located adjacent to the processing plant. The Company has stated that the total capacity of the Beidonggou TSF is 70,500 m³. SRK noted at the time of this site visit that the service life of the Beidonggou TSF was less than one year. The Company has stated that the tailings are re-used by the local government as landfills, which in turn will extend the service life of the Beidonggou TSF. SRK has been provided a contract between the local government and Xiangshun of this re-use. The EIA report for the processing plant requires that dry discharge be achieved for the tailings as soon as possible and estimates the dry tailings to be 146,482 tpa. SRK notes that construction of a new TSF is planned for Xiniangou, which is 1.5 km away from the processing plant. SRK recommends that the Company conducts proper measures for land acquisition, surveying and design for the new TSF and that it obtains the relevant environmental approvals before construction.

The Company has stated that the Beidonggou TSF is lined to prevent the tailings contaminating the groundwater and that the supernatant of the tailings is pumped back to the processing plant for re-use. During the time of this site visit, SRK sighted a small reservoir located downstream of the Beidonggou TSF. No information on this reservoir has been viewed as part of this review.

SRK recommends that the Company constructs a seepage collection pond, dam displacement and phreatic line observation facilities, and groundwater monitoring wells.

Acid rock drainage (ARD) refers to the acidic water that is created when sulphide minerals are exposed to air and water and, through a natural chemical reaction, produce sulphuric acid. ARD has the potential to introduce acidity and dissolved metals into water, which can be harmful to surface and groundwater. No ARD assessment or geochemical characterisation of waste rocks has been conducted for the Project. The Project EIA reports state that the leaching test has been conducted on the Project's waste rock and tailings and that the results show that the waste rock and tailings are classified as "Class 1 general industrial solid waste". No more details of the test have been viewed as part of this review. Although SRK considers the likelihood of ARD occurrence to be minimal and has observed no incidences of probable ARD during the site visit, the potential for ARD still has not been defined through a geochemical characterisation program.

SRK recommends that the Company conducts a comprehensive ARD/ geochemical characterisation assessment of waste rock and tailings to analyse the acid-producing potential and its impact on leaching heavy metals, and to develop a monitoring record for surface water, groundwater and sediment downstream from the WRD and TSF to confirm that they are not being impacted. Complete ARD testing can help the Company to detect any potential ARD problems and prevent longterm environmental liabilities.

11.5.5 Dust and gas emissions

The dust emission sources for the Project are mainly drilling, loading and unloading, crushing, screening, WRD, TSF, and movement of vehicles and mobile equipment. During the time of this site visit, SRK did not observe obvious fugitive dust emissions at the mining site and the open area of the processing plant. The EIA reports for the Project propose the following site dust management measures:

- Water sprinkling for drilling, waste rock stockpile and the industrial site
- Enclosure of crushing and screening equipment
- Use of bag filters
- Haul road maintenance and watering.

It is SRK's opinion that the dust prevention measures mentioned in the EIA reports are reasonable. During the time of this site visit, SRK sighted a water sprinkling facility installed at the top of the feed belt. SRK has not seen any obvious fugitive dust emission in the open area of mine sites or the processing plant.

The EIA reports for the mine sites indicate that the harmful gas generated by blasting will be discharged via the ventilation system. The EIA report for the processing plant also states that gas emissions from the mess hall will be treated and discharged into the atmosphere to meet the emission standards for cooking fumes.

11.5.6 Noise emissions

The main sources of noise emissions for the Project are the air compressor, draught fan, loader, vehicle and processing plant operations (crusher, ball mill, etc.), rock drilling and blasting. The EIA reports for the Project propose the following noise management measures:

- Use of equipment with low noise emissions
- Use of greenbelts
- Use of damped valves
- Construction of soundproofing walls
- Enclosures for noisy equipment
- Optimisation of site layout
- Speed limits for vehicles.

It is SRK's opinion that the abovementioned noise prevention measures are reasonable and generally in line with recognised international noise management requirements. SRK observed that most of the processing equipment was installed in enclosed rooms. During the time of this site visit, SRK did not note any obvious noise emissions in the open areas of the mine sites or the processing plant. The EIA report states that most of the boundary noise at the mine site is predicted to be within the limits of relevant noise emission standards. According to the EIA report for Q4112, monitoring results show that noise at the southern, western and northern boundaries of the industrial site is within the limits. The EIA also states that the over-the-limit noise emissions are sourced from transportation vehicles and the air compressor room. No operational noise-monitoring report/ plan has been viewed as part of this review. SRK recommends that the Company develops an operational noise-monitoring program for the Project.

11.5.7 General waste management

The EIA report states that the annual domestic garbage produced by the four mine sites collectively, and by the processing plant, is estimated to be 70.8 t and 9 t, respectively. The EIA reports require that the domestic garbage be collected on site and then treated by a designated garbage disposal station. At the time of this site visit, SRK observed that some domestic solid waste was littered throughout the mine sites and processing plant. SRK recommends that the Company manages the domestic waste according to the suggestions in the EIA reports.

11.5.8 Hazardous materials management

The Company stated that there are two explosives magazines on site and that these explosives magazines are equipped with an online monitoring system. During the time of this site visit, SRK noted that the explosives magazines were well guarded and that a drainage system was constructed around them.

During this site visit, SRK noted that there were maintenance workshops on-site and that some waste oil was collected in the used barrels. The EIA reports classify waste oil and oily duster cloths used for machinery maintenance work as hazardous materials. The EIA reports also suggest that all waste oil and oily cloths be collected and delivered to a qualified company for further treatment.

The main chemical reagents used for processing are xanthate and terpenic oil. At the time of this site visit, SRK observed that these reagents were stored in a corner of the processing workshop with no secondary containment.

SRK recommends that the reagents and collected waste oil be stored with secondary containment in line with recognised international industry management practices. SRK also recommends that the Company establishes a waste oil management system and that it maintains official records of its hazardous materials and registers these records with the environmental protection bureau.

11.5.9 Emergency Response Plan

The recognised international industry practice for emergency management is for a project to develop and implement an emergency response plan (ERP). The following are general elements of an operational ERP:

- Administration – policies, purpose, distribution, and definitions of potential site emergencies and organisational resources (including determining roles and responsibilities)
- Emergency response areas – command centres, medical stations, gathering points, and evacuation points
- Communication systems – both internal and external communications
- Emergency response procedures – work area-specific procedures (including area-specific training)
- Checking and updating – checklists (role and action list and equipment checklist) and regular reviews of the plan
- Business continuity and contingency – options and processes for business recovery from an emergency.

The EIA reports for the Project propose the conceptual framework for site emergency response. SRK has viewed an ERP that describes the Project's overall emergency response management as well as the proposed operational emergency response process for floods, TSF accidents, mine shaft accidents, gas poisoning, roof collapse, water inrush, fire, explosion, and electric shock. In addition, a separate ERP was developed for the TSF's emergency environmental incidents. SRK opines that these ERPs have been developed in accordance with Chinese national requirements.

11.5.10 Occupational Health and Safety

At the time of this site visit, the following Occupational Health and Safety (OHS)-related documents for the Project were provided:

- Safety Final Check Assessment Report for the Gold Vein Q4112 Underground Mining Project
- Safety Production Standardisation Assessment Report for Gold Vein Q4112
- Safety Final Check Assessment Report for the Beidonggou TSF
- Occupational Health Management System and Operating Procedures
- Emergency Response Plan for Safety Accidents
- Emergency Response Plan for TSF's Emergency Environmental Incidents
- Occupational and Safety Training Records.

SRK has reviewed the safety assessment reports, safety management system and safety operation procedures, and ERPs as provided by the Company, and is of the opinion that the documents cover items that are generally in line with recognised Chinese industry practices and Chinese safety regulations.

Operational OHS management systems/ procedures for the Project have generally been developed. The OHS management system and procedures cover basic safety production management for dam breaks, floods, dust, machinery, gas poisoning, roof collapse and other potential incidents. In addition, the safety assessment reports for the Project provide safety management measures including those for mining, ventilation, dust prevention, TSF, drainage and electrical management. SRK notes that these proposed safety management measures are the basis for the operational OHS management system/ procedures.

During the time of this site visit, SRK observed that safety signs were in place and that safety provisions and rules were also displayed within the work areas. SRK recommends that the Company adopts the following measures to improve its site safety management:

- Guard all moving machinery parts
- Install guard railings on all gantries
- Use proper personal protection equipment, such as hardhats, dust masks, earplugs, etc.

No historical OHS records for the Project have been viewed as part of this review. However, SRK has sighted two accident investigation report approvals which were issued by the Tongguan County Safety Production Supervision Bureau. The two approvals indicate one fatality from a falling accident in April 2013 and two fatalities as a result of a roof collapse accident in April 2015.

SRK recommends that the Company keeps safety records and develops incident analysis reports for possible future injuries. The proposed reports would analyse the cause of injury and identify recurrence prevention measures that are in line with internationally recognised OHS accident monitoring practices.

11.5.11 Site closure, planning, and rehabilitation

The Chinese national requirements for mine closure are covered by Article 21 of the Mineral Resources Law of People's Republic of China (1996); the Rules for Implementation of the Mineral Resources Law of the People's Republic of China (2006); the Mine Site Geological Environment Protection Regulations (1 May 2009); and the Land Rehabilitation Regulation (2011), issued by the State Council. These legislative requirements cover the need to conduct land rehabilitation, to prepare a site closure report, and to submit a site closure application for assessment and approval.

The recognised international industry practice for managing site closure and rehabilitation is to develop and implement an operational site closure and rehabilitation planning process and document this through an operational closure and rehabilitation plan. This operational closure planning process generally includes the following components:

- Identify all site closure stakeholders (e.g. government, employees, community, etc.)
- Undertake stakeholder consultation to develop agreed-upon site closure criteria and postoperational land use

- Maintain records of stakeholder consultation
- Establish a site rehabilitation objective in line with the agreed post-operational land use
- Describe/ define the site closure liabilities (determined against agreed-upon closure criteria)
- Establish site closure management strategies and cost estimates (to address/ reduce site closure liabilities)
- Establish a cost estimate and financial accrual process for site closure
- Describe the post-site-closure monitoring activities/ program (to demonstrate compliance with the rehabilitation objective/ closure criteria).

While this site closure planning process is not specified within the Chinese national requirements for mine closure, the implementation of this process for a Chinese mining project will:

- Facilitate achieving compliance with these Chinese national legislative requirements
- Demonstrate conformance to a recognised international industry management practice.

SRK was provided with three geological environmental protection and recovery plans covering the Q198, Q301, and Q4112 areas respectively. No geological environmental protection and recovery plan for Q401 has been viewed as part of this review.

The geological environmental protection and recovery plan for Q198 describes the rehabilitation of the site as being undertaken in the following two stages:

- Stage 1 (September 2012 to February 2014) – solve the existing geological environmental issues; dredge waterways; establish a geological environmental monitoring system
- Stage 2 (February 2014 to February 2016) – conduct geological environmental treatment for mine closure; remove the above-ground buildings; close the mine collar; conduct greening and biodiversity recovery.

The total investment required for the Q198 geological environmental protection and recovery plan is estimated to be RMB4,210,700. However, Xiangshun Mining would need to pay only RMB391,200 for the geological environmental treatment while the remaining RMB3,819,500 would be paid by neighbouring Xingdi Mining. SRK notes that the geological environmental protection and recovery plan for the Q198 area was designed for the period from September 2012 to February 2016 and recommends that the Company updates the plan for the future geological environmental treatment and mine closure.

The geological environmental protection and recovery plan for the Q301 area describes the rehabilitation of the site as being undertaken in the following two stages:

- Stage 1 (May 2015 to May 2017) – solve the existing geological environmental issues; build a drainage system; dredge waterways; establish a geological environmental monitoring system
- Stage 2 (May 2017 to May 2019) – conduct geological environmental treatment for mine closure; remove the above-ground buildings; close the mine project area; conduct greening and biodiversity recovery.

The total investment required for the geological environmental protection and recovery plan of Q4112 is estimated to be RMB817,200.

The geological environmental protection and recovery plan for Q4112 describes the rehabilitation of the site as being undertaken in the following three stages:

- Stage 1 (August 2012 to August 2014) – solve the existing geological environmental issues; build a drainage system; construct retaining walls for waste rock
- Stage 2 (August 2012 to July 2022) – solve the existing geological environmental issues; build a drainage system; construct retaining walls for waste rock; conduct surface collapse monitoring; conduct greening on site
- Stage 3 (July 2022 to July 2024) – conduct geological environmental treatment for mine closure; remove the above-ground buildings; close the mine project area; conduct greening and biodiversity recovery.

The total investment required for the Q4112 geological environmental protection and recovery plan is estimated to be RMB14,570,000. However, the plan also states that RMB12,877,200 has been used for remedying the problems left behind by past operations, and the Company would need to pay only RMB1,692,800 for the geological environmental treatment.

In accordance with related regulations, the Company must deposit the funds into a designated account set up by the local government. SRK has had sight of a payment receipt from the Shaanxi Province Land and Resources Bureau; the receipt indicates that RMB180,000 was paid on 10 June 2015.

SRK notes that the above proposed approach to site rehabilitation is generally in line with the relevant recognised Chinese industry practices. No land reclamation report for the Project has been viewed as part of this review. However, the Company has provided SRK with a statement issued by Tongguan County Land and Resources Bureau on 16 May 2016. The statement indicates that a reclamation report is not required if the prevention measures proposed in the WSCP report and geological environmental protection and recovery plan have been implemented.

11.5.12 Environmental Protection and Management Plan

The purpose of an operational environmental protection and management plan (EPMP) is to direct and coordinate the management of the Project's environmental risks. The EPMP documents the establishment, resourcing, and implementation of the Project's environmental management programs. The site environmental performance should be monitored, and feedback from this monitoring can then be utilised to revise and streamline the implementation of the EPMP.

No such plan covering the abovementioned components has been developed for Project operations. However, the EIA reports reviewed by SRK describe the various comprehensive operational EPMP components, such as environmental management requirements, environmental administration, regular air/ water/ noise/ soil monitoring to be conducted by the local environmental protection bureau's monitoring stations and site environmental management. The EIA reports also specify the monitoring points, analysis items and monitoring frequency.

SRK recommends that the Company develops and implements an operational EPMP, inclusive of a monitoring program for the Project, in line with Chinese national requirements and recognised international practices.

11.5.13 Social aspects

The Project is located in Tongguan County, Weinan, Shaanxi Province. The general surrounding land of the mine sites is uncultivated land and forest. The processing plant and TSF are situated in an area of farmland.

The main administrative body for the Project is the Shaanxi Provincial Government, with some delegation of environmental regulation to the city of Weinan and to Tongguan County. SRK has sighted two accident investigation report approvals issued by the Tongguan County Safety Production Supervision Bureau. The two approvals indicate that the Company was fined for the accidents. According to the provided documentation and Company statement, SRK has not had sight of any other

historical or current non-compliance notices and/or other documented regulatory directives in relation to the development of Project operations. The Company states that there are no natural reserves or significant cultural heritage sites within or surrounding the Project area; and the EIA report also does not report any natural reserves or significant cultural heritage sites within or surrounding the Project.

The Project EIA reports provide public participation surveys on Project construction. The survey results show that there is no opposition to Project construction. The EIA reports also state that most of the local residents have a supportive attitude with respect to the Project.

SRK has not, as part of this review, sighted any community land access/compensation agreements for the future development of the Project. SRK recommends that the Company develops a land use plan and acquires the necessary land use permits or agreements for the future production to meet the national legal requirements. Furthermore, SRK recommends that the Company designs and implements a Public Consultation and Disclosure Plan to ensure ongoing community engagement and that it develops a grievance mechanism to receive and address in a timely fashion any specific concerns about compensation and relocation raised by displaced persons or members of host communities.

The Company reported to SRK that it had helped significantly with the development of the local community. The Company's public welfare programs include construction of a county government square and the village's cultural square, afforestation, and road and temple construction. However, no documentary evidence for the above public welfare programs has been viewed as part of this review.

During the time of SRK's site visit, the Company stated that there is no documentation in relation to any actual or potential impacts of non-governmental organisations on the sustainability of the Project.

11.5.14 Environmental risk assessment

The sources of inherent environmental and social risks are Project activities that may result in potential environmental and social impacts. These Project activities have previously been described within this Report.

The significant inherent environmental and social risks for the Project are the following:

- Operation approvals
- Water management (i.e. stormwater/ surface water drainage, including any mine dewatering)
- Waste rock and tailings management

- Reclamation and mine closure
- Social aspects (i.e. land acquisition and resettlement).

These inherent environmental risks are categorised as medium/ low risks (i.e. requiring risk management measures).

12 RISK ASSESSMENT

SRK has undertaken a risk assessment and provided a qualitative assessment of the probability and consequence of each specific risk identified for the Project. SRK has adopted a 5 × 5 matrix as a measure of the Project risk (Table 12-1). The risk assessment is presented in Table 12-2.

Table 12-1: Risk assessment probability

	PROBABILITY						Probability		Consequence		
	A	B	C	D	E		A Common	1	Catastrophic loss		
CONSEQUENCE	1	1	2	4	7	11	HIGH 1-6		B Has happened	2	Major disruption/impediment
	2	3	5	8	12	16	MEDIUM 7-15		C Could happen	3	Moderate disruption/impediment
	3	6	9	13	17	20	LOW 16-25		D Not likely	4	Minor disruption/impediment
	4	10	14	18	21	23			E Practically impossible	5	No lasting effect
	5	15	19	22	24	25					

Table 12-2: Risk assessment

Risk	Comments	Risk Rating
Mineralisation geometry	Mineralisation is controlled by geological structures. Current interpretation might underestimate the complexity of the structures, which in turn controls the mineralisation geometry.	18 Low
Mineral Resource estimation	Mineral Resource estimation was based on the historical drilling and underground channel sampling database that has been partly validated by SRK. There is a risk that a bias might have been inherited in the historical data.	18 Low

Risk	Comments	Risk Rating
Geotechnical conditions	Geotechnical conditions worse than anticipated would result in underground development collapse, resulting in lower production.	13 Medium
Processing equipment	There are no standby ore feeders. If the current ore feeder is in repair, the subsequent milling and floatation operations will be impacted, resulting in a decrease of throughput.	21 Low
Commodity price	In the previous three years (2013-2015), the gold prices ranged from US1,160/oz to US1,411/oz, resulting in a three-year average of US1,279/oz. The Long Term Price assumption as included in the economic viability analysis was US1,130/oz. The movement of the gold price would have an impact on the economic viability of the project.	8 Medium
Operation approvals	Xiangshun has not yet obtained the Final Check Acceptance for the Project, according to the relevant requirements of Chinese laws and regulations. Penalisation might be imposed by the government, which might affect production.	9 Medium
TSF	The service life of the current Beidonggou TSF is less than one year. Construction of the Xiniangou TSF is expected to be completed by June 2018. During the transitional period, the Company states that the tailings stored at the Beidonggou TSF are re-used by the local government as landfills, which in turn will extend the service life of the Beidonggou TSF. SRK has been provided a contract between the local government and Xiangshun of this re-use. Production might be affected if the agreement between local government and Xiangshun is suspended or the construction of the new TSF is delayed.	13 Medium

13 REFERENCES

Feasibility Study on Orebody Q401-3, Q401-4, Q4114, Q4112 and Q1403 of Tongguan County Xiangshun Mining Development Co., Ltd, Xi'an Nonferrous Metallurgy Engineering and Research Institute Ltd, May 2016.

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Appendices

Appendix A: Competent Persons' Statements

Competent Persons' Statement for Mineral Resources

The information in this report that relates to Mineral Resources is based on information compiled by Drs Jinhui Liu and (Gavin) Heung Ngai Chan, who are both Members of The Australasian Institute of Mining and Metallurgy. Drs Liu and Chan are full-time employees of SRK Consulting (Hong Kong) Limited, and have sufficient experience that is relevant to the style of mineralisation, type of deposit under consideration and to the activity which they undertake to qualify as Competent Persons as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' (The JORC Code). Drs Liu and Chan consent to the inclusion in this report of the matters based on the information in the form and context in which it appears.

HKEx requirements

Drs Liu and Chan meet the requirements of Competent Persons, as set out in Chapter 18 of the Rules Governing the Listing of Securities on HKEx.

Drs Liu and Chan:

- are Members of good standing of The Australasian Institute of Mining and Metallurgy;
- have more than five years' experience relevant to the style of mineralisation and type of deposit under consideration;
- are independent of the issuer applying all of the tests in sections 18.21 and 18.22 of the Main Board listing rules of HKEx;
- do not have any economic or beneficial interest (present or contingent) in any of the reported assets;
- have not received a fee dependent on the findings outlined in the ITR; and
- are not officers, employees of a proposed officer for the issuer or any group, holding or associated company of the issuer.

Competent Persons' Statement for Ore Reserves

The information in this report that relates to Ore Reserves is based on information compiled by Mr Falong Hu, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Hu is a full-time employees of SRK Consulting (China) Limited, and has sufficient experience that is relevant to the style of mineralisation, type of deposit under consideration and to the activity which they undertake to

qualify as a Competent Person as defined in the 2012 Edition of the ‘Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves’ (The JORC Code). Mr Hu consents to the inclusion in this report of the matters based on the information in the form and context in which it appears.

Mr Hu meets the requirements of Competent Person, as set out in Chapter 18 of the Rules Governing the Listing of Securities on HKEx.

Mr Hu:

- is a member of good standing of The Australasian Institute of Mining and Metallurgy;
- has more than five years’ experience relevant to the style of mineralisation and type of deposit under consideration;
- is independent of the issuer applying all of the tests in sections 18.21 and 18.22 of the Main Board listing rules of HKEx;
- does not have any economic or beneficial interest (present or contingent) in any of the reported assets;
- has not received a fee dependent on the findings outlined in the ITR;
- is not an officer, employee of a proposed officer for the issuer or any group, holding or associated company of the issuer.

Appendix B: Database used for the Resource Estimation

Database of Q401-3

Collar_ID	North	East	Elevation	Depth(m)	Type
Q401-3-XJ-C11	3814707.1	37428528.3	947.2	0.80	Channel
Q401-3-XJ-C12	3814716.4	37428517.9	942.6	0.75	Channel
Q401-3-XJ-C13	3814726.0	37428509.8	937.6	1.00	Channel
Q401-3-XJ-C14	3814734.4	37428502.7	935.3	1.20	Channel
Q401-3-XJ-C15	3814727.2	37428496.6	935.5	1.80	Channel
Q401-3-XJ-C16	3814720.1	37428496.8	935.8	1.15	Channel
Q401-3-XJ-C17	3814742.1	37428496.3	928.6	1.00	Channel
Q401-3-XJ-C18	3814737.1	37428490.8	928.8	1.25	Channel
Q401-3-XJ-C19	3814749.5	37428505.7	928.8	1.05	Channel
Q401-3-XJ-C20	3814750.0	37428489.7	922.9	1.10	Channel
Q401-3-XJ-C21	3814760.9	37428480.6	920.2	0.40	Channel
Q401-3-XJ-C22	3814754.5	37428472.8	920.5	0.60	Channel
Q401-3-XJ-C23	3814737.5	37428499.7	930.5	0.56	Channel
Q401-3-XJ-C25	3814639.2	37428524.3	958.4	0.55	Channel
Q401-3-XJ-C26	3814652.5	37428519.9	958.7	1.30	Channel
Q401-3-XJ-C27	3814623.0	37428538.5	960.1	0.40	Channel
Q401-3-XJ-C28	3814635.6	37428535.8	960.2	0.45	Channel
Q401-3-XJ-C29	3814633.8	37428549.3	965.0	1.90	Channel
Q401-3-XJ-C3	3814587.3	37428529.5	950.9	1.20	Channel
Q401-3-XJ-C30	3814632.6	37428557.9	967.4	0.70	Channel
Q401-3-XJ-C31	3814631.3	37428567.5	970.5	1.90	Channel
Q401-3-XJ-C32	3814627.1	37428559.4	967.5	2.30	Channel
Q401-3-XJ-C39	3814559.8	37428607.4	968.2	1.20	Channel
Q401-3-XJ-C4	3814582.0	37428527.5	948.9	0.70	Channel
Q401-3-XJ-C40	3814547.7	37428587.1	960.7	0.80	Channel
Q401-3-XJ-C47	3814329.4	37428770.1	954.1	0.50	Channel
Q401-3-XJ-C48	3814325.8	37428764.1	951.7	0.50	Channel
Q401-3-XJ-C49	3814311.5	37428755.5	945.4	0.30	Channel
Q401-3-XJ-C5	3814571.3	37428523.6	945.5	0.40	Channel
Q401-3-XJ-C50	3814305.9	37428737.0	939.8	0.70	Channel
Q401-3-XJ-C6	3814566.6	37428535.8	945.6	0.40	Channel
Q401-3-XJ-C69	3814524.7	37428816.2	1026.3	0.40	Channel
Q401-3-XJ-C7	3814574.8	37428517.7	945.6	0.40	Channel
Q401-3-XJ-C70	3814551.8	37428804.7	1038.3	1.00	Channel
Q401-3-XJ-C71	3814512.0	37428788.6	1001.6	1.30	Channel

Collar_ID	North	East	Elevation	Depth(m)	Type
Q401-3-XJ-C72	3814505.5	37428795.3	1001.6	0.40	Channel
Q401-3-XJ-C91	3814935.5	37428574.0	889.2	0.60	Channel
Q401-3-XJ-C93	3814914.7	37428579.3	901.4	0.70	Channel
Q401-3-XJ-C94	3814883.6	37428588.9	913.6	0.40	Channel
Q401-3-XJ-C95	3814855.8	37428597.8	925.8	0.60	Channel
Q401-3-XJ-C96	3814832.0	37428608.3	936.0	0.80	Channel
Q401-3-YM985-C97	3814528.6	37428661.1	982.9	0.80	Channel
Q401-3-YM985-C98	3814537.7	37428647.7	983.0	0.90	Channel
Q401-3-XJ-TJ1-1	3814505.3	37428471.5	923.1	0.70	Channel
Q401-3-XJ-TJ1-2	3814490.6	37428465.5	918.8	0.40	Channel
Q401-3-XJ-TJ1-3	3814479.6	37428459.1	915.5	0.60	Channel
Q401-3-XJ-TJ1-4	3814473.4	37428453.2	913.4	0.60	Channel
Q401-3-XJ-TJ3-0	3814498.4	37428415.8	911.6	0.45	Channel
Q401-3-XJ-TJ3-1	3814509.6	37428420.0	914.5	1.20	Channel
Q401-3-XJ-TJ3-2	3814522.8	37428427.6	918.6	0.90	Channel
Q401-3-XJ-TJ3-3	3814533.4	37428436.0	922.1	1.00	Channel
Q401-3-XJ-TJ3-4	3814541.2	37428439.4	925.3	1.30	Channel
Q401-3-XJ-TJ3-5	3814544.3	37428458.4	930.8	1.00	Channel
Q401-3-XJ-TJ3-6	3814548.4	37428485.3	936.0	0.70	Channel
Q401-3-XJ-TJ3-7	3814553.1	37428500.8	940.4	0.80	Channel
Q401-3-XJ-TJ3-8	3814554.1	37428508.0	942.3	0.35	Channel
Q401-3-XJ-TJ4-1	3814532.5	37428392.9	913.4	0.60	Channel
Q401-3-XJ-TJ4-2	3814537.7	37428400.3	916.0	1.00	Channel
Q401-3-XJ-TJ4-3	3814544.0	37428409.3	918.7	0.80	Channel
Q401-3-XJ-TJ4-4	3814552.0	37428420.8	921.4	1.50	Channel
Q401-3-XJ-TJ4-5	3814561.6	37428434.6	924.1	0.90	Channel
Q401-3-XJ-TJ5-1	3814573.8	37428383.4	918.1	0.80	Channel
Q401-3-XJ-TJ5-2	3814585.9	37428395.3	922.7	0.60	Channel
Q401-3-XJ-TY19	3814228.7	37428893.8	953.8	0.70	Channel
Q401-3-XJ-XJ-1	3814218.4	37428639.4	880.4	0.80	Channel
Q401-3-XJ-XJ-2	3814269.5	37428560.5	883.4	0.50	Channel
Q401-3-XJ-XJ-3	3814280.5	37428547.0	883.4	0.60	Channel
Q401-3-YM1030-P1	3814226.3	37429287.0	1035.7	0.90	Channel
Q401-3-YM1030-P10	3814208.5	37429209.6	1034.6	1.20	Channel
Q401-3-YM1030-P11	3814232.8	37429265.2	1035.9	0.60	Channel
Q401-3-YM1030-P12	3814212.8	37429127.1	1020.1	0.80	Channel
Q401-3-YM1030-P13	3814220.3	37429108.1	1020.2	0.65	Channel

Collar_ID	North	East	Elevation	Depth(m)	Type
Q401-3-YM1030-P2	3814209.0	37429275.6	1035.7	0.76	Channel
Q401-3-YM1030-P3	3814187.1	37429210.5	1034.5	0.85	Channel
Q401-3-YM1030-P4	3814165.8	37429148.8	1019.9	0.76	Channel
Q401-3-YM1030-P5	3814146.7	37429182.0	1019.8	0.42	Channel
Q401-3-YM1030-P6	3814160.6	37429238.8	1025.3	0.45	Channel
Q401-3-YM1030-P7	3814147.0	37429229.6	1023.5	0.61	Channel
Q401-3-YM1030-P8	3814129.1	37429211.0	1019.6	0.96	Channel
Q401-3-YM1030-P9	3814111.1	37429227.4	1019.9	0.50	Channel
Q401-3-YM850-TY1	3814170.1	37428623.4	849.6	0.80	Channel
Q401-3-YM850-TY2	3814187.5	37428601.8	849.6	0.60	Channel
Q401-3-YM850-TY3	3814199.1	37428576.6	849.6	0.50	Channel
Q401-3-YM850-TY4	3814215.0	37428546.4	851.2	1.30	Channel
Q401-3-YM850-TY5	3814233.7	37428523.7	851.7	0.40	Channel
Q401-3-YM860-C73	3814909.8	37428401.1	858.7	1.90	Channel
Q401-3-YM860-C74	3814903.1	37428384.7	858.6	0.60	Channel
Q401-3-YM860-C75	3814899.6	37428372.5	858.6	0.70	Channel
Q401-3-YM860-C76	3814874.9	37428448.4	881.3	0.90	Channel
Q401-3-YM860-C77	3814870.9	37428422.0	881.3	1.90	Channel
Q401-3-YM860-C78	3814860.6	37428420.1	881.3	1.80	Channel
Q401-3-YM910-C51	3814360.7	37428527.2	907.4	0.26	Channel
Q401-3-YM910-C53	3814421.3	37428485.2	909.1	0.17	Channel
Q401-3-YM910-C57	3814469.3	37428446.6	910.7	0.27	Channel
Q401-3-YM910-C59	3814480.8	37428435.0	910.9	0.74	Channel
Q401-3-YM910-C61	3814498.9	37428414.8	911.6	1.26	Channel
Q401-3-YM910-C63	3814513.3	37428405.0	912.3	0.37	Channel
Q401-3-YM910-C79	3814810.6	37428449.0	889.9	0.50	Channel
Q401-3-YM910-C80	3814815.2	37428461.8	889.8	1.80	Channel
Q401-3-YM910-C81	3814787.0	37428471.9	890.4	1.80	Channel
Q401-3-YM910-C82	3814797.6	37428466.8	890.0	1.80	Channel
Q401-3-YM910-C83	3814830.7	37428476.7	889.6	1.00	Channel
Q401-3-YM910-C84	3814838.6	37428490.0	891.3	0.80	Channel
Q401-3-YM910-C85	3814845.2	37428508.4	890.9	0.60	Channel
Q401-3-YM910-C86	3814853.2	37428521.4	890.7	0.40	Channel
Q401-3-YM910-C87	3814863.6	37428532.5	890.3	0.60	Channel
Q401-3-YM910-C88	3814876.6	37428541.7	889.8	0.70	Channel
Q401-3-YM910-C89	3814896.3	37428549.6	890.0	1.00	Channel
Q401-3-YM910-C90	3814913.7	37428554.3	889.4	0.50	Channel

Collar_ID	North	East	Elevation	Depth(m)	Type
Q401-3-YM910-C92	3814946.6	37428581.0	889.3	1.50	Channel
Q401-3-YM910-CM27	3814504.8	37428406.8	911.7	0.46	Channel
Q401-3-YM910-S1	3814342.7	37428539.9	906.4	0.60	Channel
Q401-3-YM910-S10	3814450.2	37428468.6	910.2	0.25	Channel
Q401-3-YM910-S11	3814464.3	37428450.3	910.6	0.70	Channel
Q401-3-YM910-S12	3814479.7	37428436.1	910.9	0.50	Channel
Q401-3-YM910-S13	3814536.8	37428376.2	913.7	1.50	Channel
Q401-3-YM910-S14	3814582.0	37428350.8	915.2	0.55	Channel
Q401-3-YM910-S2	3814350.3	37428535.9	906.6	0.30	Channel
Q401-3-YM910-S3	3814360.0	37428528.1	907.1	0.50	Channel
Q401-3-YM910-S4	3814373.2	37428513.1	907.5	0.20	Channel
Q401-3-YM910-S5	3814384.3	37428505.3	907.7	0.30	Channel
Q401-3-YM910-S6	3814400.9	37428496.4	908.0	0.40	Channel
Q401-3-YM910-S7	3814411.6	37428493.1	908.8	0.55	Channel
Q401-3-YM910-S8	3814420.7	37428485.8	909.0	0.20	Channel
Q401-3-YM910-S9	3814426.9	37428469.9	908.9	0.40	Channel
Q401-3-YM910-TY13	3814343.0	37428557.5	907.7	0.41	Channel
Q401-3-YM910-TY14	3814223.9	37428697.3	900.2	0.82	Channel
Q401-3-YM910-TY6	3814249.2	37428654.3	901.2	0.82	Channel
Q401-3-YM910-TY7	3814267.2	37428637.5	902.6	1.10	Channel
Q401-3-YM910-TY8	3814280.4	37428615.9	902.8	1.30	Channel
Q401-3-YM925-TY10	3814298.7	37428689.3	923.9	1.05	Channel
Q401-3-YM925-TY11	3814350.0	37428640.8	924.4	0.44	Channel
Q401-3-YM925-TY12	3814377.8	37428615.2	924.6	0.36	Channel
Q401-3-YM925-TY15	3814216.2	37428795.7	919.8	0.30	Channel
Q401-3-YM925-TY16	3814201.7	37428812.8	918.8	0.25	Channel
Q401-3-YM925-TY17	3814196.3	37428819.8	918.8	0.20	Channel
Q401-3-YM925-TY18	3814175.5	37428847.5	918.9	0.15	Channel
Q401-3-YM925-TY9	3814268.7	37428728.9	919.5	0.60	Channel
Q401-3-YM950-C1	3814585.5	37428542.7	951.7	0.50	Channel
Q401-3-YM950-C10	3814701.9	37428531.2	950.7	1.00	Channel
Q401-3-YM950-C2	3814598.5	37428534.9	953.5	0.60	Channel
Q401-3-YM950-C24	3814712.5	37428544.8	949.6	1.40	Channel
Q401-3-YM950-C41	3814538.9	37428577.1	958.3	0.90	Channel
Q401-3-YM950-C42	3814527.9	37428581.2	958.3	1.40	Channel
Q401-3-YM950-C43	3814518.5	37428584.6	958.4	0.70	Channel
Q401-3-YM950-C44	3814507.7	37428588.6	958.5	0.60	Channel

Collar_ID	North	East	Elevation	Depth(m)	Type
Q401-3-YM950-C45	3814498.3	37428592.0	958.6	0.80	Channel
Q401-3-YM950-C46	3814486.6	37428596.4	958.7	0.80	Channel
Q401-3-YM950-C8	3814577.5	37428548.3	951.8	1.00	Channel
Q401-3-YM950-C9	3814582.2	37428556.8	954.6	0.50	Channel
Q401-3-YM970-C33	3814639.3	37428586.5	977.3	0.80	Channel
Q401-3-YM970-C34	3814630.4	37428611.3	978.4	0.80	Channel
Q401-3-YM970-C35	3814625.6	37428593.1	975.3	1.20	Channel
Q401-3-YM970-C36	3814623.7	37428602.8	972.8	1.40	Channel
Q401-3-YM970-C37	3814654.7	37428594.2	977.7	0.40	Channel
Q401-3-YM970-C38	3814648.8	37428598.3	980.0	0.60	Channel
Q401-3-YM970-C51	3814341.0	37428773.8	959.4	0.60	Channel
Q401-3-YM970-C52	3814352.0	37428763.9	961.3	0.40	Channel
Q401-3-YM970-C53	3814357.1	37428754.8	962.6	0.90	Channel
Q401-3-YM970-C54	3814378.6	37428723.0	963.8	0.35	Channel
Q401-3-YM970-C55	3814382.3	37428719.2	964.0	0.55	Channel
Q401-3-YM970-C56	3814399.1	37428702.7	964.8	0.70	Channel
Q401-3-YM970-C57	3814411.8	37428692.5	964.6	0.55	Channel
Q401-3-YM970-C58	3814428.7	37428685.7	966.3	0.30	Channel
Q401-3-YM970-C59	3814483.9	37428646.4	964.1	0.50	Channel
Q401-3-YM970-H-21	3814500.0	37428654.2	970.3	0.50	Channel
Q401-3-YM970-H-22	3814500.7	37428648.2	970.4	0.60	Channel
Q401-3-YM970-H-26	3814507.0	37428643.2	970.5	1.20	Channel
Q401-3-YM970-H-30	3814512.6	37428638.9	970.6	0.40	Channel
Q401-3-YM970-H-33	3814516.0	37428633.9	970.6	0.40	Channel
Q401-3-YM970-H-34	3814517.4	37428628.8	970.9	1.10	Channel
Q401-3-YM970-H-35	3814517.9	37428625.9	970.9	1.15	Channel
Q401-3-YM970-H-37	3814529.2	37428615.2	970.9	0.50	Channel
Q401-3-YM970-H-38	3814519.6	37428618.1	970.7	0.30	Channel
Q401-3-YM970-H-39	3814524.6	37428615.1	971.0	1.50	Channel
Q401-3-YM970-H-44	3814543.2	37428614.4	970.9	0.70	Channel
Q401-3-YM970-H-46	3814546.1	37428614.3	970.9	0.70	Channel
Q401-3-YM970-H-47	3814552.1	37428615.3	971.0	0.80	Channel
Q401-3-YM970-H-48-1	3814556.4	37428617.0	971.0	0.40	Channel
Q401-3-YM970-H-48-2	3814556.4	37428617.0	970.6	0.70	Channel
Q401-3-YM970-H-49	3814562.3	37428619.1	971.0	0.40	Channel
Q401-3-YM970-H-50	3814566.3	37428189.1	971.1	0.60	Channel
Q401-3-YM970-H-51	3814572.0	37428614.7	971.2	0.40	Channel

Collar_ID	North	East	Elevation	Depth(m)	Type
Q401-3-YM970-H-54	3814576.0	37428609.3	971.3	1.00	Channel
Q401-3-YM970-H-55	3814579.3	37428607.8	971.4	0.70	Channel
Q401-3-YM970-H-56	3814583.7	37428606.7	971.4	0.20	Channel
Q401-3-YM970-H-57	3814588.7	37428605.5	971.6	0.50	Channel
Q401-3-YM970-H-58	3814593.4	37428604.3	971.6	0.30	Channel
Q401-3-YM970-H-59	3814598.5	37428600.3	971.6	0.30	Channel
Q401-3-YM970-H-60	3814602.6	37428597.1	971.9	0.40	Channel
Q401-3-YM970-H-61	3814610.4	37428591.4	972.6	0.40	Channel
Q401-3-YM970-H-62	3814606.5	37428594.2	972.6	0.40	Channel
Q401-3-YM970-H-63	3814615.0	37428588.2	973.3	0.40	Channel
Q401-3-YM970-H-64	3814622.2	37428583.2	973.2	1.50	Channel
Q401-3-YM970-H-67	3816258.9	37428578.3	973.4	2.00	Channel
Q401-3-YM970-H-68	3814629.7	37428578.3	973.5	2.00	Channel
Q401-3-YM970-H-73	3814634.4	37428577.7	973.5	2.00	Channel
Q401-3-YM970-H-75	3814643.3	37428578.8	973.0	1.20	Channel
Q401-3-YM970-H-76	3814648.1	37428580.6	973.0	1.15	Channel
Q401-3-YM970-H-78	3814652.0	37428582.5	972.8	0.50	Channel
Q401-3-YM970-H-79	3814654.7	37428594.2	975.0	0.20	Channel
Q401-3-YM970-H-80	3814662.9	37428590.8	973.6	0.20	Channel
Q401-3-YM970-H-81	3814659.5	37428583.6	973.0	0.60	Channel
Q401-3-YM970-H-82	3814664.5	37428585.6	973.0	1.80	Channel
Q401-3-YM970-H-83	3814673.7	37428589.3	973.0	0.60	Channel
Q401-3-YM970-H-84	3814678.6	37428592.6	973.1	1.10	Channel
Q401-3-YM970-H-85	3814683.2	37428600.0	973.1	1.20	Channel
Q401-3-YM970-TY20	3814309.4	37428806.0	957.9	0.80	Channel
Q401-3-YM985-C60	3814510.7	37428709.6	982.7	1.10	Channel
Q401-3-YM985-C61	3814514.6	37428695.8	982.9	0.70	Channel
Q401-3-YM985-C62	3814517.7	37428681.1	983.0	0.75	Channel
Q401-3-YM985-C63	3814520.5	37428673.2	982.7	0.50	Channel
Q401-3-YM985-C64	3814504.8	37428717.0	982.5	0.70	Channel
Q401-3-YM985-C65	3814497.2	37428726.1	982.3	0.40	Channel
Q401-3-YM985-C66	3814492.4	37428736.3	982.5	0.50	Channel
Q401-3-YM985-C67	3814487.0	37428743.9	982.7	0.50	Channel
Q401-3-YM985-C68	3814465.7	37428754.5	982.4	0.60	Channel

Database of Q4112

Collar_ID	North	East	EL	Depth (m)	Type
Q4112-PD0-S1	3814801.9	37431471.7	1200.0	1.50	Channel
Q4112-PD0-S2	3814820.5	37431478.9	1200.1	1.73	Channel
Q4112-PD0-S3	3814839.2	37431486.1	1200.2	1.65	Channel
Q4112-PD0-S4	3814857.7	37431493.6	1200.3	1.57	Channel
Q4112-PD0-S5	3814876.4	37431500.9	1200.5	1.52	Channel
Q4112-PD0-S6	3814895.0	37431508.2	1200.6	1.48	Channel
Q4112-PD0-S7	3814913.6	37431515.5	1200.6	1.02	Channel
Q4112-PD0-S8	3814783.6	37431465.0	1200.2	1.52	Channel
Q4112-PD0-S9	3814766.1	37431458.9	1200.2	1.02	Channel
Q4112-PD1-S1	3814795.9	37431455.9	1150.3	1.44	Channel
Q4112-PD1-S2	3814817.7	37431463.3	1150.3	1.02	Channel
Q4112-PD1-S3	3814834.3	37431469.6	1150.5	1.48	Channel
Q4112-PD1-S4	3814853.4	37431476.9	1150.5	1.47	Channel
Q4112-PD1-S5	3814869.2	37431483.1	1150.6	1.65	Channel
Q4112-PD1-S6	3814887.6	37431490.5	1150.7	1.55	Channel
Q4112-PD1-S7	3814905.5	37431497.4	1150.9	1.32	Channel
Q4112-PD1-S8	3814921.2	37431504.0	1151.0	0.86	Channel
Q4112-PD1-S9	3814939.8	37431511.3	1151.1	0.30	Channel
Q4112-PD1-S10	3814776.3	37431449.3	1150.3	1.72	Channel
Q4112-PD1-S11	3814756.9	37431443.0	1150.4	1.48	Channel
Q4112-PD1-S12	3814737.3	37431436.6	1150.1	1.12	Channel
Q4112-PD1-S13	3814718.6	37431429.6	1150.2	1.21	Channel
Q4112-PD1-S14	3814699.8	37431422.8	1150.4	1.17	Channel
Q4112-PD1-S15	3814681.0	37431416.1	1150.4	1.17	Channel
Q4112-PD1-S16	3814662.2	37431409.2	1150.6	1.22	Channel
Q4112-PD1-S17	3814643.5	37431402.1	1150.7	1.03	Channel
Q4112-PD1-S18	3814624.6	37431395.4	1150.8	0.88	Channel
Q4112-PD3-S1	3814787.0	37431437.7	1099.9	1.67	Channel
Q4112-PD3-S2	3814805.7	37431445.0	1099.7	1.52	Channel
Q4112-PD3-S3	3814824.5	37431452.0	1100.0	1.47	Channel
Q4112-PD3-S4	3814843.2	37431459.1	1100.1	1.58	Channel
Q4112-PD3-S5	3814861.9	37431466.2	1100.3	1.63	Channel
Q4112-PD3-S6	3814880.5	37431473.5	1100.4	1.56	Channel
Q4112-PD3-S7	3814897.7	37431480.3	1100.5	1.43	Channel
Q4112-PD3-S8	3814915.4	37431487.2	1100.6	1.35	Channel

Collar_ID	North	East	EL	Depth (m)	Type
Q4112-PD3-S9	3814934.9	37431495.0	1100.7	1.42	Channel
Q4112-PD3-S10	3814953.5	37431502.3	1100.7	0.98	Channel
Q4112-PD3-S11	3814768.4	37431430.5	1100.0	1.68	Channel
Q4112-PD3-S12	3814749.7	37431423.3	1100.1	1.74	Channel
Q4112-PD3-S13	3814730.5	37431416.0	1100.3	1.65	Channel
Q4112-PD3-S14	3814715.6	37431410.3	1100.3	1.38	Channel
Q4112-PD2-S1	3814793.1	37431425.2	1050.0	1.73	Channel
Q4112-PD2-S2	3814807.1	37431430.5	1050.0	1.68	Channel
Q4112-PD2-S3	3814818.9	37431435.0	1050.2	1.74	Channel
Q4112-PD2-S4	3814773.4	37431417.8	1050.2	1.55	Channel
Q4112-PD2-S5	3814759.4	37431412.5	1050.3	1.48	Channel
Q4112-PD2-S6	3814833.0	37431440.3	1050.4	1.35	Channel
Q4112-PD2-S7	3814848.9	37431446.4	1050.5	1.20	Channel
Q4112-PD2-S8	3814867.6	37431453.4	1050.6	1.55	Channel
Q4112-PD2-S9	3814881.6	37431458.8	1050.7	1.70	Channel
Q4112-PD2-S10	3814896.6	37431464.3	1050.8	1.65	Channel
Q4112-PD2-S11	3814744.5	37431406.7	1050.4	1.45	Channel
Q4112-PD2-S12	3814728.5	37431400.9	1050.6	1.24	Channel
Q4112-PD2-S13	3814714.5	37431395.5	1050.7	1.12	Channel
Q4112-PD2-S14	3814701.2	37431390.6	1050.7	1.40	Channel
Q4112-PD2-S15	3814688.1	37431385.5	1050.8	1.54	Channel
Q4112-PD2-S16	3814675.0	37431380.5	1050.9	1.45	Channel
Q4112-PD2-S17	3814663.8	37431376.3	1051.0	1.65	Channel
Q4112-PD2-S18	3814649.8	37431371.1	1051.1	1.23	Channel
Q4112-PD2-S19	3814635.8	37431365.6	1051.2	1.25	Channel
Q4112-PD2-S20	3814623.7	37431361.0	1051.3	1.10	Channel
Q4112-PD2-S21	3814610.4	37431356.3	1051.4	1.37	Channel
Q4112-PD2-S22	3814596.5	37431350.8	1051.5	1.40	Channel
Q4112-PD2-S23	3814915.3	37431471.5	1050.9	1.36	Channel
Q4112-PD2-S24	3814934.0	37431478.6	1051.0	1.25	Channel
Q4112-PD2-S25	3814952.6	37431485.7	1051.2	1.22	Channel
Q4112-ZK1	3814827.8	37431408.6	1049.3	89.50	Drill hole

Database of Q4114

Collar_ID	North	East	EL	Depth (m)	Type
Q4114-YD910-S1	3815105.5	37431191.5	910.5	0.72	Channel
Q4114-YD910-S2	3815135.7	37431233.0	910.9	0.84	Channel
Q4114-YD863-S1	3814872.2	37430646.8	864.1	1.00	Channel
Q4114-YD863-S2	3814948.4	37430810.5	865.1	0.30	Channel
Q4114-YD863-S3	3814886.5	37430672.7	864.4	0.71	Channel
Q4114-YD863-S4	3814919.9	37430734.6	864.9	0.80	Channel
Q4114-YD863-S5	3814965.5	37430835.1	865.4	0.68	Channel
Q4114-YD863-S6	3815071.0	37430959.9	864.4	0.91	Channel
Q4114-YD863-S7	3815114.5	37431237.1	864.3	0.73	Channel
Q4114-YD863-S8	3815135.4	37431170.5	864.2	0.96	Channel
Q4114-YD863-S9	3815163.7	37431211.1	864.2	0.67	Channel
Q4114-YD863-S10	3815180.8	37431236.0	864.4	0.55	Channel
Q4114-YD840-S1	3815143.6	37431140.8	843.2	1.00	Channel
Q4114-YD840-S2	3815166.4	37431173.9	843.2	1.10	Channel
Q4114-YD740-S1	3815175.4	37431069.1	743.2	1.20	Channel
Q4114-YD740-S2	3815200.4	37431098.8	743.1	0.70	Channel
Q4114-YD740-S3	3815222.6	37431133.1	743.1	1.00	Channel
Q4114-YD740-S4	3815253.4	37431173.3	743.2	0.93	Channel
Q4114-YD700-S1	3815189.8	37431022.3	702.5	0.80	Channel
Q4114-YD700-S2	3815205.0	37431047.7	702.6	1.00	Channel
Q4114-YD700-S3	3815231.1	37431079.6	702.6	1.00	Channel
Q4114-YD700-S4	3815257.5	37431120.1	702.6	0.40	Channel
Q4114-YD700-S5	3815160.0	37430981.6	702.7	0.71	Channel
Q4114-YD700-S6	3815138.5	37430948.6	702.7	0.42	Channel
Q4114-YD700-S7	3815120.2	37430923.6	702.8	0.40	Channel
Q4114-YD700-S8	3815104.1	37430898.5	702.9	0.40	Channel
Q4114-YD700-S9	3815084.9	37430874.4	703.0	0.52	Channel
Q4114-YD700-S10	3815288.4	37431157.1	702.7	0.80	Channel
Q4114-YD660-S1	3815157.1	37430922.7	662.4	0.61	Channel
Q4114-YD660-S2	3815138.9	37430899.2	662.5	0.58	Channel
Q4114-YD660-S3	3815122.7	37430873.2	662.6	0.65	Channel
Q4114-YD660-S4	3815105.6	37430850.2	662.1	0.59	Channel
Q4114-YD660-S5	3815179.9	37430956.3	662.4	0.40	Channel
Q4114-YD610-S1	3815148.1	37430843.3	613.3	1.10	Channel
Q4114-YD610-S2	3815164.8	37430868.5	613.2	1.50	Channel

Collar_ID	North	East	EL	Depth (m)	Type
Q4114-YD610-S3	3815124.7	37430934.1	612.9	0.20	Channel
Q4114-YD610-S4	3815193.5	37430910.6	613.1	1.20	Channel
Q4114-YD610-S5	3815205.1	37430926.8	613.1	1.10	Channel
Q4114-YD610-S6	3815229.0	37430958.5	613.1	0.60	Channel
Q4114-YD565-S1	3815215.5	37430881.6	566.2	0.81	Channel
Q4114-YD565-S2	3815205.3	37430864.7	566.1	0.40	Channel
Q4114-YD565-S3	3815197.5	37430845.1	566.1	0.42	Channel
Q4114-YD565-S4	3815187.6	37430829.0	566.2	0.45	Channel
Q4114-YD565-S5	3815160.1	37430798.3	566.3	0.43	Channel
Q4114-YD565-S6	3815118.9	37430743.3	566.9	0.40	Channel
Q4114-YD565-S7	3815226.5	37430898.8	566.4	0.90	Channel
Q4114-YD565-S8	3815245.7	37430922.2	566.7	0.87	Channel
Q4114-YD480-S1-1	3815146.6	37430656.3	480.6	0.80	Channel
Q4114-YD480-S1-6	3815141.7	37430659.9	480.6	1.00	Channel
Q4114-YD480-S2	3815155.7	37430671.5	480.7	3.80	Channel
Q4114-YD480-S3	3815166.4	37430694.1	480.7	2.20	Channel
Q4114-YD480-S4	3815180.9	37430714.1	480.9	2.20	Channel
Q4114-YD480-S5	3815189.5	37430726.9	480.9	1.10	Channel
Q4114-YD480-S6	3815125.6	37430638.4	480.2	1.05	Channel
Q4114-YD480-S7	3815116.6	37430625.6	480.5	1.00	Channel
Q4114-YD460-S1	3815128.3	37430623.1	460.5	2.03	Channel
Q4114-YD460-S2	3815141.7	37430638.4	460.7	2.63	Channel
Q4114-YD460-S3	3815153.5	37430655.2	460.8	1.95	Channel
Q4114-YD460-S4	3815162.0	37430667.9	460.9	0.85	Channel
Q4114-YD460-S5	3815167.4	37430677.2	461.0	0.55	Channel
Q4114-YD460-S6	3815113.0	37430599.9	460.5	1.80	Channel
Q4114-YD460-S7	3815102.8	37430580.9	460.7	0.62	Channel
Q4114-ZK201	3814743.7	37430210.8	952.2	224.48	Drill hole
Q4114-ZK202	3814838.6	37430145.9	1086.3	401.48	Drill hole
Q4114-ZK901	3815430.0	37431069.0	910.0	476.43	Drill hole
Q4114-ZK1101	3815439.0	37431239.0	979.0	365.28	Drill hole
Q4114-ZK1301	3815583.0	37431344.0	1095.0	544.86	Drill hole

Database of Q429

Collar_ID	North	East	EL	Depth(m)	Type
Q429-YM870-S1	3814088.4	37430634.3	873.6	0.60	Channel
Q429-YM870-S2	3814091.4	37430643.4	873.6	0.40	Channel
Q429-YM870-S3	3814098.6	37430656.6	873.6	0.30	Channel
Q429-YM870-S4	3814103.6	37430665.7	873.5	0.20	Channel
Q429-YM870-S5	3814107.1	37430674.8	873.5	0.40	Channel
Q429-YM870-S6	3814116.8	37430698.4	873.5	0.70	Channel
Q429-YM870-S7	3814128.2	37430726.1	873.4	0.60	Channel
Q429-YM870-S8	3814148.9	37430760.8	873.3	0.50	Channel
Q429-YM870-S9	3814161.6	37430771.8	873.3	0.30	Channel
Q429-YM870-S10	3814173.0	37430783.2	873.2	0.20	Channel
Q429-YM870-S11	3814188.8	37430798.2	873.1	0.30	Channel
Q429-YM870-S12	3814202.3	37430814.1	873.2	0.25	Channel
Q429-YM870-S13	3814212.8	37430831.5	873.2	0.10	Channel
Q429-YM870-S14	3814223.2	37430848.8	873.3	0.40	Channel
Q429-YM870-S15	3814233.5	37430866.2	873.2	0.42	Channel
Q429-YM820-S9	3814150.6	37430684.1	821.5	0.42	Channel
Q429-YM820-S5	3814158.0	37430699.6	821.5	0.30	Channel
Q429-YM820-S4	3814169.7	37430723.8	821.4	0.42	Channel
Q429-YM820-S3	3814178.1	37430742.2	821.5	0.50	Channel
Q429-YM820-S2	3814191.4	37430759.1	821.5	0.56	Channel
Q429-YM820-S1	3814213.7	37430782.3	821.6	0.40	Channel
Q429-YM820-S6	3814220.7	37430801.0	821.6	0.32	Channel
Q429-YM820-S7	3814232.9	37430817.6	821.6	0.48	Channel
Q429-YM820-S8	3814239.3	37430836.6	821.6	0.50	Channel
Q429-YM820-S10	3814243.8	37430855.3	821.6	0.44	Channel

Database of Q1403

Collar_ID	North	East	EL	Depth(m)	Type
Q1403-SS2-CS7	3814776.9	37429943.5	603.1	2.00	Channel
Q1403-SS2-CS6	3814744.9	37429923.4	605.2	2.00	Channel
Q1403-SS2-CS11	3814752.4	37429953.2	607.4	2.40	Channel
Q1403-SS2-CS13	3814745.0	37429957.2	608.9	2.40	Channel
Q1403-SS2-CS15	3814744.5	37429955.8	610.2	1.60	Channel
Q1403-SS2-CS17	3814723.9	37429960.2	611.4	1.60	Channel
Q1403-SS2-CS19	3814714.2	37429961.3	613.3	1.40	Channel
Q1403-SS2-CS21	3814700.0	37429963.0	615.1	2.00	Channel
Q1403-SS3-CS8	3814766.0	37429873.0	604.4	2.40	Channel
Q1403-SS3-CS10	3814754.8	37429875.4	605.2	2.40	Channel
Q1403-SS3-CS12	3814747.3	37429875.6	606.6	2.40	Channel
Q1403-SS3-CS14	3814754.6	37429873.4	608.9	2.40	Channel
Q1403-SS3-CS18	3814717.6	37429876.6	610.2	2.40	Channel
Q1403-SS3-CS20	3814705.6	37429877.0	615.3	2.40	Channel
Q1403-SS3-CS22	3814693.5	37429875.6	618.6	1.00	Channel
Q1403-SS3-CS24	3814680.2	37429877.5	620.7	1.60	Channel
Q1403-SS3-CS26	3814681.3	37429875.6	621.7	1.90	Channel
Q1403-YM590-CW30	3814765.4	37429805.4	603.1	0.40	Channel
Q1403-YM590-CW36	3814778.6	37429788.8	603.4	1.60	Channel
Q1403-YM590-CW22	3814763.9	37429843.0	603.3	2.60	Channel
Q1403-YM590-CW20	3814773.0	37429849.2	603.2	1.60	Channel

Database of Q401-4_V1 and Q401-4_V2

Collar_ID	North	East	Elevation	Depth(m)	Type
ZKA401-1	3814509.5	37427790.1	1018.4	319.00	Drill hole
ZKA401-2	3814357.0	37427686.6	1027.3	370.00	Drill hole
ZKA401-3	3814656.5	37427841.4	1011.0	305.05	Drill hole
ZKA401-4	3814801.3	37427934.2	1000.8	450.05	Drill hole
ZK401-5	3814643.4	37428137.5	1103.7	400.00	Drill hole
ZK401-6	3814538.7	37428032.7	1109.3	400.05	Drill hole
ZK401-7	3814456.3	37428033.7	1147.3	404.47	Drill hole
ZK401-8	3814678.0	37427776.4	1014.7	401.20	Drill hole
ZK401-9	3814487.4	37427633.1	1043.1	390.05	Drill hole
ZK401-10	3814329.7	37427567.4	1052.3	450.00	Drill hole
ZK401-11	3814678.0	37427775.9	1014.7	360.17	Drill hole
ZK401-12	3814487.4	37427631.6	1043.2	380.00	Drill hole
ZK401-13	3814329.5	37427565.1	1052.4	460.00	Drill hole
ZK401-14	3814194.8	37427638.8	1041.6	491.00	Drill hole
ZK401-15	3814830.8	37427673.6	1047.3	447.05	Drill hole
ZK401-16	3814247.9	37427932.3	1224.6	551.10	Drill hole
ZK401-18	3813998.7	37427616.7	1051.4	550.05	Drill hole
ZK401-20	3815431.5	37428341.8	959.4	450.20	Drill hole
ZK401-21	3815691.3	37428656.0	925.0	233.10	Drill hole
ZK401-22	3814654.8	37427839.4	1011.0	338.54	Drill hole
ZK401-23	3814666.5	37427848.1	1010.1	340.70	Drill hole
ZK401-24	3814590.9	37427770.1	1014.9	300.22	Drill hole
ZK401-25	3814597.9	37427803.0	1013.0	316.50	Drill hole
ZK401-26	3814589.4	37427802.7	1013.6	339.79	Drill hole
ZK401-27	3814589.3	37427803.0	1013.6	374.81	Drill hole
ZK401-28	3814507.2	37427750.0	1018.9	701.05	Drill hole
ZK401-29	3814509.7	37427790.2	1018.3	321.03	Drill hole
ZK401-30	3814509.9	37427790.7	1018.1	372.90	Drill hole
ZK401-31	3814455.5	37427768.3	1023.8	327.08	Drill hole
ZK401-32	3814454.2	37427770.3	1023.7	335.15	Drill hole
ZK401-33	3814462.6	37427771.7	1024.0	325.61	Drill hole
ZK401-34	3814462.6	37427772.1	1024.0	270.00	Drill hole
ZK401-35	3814380.2	37427710.8	1026.2	353.40	Drill hole
ZK401-36	3814379.4	37427710.9	1026.3	349.20	Drill hole
ZK401-37	3814384.7	37427717.8	1025.0	351.50	Drill hole

Collar_ID	North	East	Elevation	Depth(m)	Type
ZK401-38	3814358.8	37427683.1	1027.4	342.50	Drill hole
ZK401-42	3814384.6	37427718.2	1025.7	399.50	Drill hole
ZK401-43	3814355.7	37427686.8	1027.3	391.80	Drill hole
ZK401-44	3814360.2	37427684.0	1027.3	407.64	Drill hole
ZK401-45	3814567.1	37427756.5	1015.1	320.17	Drill hole
ZK401-46	3814423.0	37427616.7	1042.0	332.05	Drill hole

Appendix C: JORC Code, 2012 Edition – Table 1

Section 1: Sampling Techniques and Data

Criteria	Commentary
<i>Sampling techniques</i>	<ul style="list-style-type: none"> • There has been a long exploration and mining history in the Tongguan gold project since 1966. Xiangshun, previous owners of the tenements and geological teams engaged by these companies conducted sampling using surface and underground diamond drilling and underground channel sampling. • A total of 46 surface and one underground drill holes were drilled, totalling 17,835.7 m. • Inclined and vertical drill holes were drilled. • A total of 342.5 m of underground channels were excavated with 391 samples taken. These samples are considered to be suitable for the current resources estimation. The hand-cut channels are 5 cm wide and 3 cm deep. Samples were taken at 0.5 m to 2 m intervals.
<i>Drilling techniques</i>	<ul style="list-style-type: none"> • All drill holes were diamond holes. For the surface drill hole, wireline drilling was used with a HQ core to penetrate the weathering and an NQ core for the remainder of the run. Hole depths ranged from 89.50 m to 701.05 m. The underground drilling was used with a PQ core at the beginning of the run and HQ for the remainder of the run. The downhole survey was measured every 50 m.
<i>Drill sample recovery</i>	<ul style="list-style-type: none"> • The diamond drill core recovery ranged from 98% to 100%.
<i>Logging</i>	<ul style="list-style-type: none"> • The recovery, lithology, mineralogy, sulphide, alteration and mineralisation were logged.
<i>Sub-sampling techniques and sample preparation</i>	<ul style="list-style-type: none"> • Core was cut in half using a core saw. • Channel samples were collected across the mineralisation zone. • All core samples were prepared according to Chinese exploration practices by the geologists of Geological Teams; no blanks, duplicates or certified reference materials were inserted into the sample batches before samples were sent to the laboratory. • The sample sizes are considered appropriate for this style of gold mineralisation.

Criteria	Commentary
<i>Quality of assay data and laboratory tests</i>	<ul style="list-style-type: none"> • Drill core and channel samplings were analysed at Shaanxi Province Geological Bureau Laboratory and Xi'an Geological Resource Laboratory. All laboratories hold Chinese accreditations on gold assay. • Pulp duplicate and inter-laboratory checks were routinely undertaken. The results were described satisfactorily. • Chinese national Certified Reference Materials were included with the samples at a frequency of 1 in 50 samples. The results were also described as satisfactory by the geological teams. • Gold was determined through absorption by foaming plastics and finish by AAS. • In the SRK validation program, all samples were assayed at ALS Guangzhou by fire assay and AAS finish.
<i>Verification of sampling and assaying</i>	<ul style="list-style-type: none"> • A verification program was undertaken by SRK between February and March 2016. The comparison results are considered reasonable. • 10 drill core samples and 69 pulp samples were re-assayed. • 38 samples were collected from the underground twin channels. • 10 core and 45 channel samples were taken for bulk density check measurement. • All the samples were taken by SRK with the assistance from Xiangshun. All samples were analysed at ALS Guangzhou laboratory.
<i>Location of data points</i>	<ul style="list-style-type: none"> • Drill collars were surveyed by an electronic total station survey. • All the channel collars were surveyed by the electronic total station. • The mined-out areas were also surveyed by the electronic total station. • The projection used was XIAN 80, 37 Zone.
<i>Data spacing and distribution</i>	<ul style="list-style-type: none"> • The drill spacing was 70 m x 70 m. • The channel spacing at the same level is around 20 m. The vertical spacing of different levels is 50 m. • The data spatial distribution and geological continuity were sufficient to allow Mineral Resource Estimation and classification under the JORC Code.
<i>Orientation of data in relation to geological structure</i>	<ul style="list-style-type: none"> • The orientation of the drilling was vertical or nearly perpendicular to the interpreted sub-horizontal mineralisation. • The channel sampling was across the mineralisation zones.
<i>Sample security</i>	<ul style="list-style-type: none"> • The retained half cores were stored on site securely.
<i>Audits or reviews</i>	<ul style="list-style-type: none"> • A review of sampling techniques and data was carried out by SRK during the process of preparing an Independent Technical Report. • The historical data were verified by drill core duplicates, pulp re-assays and twin channel sampling.

Section 2: Reporting of Exploration Results

Criteria	Commentary
<i>Mineral tenement and land tenure status</i>	<ul style="list-style-type: none"> • Xiangshun holds four mining licences, and one pending exploration licence application. • A legal opinion was provided to China Mining on the status of each tenement and tenement application by Tian Yuan Law Firm on 31 October 2016. This legal opinion indicated that all tenements were issued by the competent authority and are currently valid. The legal opinion also indicated that the tenement under pending application has received an initial approval by the relevant authority on 29 July 2016 which implies that there is no further legal obstacle before the licence is formally granted.
<i>Exploration done by other parties</i>	<ul style="list-style-type: none"> • Discovery of the deposit occurred in pre-modern times. Modern exploration commenced in the late 1960s and has comprised surface and underground geological mapping, trenching, underground channel sampling, and surface drilling, by Xiangshun, previous operators, and geological teams engaged by these companies. Two geological teams have worked in the Project area, namely Shaanxi Geological Bureau Team 6 (Team 6) and Northwest Nonferrous Geological Bureau Team 712 (Team 712). • The current underground channel and drilling databases have been compiled by Xiangshun. The current databases only cover underground workings where access is allowed. • The database has been validated by SRK through re-assay and twin underground channels which have been used as an input for the Mineral Resource estimation.
<i>Geology</i>	<ul style="list-style-type: none"> • The Project forms part of the Xiaoqinling gold field, which is located in the northernmost Qinling Terrane. The Xiaoqinling gold field represents the second-largest gold belt in China and is highly prospective for high-grade, narrow-vein gold deposits. • The area is dominated by a major east-west trending anticline. The mineralisation is controlled by a set of second and third order structures associated with the anticline. • The thickness of the veins ranges approximately between 0.5 to 2.0 m.
<i>Drill hole Information</i>	<ul style="list-style-type: none"> • See Appendix B of SRK's Independent Technical Report, dated 1 June 2016.

Criteria	Commentary
<i>Data aggregation methods</i>	<ul style="list-style-type: none"> The weighting averaging method was not applied; the Mineral Resource statement prepared by the Competent Persons supersedes the need to emphasise significant intersections. Metal equivalent values are not applicable to this gold project. Associated elements such as silver, lead and copper have not been systematically assayed.
<i>Relationship between mineralisation on widths and intercept lengths</i>	<ul style="list-style-type: none"> Auriferous veins are variable in orientation, and therefore drill orientations have been adjusted from place to place in order to allow intersection angles as close to possible to true widths. The channel sampling was all across the mineralisation zones.
<i>Diagrams</i>	<ul style="list-style-type: none"> Appropriate maps and sections were reported in SRK's Independent Technical Report, dated 1 June 2016.
<i>Balanced reporting</i>	<ul style="list-style-type: none"> Reporting is fully representative of the data.
<i>Other substantive exploration data</i>	<ul style="list-style-type: none"> The associated elements (copper, silver, zinc and lead) were enriched in the local area of defined domains. However, these elements were not systemically assayed.
<i>Further work</i>	<ul style="list-style-type: none"> SRK is of the opinion that Xiangshun will conduct further exploration work in order to define more resources within the licence areas.

Section 3: Estimation and Reporting of Mineral Resources

Criteria	Commentary
<i>Database integrity</i>	<ul style="list-style-type: none"> The data were digitised and compiled in an electronic database. Validation checks were also carried out using Leapfrog 3D modelling software and Surpac software to identify potential overlapping entries.
<i>Site visits</i>	<ul style="list-style-type: none"> SRK's team undertook site visits in December 2015, February, March and April 2016. The details of Competent Persons for the Mineral Resources are as follows: <ul style="list-style-type: none"> Jinhui Liu undertook an initial site visit from 9 to 12 December 2015. Mr Liu collected check samples on site from 25 February to 5 March 2016. Mr Liu visited the site again between 27 February and 5 March 2016. (Gavin) Heung Ngai Chan undertook a site visit between 28 and 29 April 2016. During the visit, notes and photos were taken and discussions held with the geologists and engineers of Xiangshun. Diamond cores stored in the mine site were also examined and sampled.

Criteria	Commentary
<i>Geological interpretation</i>	<ul style="list-style-type: none"> • Structurally controlled narrow-vein quartz vein deposit. • A 1.0 g/t Au threshold was used to define the mineralisation domain. The transition from mineralised material to non-mineralised is very sharp, so the size and shape of the mineralised domain is not particularly sensitive to small changes in the threshold used for defining this domain.
<i>Dimensions</i>	<ul style="list-style-type: none"> • The dimension of each of the veins are as follows (strike × downdip ; thickness range; depth below surface): • Q401-3 (1100 m × 400m; 0.2-3.5 m; 400 m) • Q4112 (380 m × 270 m; 0.2-1.7 m; 20 m) • Q301 (150 m × 160 m; 0.5-0.7 m; 100 m) • Q198 (560 m × 200 m; 0.5-2.0 m; 200 m) • Q4114 (290 m × 750 m; 0.2-1.5 m; 200 m) • Q429 (270 m × 140 m; 0.3-3.2 m; 300 m) • Q1403 (200 m × 120 m; 0.3-3.0 m; 370 m) • Q401-4_v1 (500 m × 200 m; 0.4-3.5 m; 200 m) • Q401-4_v2 (610 m × 330 m; 0.4-4.2 m; 300 m)
<i>Estimation and modeling techniques</i>	<ul style="list-style-type: none"> • A total of eight domains were constructed, utilising a 1.00 g/t Au cut-off. All the sample data were composited to 1 m intervals. • The influence of extreme values was controlled by grade capping. Grade caps (ranging from 22.2 g/t Au to 44.2 g/t Au) were applied for domains Q401-4_V2, Q401-3, Q4114 and Q429, after analysis by cumulative frequency statistics and composite histograms. • Directional variogram modelling was performed within the plane of domain orientation. Block grades were estimated by Ordinary Kriging (OK) for large sized domains (Q401-4_V2, Q401-3, Q1403, Q4112 and Q4114), while the other domains were estimated by Inverse Distance Cubed Weighting (IDW) as there were insufficient samples for meaningful variography. Block estimation was conducted using Geovia Surpac software. • Chinese classified mineralisation estimates were carried out for Q301 and Q198 using the simple polygonal estimation method. SRK replicated the resource estimation procedure for Q301 and Q198.

Criteria	Commentary
	<ul style="list-style-type: none"> • The depleted areas were delineated based on the mined-out area survey undertaken in March 2016. • Gold was the only variable estimated. It was assumed that there are no by-products or deleterious elements of economic significance. • Block size was set as 10 m (X) × 10 m (Y) × 1 m (Z). • The OK method was used for the domains Q401-4_V2, Q401-3, Q1403, Q4112 and Q4114. For domain Q401-4_V2 the search radius was 200 m, the maximum number of composites per estimate was 16 and the minimum number of composites was 2; for domain Q401-3 the search radius was 200 m, the maximum number of composites was 16 and the minimum number of composites was 2; for domain Q1403 the search radius was 200 m, the maximum number of composites was 32 and the minimum number of composites was 2; for domain Q4112 the search radius was 150 m, the maximum number of composites was 16 and the minimum number of composites was 2; for domain Q4114 the search radius was 160 m, the maximum number of composites was 16 and the minimum number of composites was 2. The search distances were derived from the variogram ranges. • Domains were constructed based on a grade of 1.0 g/t Au cut-off, which restricted the extent of Resource estimates. • Block model validation was conducted by visual comparisons between drill holes and estimated grades, swath plots along major axes and comparisons between composite and block grades. No detailed grade control data or production records are available for reconciliation.
<i>Moisture</i>	<ul style="list-style-type: none"> • The Resource tonnages were estimated on a dry basis.
<i>Cut-off parameters</i>	<ul style="list-style-type: none"> • Because of the sharp contact between mineralised and non-mineralised material, and the assumed underground mining methods, all blocks within the mineralised domains are reported in the Mineral Resources, at a 1.00 g/t Au cut-off. The cut-off was calculated based on the following assumptions: gold price (RMB260/g), mining cost (RMB180/t ore), processing cost (RMB80/t ore), and processing recovery (96%). Within the mineralised domain though, the minimum block grade is 0.14 g/t Au, and a very few blocks (34 only) are less than 1.00 g/t Au.

Criteria	Commentary
<i>Mining factors or assumptions</i>	<ul style="list-style-type: none"> • The deposit is currently being mined, and it is assumed that future mining methods will be similar to the current underground mining methods. • To date, the minimum mining thickness is typically 0.5m. • For the Mineral Resource estimation, no attempt was made to model dilution and ore losses. In most cases, the grade of the adjacent diluting material is likely to be close to 0 g/t Au.
<i>Metallurgical factors or assumptions</i>	<ul style="list-style-type: none"> • Gold is the dominant element in the deposit that can be economically recovered by floatation process. The concomitant silver, copper and lead can also be recovered into the concentrate in the same process. • Ore is currently being processed by a two-stage floatation process. Production records show that gold and silver actual recovery rates reached 96% and 95% respectively in the saleable concentrate. • The resource estimation is based on the appropriate mineralogy and metallurgical testwork.
<i>Environmental factors or assumptions</i>	<ul style="list-style-type: none"> • Xiangshun has completed environmental impact assessments for the mines and the processing plant. The environmental final check acceptance is not available.
<i>Bulk density</i>	<p>In the Resource model, the dry bulk densities used for the resource estimation are as follows:</p> <ul style="list-style-type: none"> • Q401-3: 2.68 t/m³ • Q401-4: (Q401-4_V1 and Q401-4_V2) 2.86 t/m³ • Q4114-Q429: 2.72 t/m³ • Q1403: 2.95 t/m³ • Q4112: 2.86 t/m³ <p>A total of 193 samples were collected during the exploration campaign conducted between 2009 and 2016. The samples were collected either from underground workings or drill cores. For orebodies Q301 and Q198, estimated by polygon estimation method, the dry bulk densities used are as follows:</p> <ul style="list-style-type: none"> • Q301: (Q401-4_V1 and Q401-4_V2) 2.80 t/m³ • Q198: 2.70 t/m³ • The above numbers are referred to in annual validation reports provided by Xiangshun. Although the raw data were not available for review, SRK is of the opinion that the bulk density used in the resource estimation can reasonably be assumed to be similar to the bulk density of other veins.

Criteria	Commentary
<i>Classification</i>	<ul style="list-style-type: none"> The Mineral Resource Classification is based on the degree of confidence in the geological continuity, data quality and the spatial distribution of the data. Classification adequately reflects the confidence in geological and grade continuity.
<i>Audits or reviews</i>	<ul style="list-style-type: none"> This is the first Resource estimate completed under the guidelines of the JORC Code (2012). No audits or reviews of this Mineral Resource Estimate are known to have occurred.
<i>Discussion of relative accuracy/ confidence</i>	<ul style="list-style-type: none"> The Competent Persons' opinion of relative accuracy and confidence in the Mineral Resource estimate is adequately expressed by the classification categories applied. The Mineral Resource statement relates to global estimates of tonnes and quality. In 2013, 2014 and 2015, 40,448 t at 6.1 Au g/t, 31,794 t at 5.9 g/t Au and 51,253 t at 6.2 g/t Au have been produced respectively.

Section 4: Estimation and Reporting of Ore Reserves

Criteria	Commentary
<i>Resource estimate for conversion to Ore Reserves</i>	<ul style="list-style-type: none"> The Ore Reserves estimate was based on the Mineral Resource models developed by the SRK team, and excluded Inferred Resources. The Ore Reserves are reported inclusive of Mineral Resources.
<i>Site visits</i>	<ul style="list-style-type: none"> SRK's team undertook site visits in December 2015, February, March and April 2016. The details of Competent Persons for the Ore Reserves are as follows: Falong Hu undertook a site visit between 16 and 18 March 2016. During the visit, notes and photos of the underground operations and the processing plant were taken and discussions held with the geologists and mining and processing engineers of Xiangshun.
<i>Study Status</i>	<ul style="list-style-type: none"> The Project is an operating mine with a mining capacity of approximately 45,000 tpa feed ore. SRK reviewed the past 3-year operation data and production records. A feasibility study report was compiled by Xi'an Non-ferrous Metallurgical Design and Research Institute for the Project dated May 2016 and reviewed by SRK.

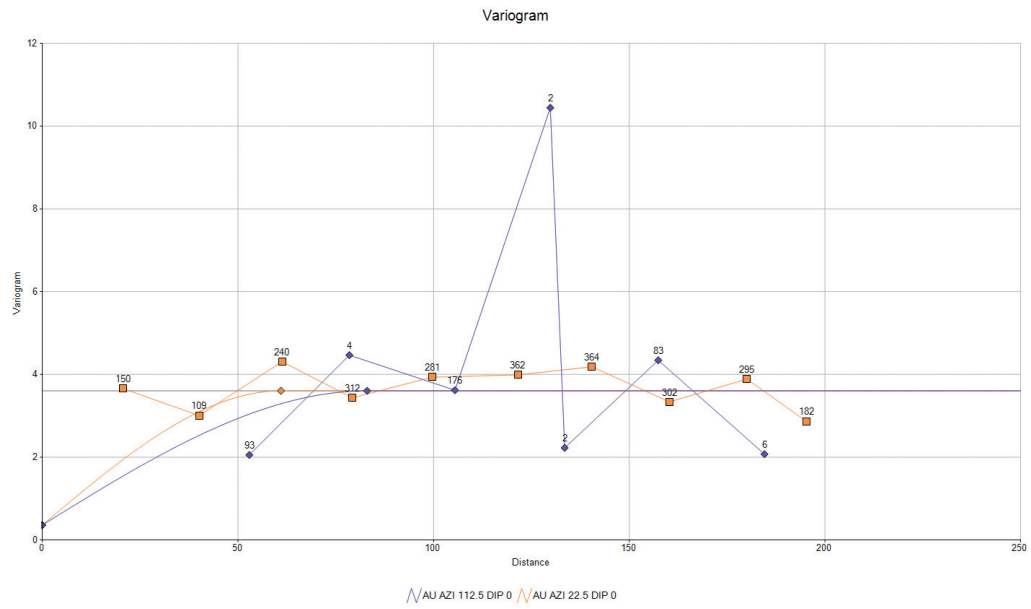
Criteria	Commentary
<i>Cut-off parameters</i>	<ul style="list-style-type: none"> • The cut-off grade was calculated based on the parameters set out in the FS which were reviewed and modified by SRK according to the data provided by the Company. • The cut-off grade was determined based on costs, gold price, processing recovery rate, and coefficient of metallurgical refinery. • The break-even cut-off grade is 3.5 g/t Au.
<i>Mining factors or assumptions</i>	<ul style="list-style-type: none"> • Underground mining techniques have been employed to exploit the deposit. • Seven development systems have been used or designed by the owner or FS for each domain. • Room and pillar (R&P), and short-hole shrinkage (SHS) mining methods were employed and designed for the Project. The stopes length of R&P and SHS are 58 m and 50 m respectively. • Both methods have historically been used by the Project. • The height of level varies for different domains' development. For R&P, it is 20~25m high and 50 m high for SHS. • Mining stopes were designed. Mining loss was estimated based on the pillars' volume and mining method of each stope. Mining dilution was estimated based on the mining method and stopes. • The SMUs were proposed at 10 m X by 10 m Y by 1 m Z. The block models used for ore reserve estimation were rotated to correspond to the geometry of the lodes. Z refers to the width of orebody. • For R&P, the mining recovery rate is 71% and dilution rate is 12%. The low recovery rate is because the pillars have not been designed to recover. • For SHS, the mining recovery rate is 90%, and dilution rate is 14%. • The Inferred resources included in the mineable stopes were treated as the dilution materials. • Existing haul roads, mine drainage, compressed air station, ventilation systems and workshop facilities, and a waste rock dump were assessed.

Criteria	Commentary
<i>Metallurgical factors or assumptions</i>	<ul style="list-style-type: none"> • Gold is the dominant element in the deposit that can be economically recovered by floatation process. The concomitant silver, copper and lead can also be recovered into the concentrate in the same process. • Ore is currently being processed by a two-stage floatation process. Production records show that gold and silver actual recovery rates reached 96% and 95% respectively in the saleable concentrate. • The resource estimation is based on the appropriate mineralogy and metallurgical testwork.
<i>Environmental</i>	<ul style="list-style-type: none"> • Xiangshun has completed environmental impact assessments for the mines and the processing plant. The environmental final check acceptance has not yet been granted.
<i>Infrastructure</i>	<ul style="list-style-type: none"> • The Oujiacheng transformer station is located 6 km away from the project areas. It supplies 10 kilovolt (kV) electrical power to the mining project areas. • The processing plant is connected to a nearby transformer station, located 1 km away. The plant is fitted with four transformers with a total capacity of 1500 kVA. The processing plant is fitted with an underground water supply system. The plant requires 1,662.5 m³ of water per day, with 80% of the required water recycled from the TSF. • The mining project areas and processing plant are connected with major highways or provincial paved roads. No major road construction is needed.
<i>Costs</i>	<ul style="list-style-type: none"> • The CAPEX estimate set out in the FS provided a baseline, which was updated by Xiangshun's financial team and technical personnel. SRK reviewed and adjusted the revised estimate, corresponding to the production schedule. • The OPEX forecast was based on the historical operating costs and existing contracts between Xiangshun and contractors, which were reviewed by SRK as being reasonable. • The gold price forecast was based on Consensus Market Forecast. The Long Term Price is estimated at USD1,130/oz. • The exchange rate of USD:RMB forecast was based on Bloomberg forecast. The long term exchange rate forecast is at 6.65. • All gold concentrate was sold at mine gates, for which the transportation cost is borne by the smelter. • The smelter charge is RMB1,300/t concentrate as set out in the contract between Xiangshun and the smelter. • There are two royalties payable on ore, including a resource tax (RMB4.2/t ore) and a local Resource levy (RMB156/t ore). They have been adequately detailed and included in the cost estimate.

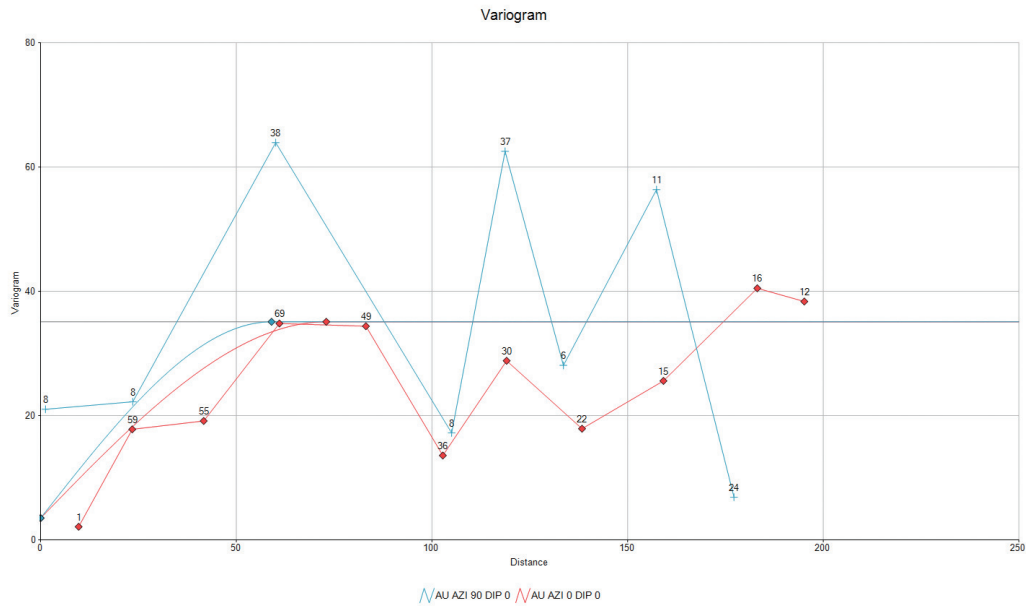
Criteria	Commentary
<i>Revenue factors</i>	<ul style="list-style-type: none"> • Revenue forecasts were based on sale of gold concentrate. • The gold price forecast was on Consensus Market Forecast. The Long Term Price is estimated at USD1,130/oz. • The contracts between the smelter and Xiangshun for the period of 2012-2015 were reviewed. The contract is renewable annually, but similar terms have been negotiated over the past few years, and the forecast assumes similar conditions will continue. • Other metals including silver, copper and lead were assumed not to be recoverable and payable in the economic viability analysis.
<i>Market assessment</i>	<ul style="list-style-type: none"> • The gold price forecast was based on Consensus Market Forecast. The Long Term Price is estimated at USD1,130/oz. • The exchange rate of USD:RMB forecast was based on Bloomberg forecast. The long term exchange rate forecast is at 6.65. • Sensitivity analysis has been undertaken to determine the relationship between the gold price, exchange rate and the economic viability of the project.
<i>Economic</i>	<ul style="list-style-type: none"> • The CAPEX/ OPEX forecasts were based on the FS, updated by Xiangshun and reviewed by SRK as being reasonable. • The gold price and exchange rate were based on Consensus Market Forecast and Bloomberg consensus forecast. • An economic viability analysis shows that the after tax (15% corporate income tax) NPV, at a discount rate of 10%, returned RMB17.4 M as of 1 June 2016. The positive NPV suggests the Reserve defined is economically viable.
<i>Social</i>	<ul style="list-style-type: none"> • The general surrounding land of the mine sites is uncultivated land and forest. The processing plant and TSF are situated in an area of farmland. • The Project EIA reports provide public participation surveys on Project construction. The survey results show that there is no opposition to Project construction. Local residents also mentioned water pollution and ecological damage as key environmental concerns for the Project's development. The EIA reports also state that most of the local residents have a supportive attitude with respect to the Project.
<i>Other</i>	<ul style="list-style-type: none"> • The Project has been operating successfully. • A risk assessment is included in the SRK independent report dated 1 June 2016.

Criteria	Commentary
<i>Classification</i>	<ul style="list-style-type: none">• The Probable Ore Reserves were based on Indicated Resources. The classification is further supported by the feasibility study, production records and data provided by Xiangshun.
<i>Audits or reviews</i>	<ul style="list-style-type: none">• No external audits of the Ore Reserves have been undertaken. SRK has completed an internal audit review as part of the Ore Reserve derivation process.
<i>Discussion of relative accuracy/ confidence</i>	<ul style="list-style-type: none">• All mining estimates are based on the feasibility study, production records and forecast made by Xiangshun.• There are no unforeseen Modifying Factors at the time of this statement that will have a material impact on the Ore Reserve estimates.• Where practical and possible, current industry practices have been used to quantify estimations made.

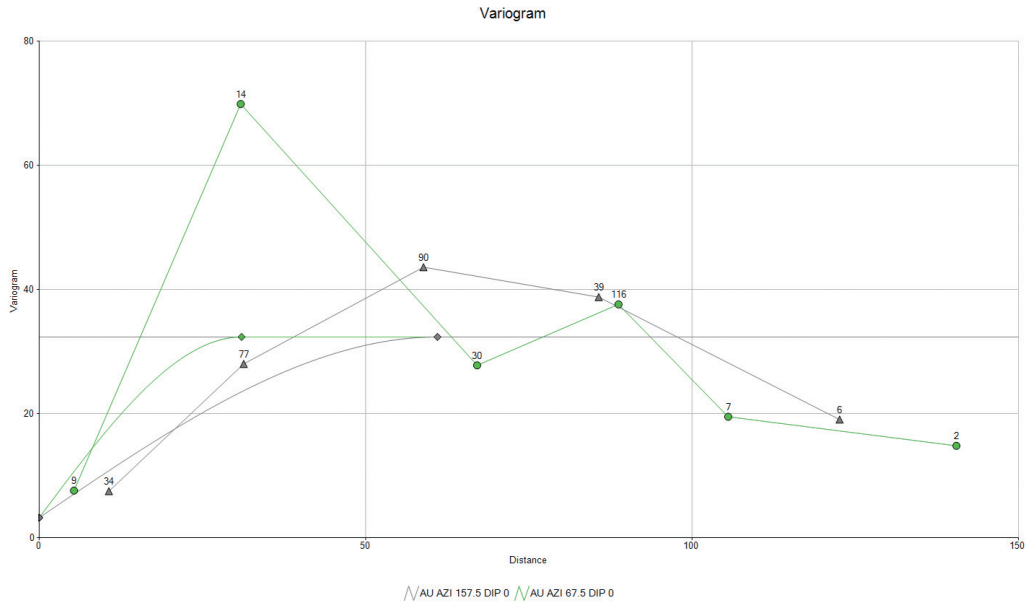
Appendix D: Experimental Variograms



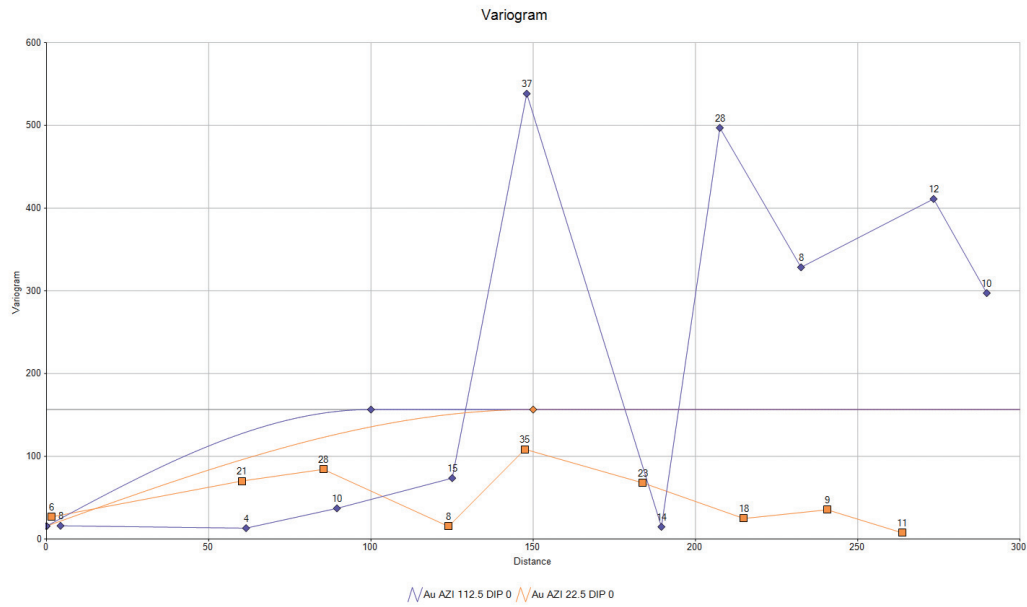
Modelled and experimental variograms of Domain Q412



Modelled and experimental variograms of Domain Q414



Modelled and experimental variograms of Domain Q1403



Modelled and experimental variograms of Domain Q401-4_V2

APPENDIX VI VALUATION REPORT ON THE TARGET GROUP

The following is the text of a valuation report prepared for the purpose of incorporation in this circular received from Greater China Appraisal Limited, an independent valuer, in connection with their valuation as at 1 June 2016 of the 100% equity interests in One Champion International Limited.

GREATER CHINA APPRAISAL LIMITED
漢華評值有限公司

Room 2703
Shui On Centre
6-8 Harbour Road
Wanchai, Hong Kong

VALUATION REPORT

**100% EQUITY INTEREST IN
ONE CHAMPION INTERNATIONAL LIMITED**

FIN1604096

VALUATION DATE: 1 JUNE 2016

Prepared for
China Mining Resources Group Limited

Prepared by
Greater China Appraisal Limited

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GREATER CHINA APPRAISAL LIMITED
漢華評值有限公司

Room 2703
Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

31 October 2016

The Board of Directors
China Mining Resources Group Limited
Room 1306, 13/F
Bank of America Tower
12 Harcourt Road
Admiralty, Hong Kong

Dear Sirs/Madams,

**Valuation of 100% Equity Interest in
One Champion International Limited**

At your request, Greater China Appraisal Limited (“GCA”) was engaged to assist you in the valuation analysis pertaining to the Market Value of 100% equity interest (the “Equity Interest”) of One Champion International Limited (the “Target Company”), which effectively owns 90% equity interest of Tongguan County Xiangshun Mining Development Company Limited (the “Project Company”), which owns 100% interest in the Tongguan County Gold Mine (the “Gold Mine”) and its associated processing plant (the “Mineral Asset” or the “Project”) in Weinan City of Tongguan County, Shaanxi Province, the People’s Republic of China (the “PRC” or “China”) as at 1 June 2016 (the “Valuation Date”).

It is our understanding that our analysis will be used by the management of China Mining Resources Group Limited (the “Company” or the “Commissioning Entity”) solely for a proposed acquisition of the Target Company only, details of which are set out in the circular dated 31 October 2016 issued by the Company to the shareholders, of which this valuation report forms part. Our analysis was conducted for the above mentioned purpose only and this report should be used for no other purposes without our written consent.

APPENDIX VI VALUATION REPORT ON THE TARGET GROUP

This report describes the basis of valuation, valuation methodologies considered and applied, our analysis, limiting conditions and presents our opinion of value. This report is prepared in conformance with the Australasian Code for Public Reporting of Technical Assessments and Valuations of Mineral Assets, 2015 edition (the “VALMIN Code”), prepared by the VALMIN Committee. The VALMIN Code provides a set of fundamental principles and supporting recommendations regarding good professional practice to assist the preparation of the valuation of mineral assets. The VALMIN Code 2015 edition was effective from 30 January 2016 and becomes mandatory for AusIMM and AIG members from 1 July 2016.

The approaches and methodologies used in our work did not comprise an examination in accordance with generally accepted accounting principles, the objective of which is an expression of an opinion regarding the fair presentation of financial statements or other financial information, whether historical or prospective, presented in accordance with generally accepted accounting principles.

We express no opinion and accept no responsibility for the accuracy and completeness of the financial information or other data provided to us by others. We assume that the financial and other information provided to us is accurate and complete, and we have relied upon this information in performing our valuation.

Summary of Salient Facts and Conclusion

Target Company Valued	One Champion International Limited
Mineral Asset Valued	Tongguan County Gold Mine and its associated processing plant
Mineral Asset Owner and Operator	Tongguan County Xiangshun Mining Development Company Limited which holds the mine exploitation licence and mine exploration licence of the Tongguan County Gold Mine. It also owns a gold processing plant
Mineral Asset Location	The Tongguan County Gold Mine was located in Chengjiagou — Shishuyuan, Haochayu, Tongguan County, Shaanxi Province, with administrative district belonging to Anle Town of Tongguan County; the processing plant was located at Beidong Village, Daiziying Town, Tongguan County
Current Status	Production Properties
Valuation Date	1 June 2016
Reporting Date	31 October 2016
Value Conclusion	Value of the Equity Interest is HKD494,000,000

APPENDIX VI VALUATION REPORT ON THE TARGET GROUP

I. PURPOSE OF ENGAGEMENT

As aforementioned, the purpose of this particular engagement is to assist the management of the Company in determining the Market Value of 100% equity interest of One Champion International Limited which effectively owns 90% interest in the Project Company as at the Valuation Date for the proposed acquisition.

Intended users of this valuation report are the management of the Company. Many of these readers will not necessarily have strong knowledge of the mining industry and relevant terminologies.

II. SCOPE OF VALUATION

The valuation of the Project is in compliance with the VALMIN Code. This report has been written in a narrative form designed for a wide range of readers who have no experience in the gold mining industry.

The valuation estimates developed in this report, and the underlying projections and calculations developed to derive and support the estimate, are dependent on opinions and analysis of the Competent Evaluator. Reliance on this valuation is at the readers' own risk. This valuation report should not be used to replace any due diligence work. The liability of GCA is limited to that contained in the contractual agreement with the Company.

III. BASIS OF VALUATION

For the purpose of this valuation, we adopted SEHK Chapter 18 and the VALMIN Code, 2015 Edition. The following are codes allowed for use under the SEHK Chapter 18 rules.

Table 3 – 1 Codes accepted under SEHK Chapter 18

Country	Code	Subject	Date
Australia	VALMIN	Valuation	2005
Canada	CIMVAL	Valuation	2003
South Africa	SAMVAL	Valuation	2008

We notice that the definition of VALMIN Code under SEHK Chapter 18 rules means VALMIN Code, 2005 Edition as at the Valuation Date. Since VALMIN Code, 2015 Edition is an enhanced version from VALMIN Code, 2005 Edition, and it has become mandatory for AusIMM and AIG members from 1 July 2016, we assume that VALMIN Code, 2015 Edition is acceptable for mineral companies governed by SEHK Chapter 18 rules.

According to the VALMIN Code, the Market Value of mineral assets is defined as:

“the estimated amount (or the cash equivalent of some other consideration) for which the Mineral Asset should exchange on the date of Valuation between a willing buyer and a willing seller in an arm’s length transaction after appropriate marketing where the parties had each acted knowledgeably, prudently and without compulsion.”.

According to the VALMIN Code, mineral assets can be defined as:

“all property including (but not limited to) tangible property, intellectual property, mining and exploration Tenure and other rights held or acquired in connection with the exploration, development of and production from those Tenures. This may include the plant, equipment and infrastructure owned or acquired for the development, extraction and processing of Minerals in connection with that Tenure.”.

According to the VALMIN Code, a range of values (high/most likely/low) must be determined and stated to reflect any uncertainties in the data and the interaction of the various assumptions made after taking account of risk and the possible variation in ore grade, metallurgical recovery, capital and operating costs, commodity prices and exchange rates.

Subject Valuation is in compliance with SEHK Chapter 18 that subject Valuation does not include any valuation of Inferred Mineral Resources. VALMIN Code does not have specific guideline to disallow valuation of Inferred Mineral Resources. Save for the discussion above, subject Valuation is in compliance with VALMIN Code.

IV. PREMISE OF VALUE

The premise of value relates to the concept of valuing a subject in the manner which would generate the greatest return to the owner of the asset, taking into account what is physically possible, financially feasible and legally permissible. Premises of value include the following:

- **Going concern:** appropriate when the business is expected to continue operating without the intention or threat of liquidation in the foreseeable future;
- **Orderly liquidation:** appropriate for a business that is clearly going to cease operations in the near future and is allowed sufficient time to sell its assets in the open market;
- **Forced liquidation:** appropriate when time or other constraints do not allow an orderly liquidation; and
- **Assembled group of assets:** appropriate when all assets of a business are sold in the market piecemeal instead of the entire business itself.

This valuation is prepared on a going concern basis.

V. VALUATION DATE

The Valuation Date is as at 1 June 2016 and this valuation report is issued on 31 October 2016.

VI. THE COMMISSIONING ENTITY

The Commissioning Entity is a limited liability company incorporated with principal activity of investment holding with offices at Room 1306, 13/F, Bank of America Tower, 12 Harcourt Road, Admiralty, Hong Kong.

The Commissioning Entity has advised that it has made reasonable enquiries in order to establish that GCA and its advisors are competent in the fields in which they were required to work under this assignment, and are experienced in the type of mineral asset required to be valued.

The Commissioning Entity has advised GCA and its advisors that some of the information made available for the purposes of the assignment is confidential, and appropriate confidentiality undertakings have been put in place. It has also provided a warranty in writing that all relevant technical or other project information has been provided to GCA and its advisors, and that, to the best of its knowledge and belief; it is complete, true and accurate in every respect.

VII. STATEMENT OF COMPLIANCE

The evaluations have been prepared in accordance with SEHK Chapter 18 and the VALMIN Code and are, to the best of our knowledge, compliant with these codes. This statement is made in accordance with a requirement under these codes.

VIII. STATEMENT OF INDEPENDENCE

GCA states that they are independent of the Commissioning Entity. Independence means in this context that GCA are able to satisfy any relevant legal tests of independence, and may be perceived to be, willing and able to undertake an impartial assessment and valuation and to prepare a valuation report that is free of bias.

To this end, GCA warrants that they do not have any pecuniary or beneficial interest in:

- The Commissioning Entity;
- The Mineral Asset that is the subject of the valuation; and
- The outcome of the valuation.

IX. SOURCES OF INFORMATION

Our analysis and conclusion of value for the Target Company were based on our discussions with the management of the Target Company and the Project Company, as well as our review of key transaction documents and records, including:

- Consolidated management accounts of Target Company and Project Company for the years ended 2011, 2012, 2013, 2014, 2015 and five months ended 2016;
- The Independent Technical Report (the “ITR”) for the Project prepared by SRK Consulting (Hong Kong) Ltd. (“SRK”) as at 1 June 2016;
- The signed contracts with third parties for supply of gold ores with minimum quantity per year at market gold price;
- The production schedule of mining inventory suggested by the management of the Project Company and SRK;
- The forecast of quantity of the third parties’ ore feed for the processing plant provided by the management of the Project Company;
- The financial projection from the Valuation Date until the end of the signed contracts for third parties’ ore feed;
- Construction and mining contract with mining service providers to provide mining service to the Project Company for the Tongguan County Gold Mine from 2014 to 2015;
- The legal opinion (the “Legal Opinion”) for the acquisition of the Target Company prepared by Tian Yuan Law Firm, a private and independent partnership law firm in China;
- Historical operating records as supporting evidence for the financial projection;
- The sale contract of processed gold concentrate signed between the Project Company and the smelter dated 3 March 2015, which determined the selling price of gold concentrate; and
- A report for backfilling expenses estimated by a PRC technical expert¹.

In completing the valuations, we have relied heavily on the ITR, which was prepared independently and in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources developed by The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Mineral Council of Australia in 2012 (the “JORC Code”) and the VALMIN Code.

We also relied upon historical operating records and publicly available information from sources on capital markets, including industry reports, and various databases of publicly traded companies and the news.

¹ 渭南金獅地質服務有限責任公司

X. SITE INSPECTION

A site visit to the Project site was conducted in May 2015. The visiting team included Mr John Dunlop, Principal Mining Representative from GCA. During the site visit, the following tasks were carried out as part of our analysis process:

- Tour of underground mining areas, processing plant, administrative offices and various other auxiliary facilities;
- Walk through and the gaining of a detailed understanding of the production procedures, in particular as regards mining development and extraction sequencing; and
- Interviews with the management of the Project Company.

During the visit, we were informed that a roof fall accident happened in Q401 gold vein on 14 April 2015 which caused a workforce fatality. According to the regulations on the “Reporting, Investigation and Disposition of Work Safety Accidents” of the PRC, General Accident is the accident which causes less than three people death or less than 10 people seriously injured, or less than RMB10,000,000 of direct economic loss. According to the regulations on the “Production Safety Law”, a penalty between RMB200,000 to RMB500,000 will be levied when a General Accident occurs.

The penalty for the accident on 14 April 2015 of the Project was RMB400,000. After the accident the Project Company immediately stopped the production of the Project and replaced the mining contractor. Since then, the Project Company has paid higher attention to the safety issues of the Mineral Asset, safety control measurements during mining, processing and other aspects with more details of safety measure described in the ITR.

Another site visit of the Project was conducted in the period from 28 to 30 July 2015 mainly for inspection of the physical assets. The land and buildings held by the Project Company were located at Beidong Village, Daiziying Town, Tongguan County. They comprised a parcel of land with site area of about 27,117.76 square metres (the “Land”), 10 blocks of buildings with a total gross floor area of about 3,968.6 square metres and various ancillary facilities and structures erected thereon. The land parcel was held under a state-owned land use right certificate (known as Tong Guo Yong (2013) Di 011 Hao) for industrial use for a term expiring 26 August 2056 and the buildings were held under two building ownership certificates (known as Tong Dan Zi Di 0320 and 0321 Hao). The real property inspected also comprised various ancillary facilities and structures erected on certain leased land and the mining tunnels with total length of about 39,000 metres. The appraised equipment comprised mineral processing equipment, power equipment, grinding machines, cranes, conveying belts and other supporting equipment such as office equipment and transportation equipment. No encumbrances were noted for the appraised equipment.

At the time of our inspection, the appraised assets were found to be generally in good condition. We believe that the assets were in good condition as at the Valuation Date after reviewing the actual operating records and financial information up to 30 May 2016 and can perform efficiently according to the purposes for which they were designed and built.

XI. ECONOMIC OVERVIEW

1. Nominal GDP Growth in China

In the period of 12th Five-year plan (2011-2015), the status of economic development has been altered from rapid growth to medium-high speed growth. It can be observed that the real gross domestic products (“GDP”) has been stabilised at around 7% from 2012 onwards, whereas the inflation has remained moderate around 2%. The slowdown of the economic expansion was not a turning signal of economic downturn, but in fact it was matched with the expectation of Chinese government. Upon the inauguration of Chinese President Mr Xi Jinping and the new government officials in 2013, the core economic policy has shifted from focusing on short-term stimulus to no stimulus, deleveraging and structural reform on the national economy. Premier Mr Li Ke Qiang has expressed his administration’s policies, named as “Likonomics”, on the future direction of Chinese economy. In a nutshell, it represents how short-term pain in the economy would bring to long term gain.

Table 11 – 1 Real GDP Annual Growth Rate and Inflation of China from 2012 to 2016

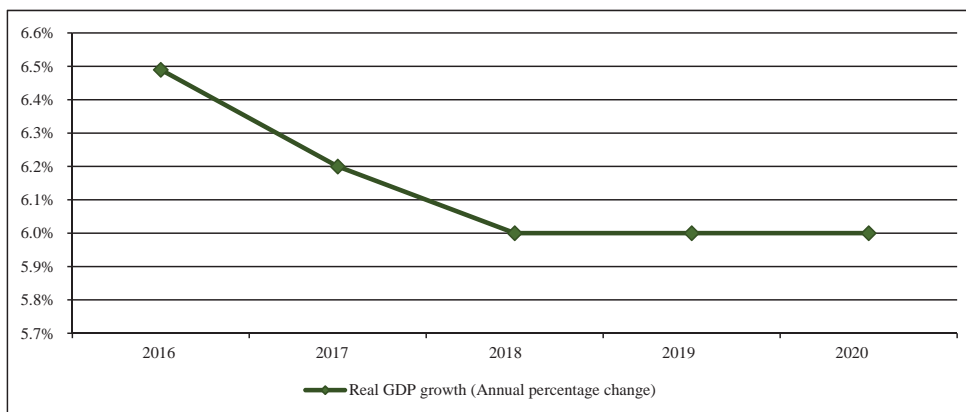
	2012A	2013A	2014A	2015A	2016F
Real GDP Annual Growth Rate (%)	7.70	7.75	7.30	6.90	6.49
Inflation (%)	2.65	2.62	1.99	1.44	1.80

Source: World Economic Outlook Database (April 2016), the International Monetary Fund

According to analysts’ comment of Barclays bank, the Likonomics will put Chinese economy onto a sustainable path, and it was estimated the annual growth for the next 10 years would lie between 6% and 7%. In accordance with the forecast published by International Monetary Fund (“IMF”), the overall real GDP growth is at 6.90% in 2015, while the projection of the real GDP growth in the next five years would follow a steady decline from 6.49% in 2016 to 6.00% in 2020, which is in line with Mr Li’s administration direction.

The following diagram shows the real GDP annual growth rate forecasts from 2016 to 2020.

Figure 11 – 1 Forecasts of Real GDP Annual Growth Rate of China from 2016 to 2020



Source: World Economic Outlook Database (April 2016), the International Monetary Fund

According to “World Economic Outlook Database (April 2016)” by IMF, the Chinese economy was ranked 2nd in terms of size in 2015, it possesses the greatest growth prospect among top six economies in the world; the Chinese economy was forecasted to grow from USD10,982 billion in 2015 to USD17,762 billion in 2021 with a compound annual growth rate (“CAGR”) of 8.3%. It is worth noting that the gap between the United States and China was projected to be narrowing over time.

Table 11 – 2 Worldwide GDP from 2015 to 2021

	Country	GDP — Billions of the United States Dollar (“USD”)						
		2015A	2016F	2017F	2018F	2019F	2020F	2021F
1	United States	17,947	18,558	19,285	20,145	21,016	21,874	22,766
2	China	10,982	11,383	12,263	13,338	14,605	16,144	17,762
3	Japan	4,123	4,412	4,514	4,562	4,676	4,800	4,895
4	Germany	3,358	3,468	3,592	3,697	3,822	3,959	4,066
5	United Kingdom	2,849	2,761	2,885	2,999	3,123	3,256	3,874
6	France	2,421	2,465	2,538	2,609	2,700	2,804	2,895

Source: World Economic Outlook Database (April 2016), the International Monetary Fund

In the near-term outlook, there are several challenges affecting China's economy. The rapid growth in credit financing has derived a so-called 'shadow banking system', raising concerns about the quality of investment and the ability on repayment, especially when capital is flowing through less-well supervised parts of the financial system. Furthermore, China suffered from the first corporate bond default in March 2014. It sent a warning signal to the bond investors regarding the creditability of the borrowers and the stability of the market.

In addition, China's economic growth in the past highly depended on continuous investment in infrastructure projects. Redundant and duplicate developments resulted in a mismatch and wastage of resources. The recovery of these substantial investments which was mainly financed by borrowing is challenging. In 2013, when the China's government tried to tighten the funding channel, the capital market immediately quaked. Not only does it potentially impact the GDP growth rate, but also impact the stability of China's entire capital market system.

Furthermore, President Xi's campaign against corruption and extravagant spending will improve the image of the government and increase the operational efficiency. On the other hand, it will affect the customer spending sector, especially, the luxury goods, fine dining and business travelling business which used to be the unofficial fringe benefit of the government officers.

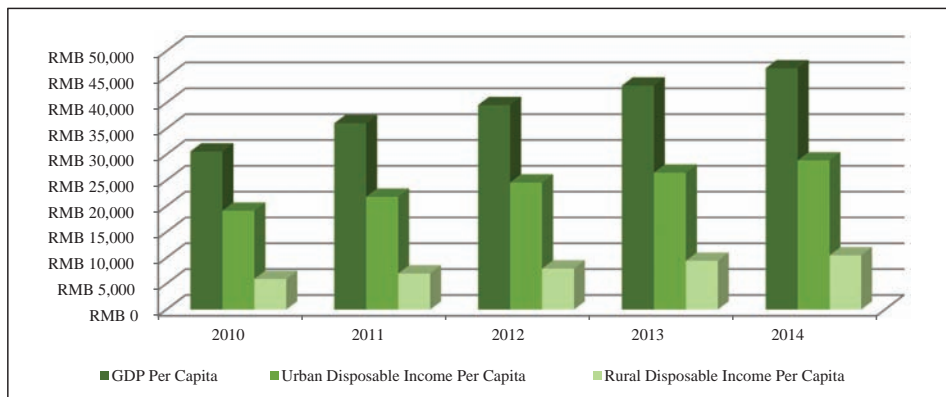
While the GDP growth of China's market stalls, other markets start recovering. The World Bank also commented that the major obstacles to recovery, including a Eurozone meltdown have been overcome. The Chinese policymaker must clamp down on lending to prevent asset bubbles. Unless the Chinese economy faces an imminent risk collapse, the "temporary hard-landing" will not deter the long-term growth prospect of China.

2. GDP per Capita in China

Improving the standard of living was one of the main issues in the social aspect of the 12th Five-year plan. The disposable income level, being a good measure, has grown significantly over the past few years. According to the National Bureau of Statistics of China, annual disposable income per capita of urban households in China has increased from RMB19,109 in 2010 to RMB28,844 in the 2014, representing a compound annual growth rate ("CAGR") of approximately 10.8%; annual disposable income per capita of rural households has increased from RMB5,919 in 2010 to RMB10,489 in 2014, representing a CAGR approximate to 15.4%. In comparison to the inflationary figures, the annual inflation rate is between -1.99% and 5.40%. Hence, there was improvement to the standard of living of the Chinese people overall in the period from 2010 to 2014.

The following diagram shows the GDP per capita, annual urban and rural disposal income per capita from 2010 to 2014.

Figure 11 – 2 GDP per Capita of China from 2010 to 2014



Source: National Bureau of Statistics of China

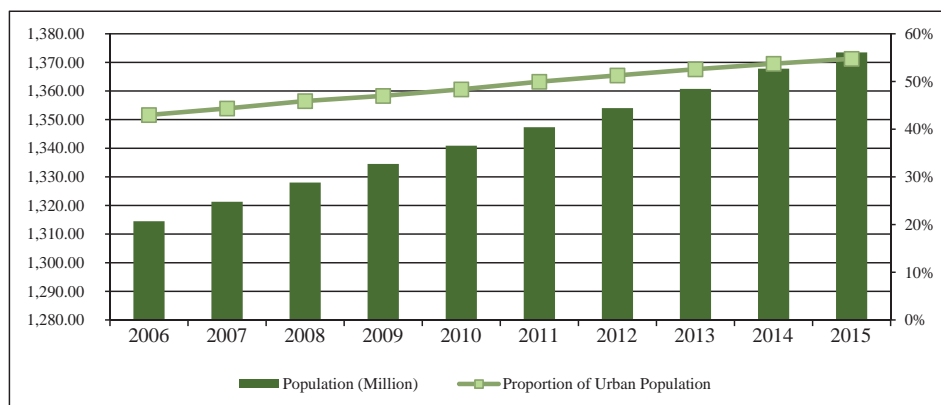
3. Population Growth

The population of China accounts for almost one fifth of the world’s population. According to the National Bureau of Statistics of China, the population has grown from 1.31 billion in 2006 to 1.37 billion in 2015, representing a CAGR of approximately 0.44%.

The proportion of urban population in China increased from 44.34% in 2006 to 55.88% in 2015, representing a CAGR of approximately 2.37%.

The following diagram shows the population growth and corresponding urban population growth in China from 2006 to 2015.

Figure 11 – 3 Population and Portion of Urban Population in China from 2006 to 2015



Source: National Bureau of Statistics of China

Population growth is expected to be steady in this decade. Population growth along with increasing urbanization and expansion of the middle class are particularly important to support the future growth of the domestic demand on affordable luxury goods, such as vehicles, luxury watches, etc. Steady growth in population together with improving living standard creates a strong continuous demand on housing and transportation. On the other hand, the unemployment rate was recorded at around 4.1% for the past few years, and it is estimated the status will not change from 2015 to 2020.

Table 11 – 3 Population Forecast of China from 2015 to 2020

	2015A	2016F	2017F	2018F	2019F	2020F
Population (Million)	1,374.620	1,381.45	1,388.32	1,395.22	1,402.16	1,409.13
Unemployment rate (%)	4.05	4.05	4.05	4.05	4.05	4.05

Source: World Economic Outlook Database (April 2016), the International Monetary Fund

Although the one-child policy has curbed the growth of birth rate in China, the rising trend of China’s population has not been slowed down in few decades. At the same time, the side effect of the policy has started to take effect in the current decade; the number of elderly people is rising and this age group is forecasted to grow in the next few decades. However, the Government now has realized this trend and introduced Two-child policy which comes into effect throughout the country since October 2015. Hopefully this policy will offset the aging population structure in next few decades.

Table 11 — 4 Age Distribution of China from 2006 to 2015

Age distribution	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
0-14 (Million)	260	257	252	247	223	222	223	223	226	227
15-64 (Million)	951	958	967	974	999	1,003	1,004	1,006	1,005	1,003
>=65 (Million)	104	106	110	113	119	123	127	132	138	144

Source: National Bureau of Statistics of China

4. Inflation

Managing inflation risk has been one of the key missions for China’s government since 2010. The latest economic data released by National Bureau of Statistics of China indicated that the inflation rate was reported at 2% in May 2016 on year-over-year basis. China is expected to continue a prudent monetary policy, keep money supply, delever the state-led investment to a reasonable level, and optimize financing and credit structures in the future.

In comparison to the inflation of world’s average and of emerging and developing economies, the outlook of China’s inflation is far left behind. The continual appreciation on Chinese currency as well as the dominating role of export in China economy was the primary reasons. On one hand, with the Federal Reserve raising interest in December 2015, a new round of currency depreciation is expected to incur in emerging countries. Due to these two factors, expectation for RMB depreciation becomes much stronger.

Table 11 — 5 Annual Inflation Forecasts of China from 2015 to 2021

	Inflation, Average Consumer Prices Changes (%)						
	2015A	2016F	2017F	2018F	2019F	2020F	2021F
World	2.78	2.82	3.04	3.14	3.16	3.17	3.16
Emerging and developing economies	4.71	4.45	4.20	4.05	3.99	4.00	3.95
China	1.44	1.80	2.00	2.20	2.60	3.00	3.00

Source: World Economic Outlook Database (April 2016), the International Monetary Fund

5. Government Policy

During the end of the period of 12th Five-year plan, China will maintain stable economic policies and a prudent monetary policy, the GDP growth is rebalancing at an achievable rate of 7.1% amid lower export demand in 2015, said by Premier Li. A report issued by The World Bank in June 2014 has reconfirmed that the expectation is achievable.

The Chinese government is currently drafting the blueprint of the 13th Five-year plan which begins in 2016. More or less, the plan will inherit the spirit of the previous in developing science and technology, deepening environmental protection policies, but to solidify the whole economy. Under the slump of crude oil price and raising deflation risk of the European Union countries, it is estimated that the Chinese government will adopt stable and conservative economic policies in 2016, the government will continue the ongoing plans and focus on resolving the imminent problem within the nation, such as modifying the financial system and intensifying anti-corruption measures.

In the Central Economic Work Conference held in Beijing at the end of 2015, the top leaders of the Communist Party of China emphasised that the main tasks in 2016 were as follows:

- Reducing housing inventories;
- Resolving industrial overcapacity;
- Lowering corporate costs;
- Prevention of financial risks; and
- Broadening effective supply.

Overall speaking, inflation was mild and the economy may suffer a short-term slowdown, but it is just part of the structural reform of the economy as stated in Likonomics. Currently, it leaves policy makers sufficient flexibility if they believe the economy needs any stimulation policies.

XII. INDUSTRY OVERVIEW

Gold has been treasured since ancient times for its beauty and permanence. Most of the gold that is fabricated today goes into the manufacture of jewellery. However, because of its superior electrical conductivity and resistance to corrosion and other desirable combinations of physical and chemical properties, gold also emerged in the late 20th century as an essential industrial metal. Gold performs critical functions in computers, communications equipment, spacecraft, jet aircraft engines, and a host of other products. Although gold is important to industry and the arts, it also retains a unique status among all commodities as a long-term store of value. Until recent times, it was considered essentially a monetary metal, and most of the bullion produced each year went into the vaults of government treasuries or central banks².

² USGS: <http://minerals.usgs.gov/minerals/pubs/commodity/gold/>

1. Global Gold Industry

Gold assumes different uses in the global market: jewellery, technology, investment and central banks and other institutions. Investment accounts for the biggest single use of 47.9%, jewellery accounts for the 37.3%, central banks and other institutions account for 8.5% and finally technology sector accounts for 6.3% of gold demand. These diverse uses for gold, in jewellery and technology and by central banks and investors, mean that across the decades different sectors in the gold market have risen in prominence at different points in the global economic cycle. This self-balancing nature of the gold market means that, typically, there is a sustained base level of demand.

Gold demand grew 21% to 1289.8t in Q1 2016, the strongest Q1 on record. It was mainly driven by the rekindled interest of Exchange Traded Funds (“ETF”) investors. Inflows of funds into gold-backed ETFs of 363.7t were the highest since Q1 2009 as sentiment towards gold improved. Shifts in the global economic and financial landscape have created a positive environment for investment in gold recent months. Several uncertainties appeared including Negative Interest Rate Policies (NIRP) implemented by central banks in Japan and Europe, China’s devaluation of yuan and slow pace of rise of US interest rate. The swirling uncertainty created undermined confidence in traditional gold asset classes and fund entered gold-backed ETFs.

India’s jewellery market virtually ground to a halt in March as a combination of surging prices and industrial action in protest at government policy made for an extremely challenging quarter. In mid-January, the local gold price breached the key Rs 26,000/10g level and getting higher by end of quarter. This sent a strong signal to Indian customers to hold off on buying gold jewellery until prices stabilized. Then, in the government’s budget on 29 February, the Finance Ministry announced plans to impose a 1% excise duty on jewellery manufacturing. The response from the jewellery sector was a nationwide strike with support of national industry associations throughout the quarter. Taken in this context, demand for gold jewellery was unsurprisingly weak. Yet, the demand from Q1 is believed to be postponed instead of lost, which has positive implications for gold demand over the coming quarters.

Total supply in gold increased by 5% year-on-year, the result of an 8% increase in total mine supply and a 1% decline in gold recycling. Total mine supply benefitted from a marginal increase in mine production from existing projects and recent start-ups and a renewed interest in hedging from some producers. And while recycling dipped year-on-year, the rapid rise in gold prices at the start of 2016 fuelled strong quarter-on-quarter growth. The total gold reserves of the world top ten countries are listed as the table below:

Table 12 – 1 Gold Reserves of the Top Ten Countries

Rank	Country	Tonnes (t)	% of Reserves
1	United States	8,133.5	75%
2	Germany	3,381.0	69%
3	Italy	2,451.8	68%
4	France	2,435.7	63%
5	China	1,797.5	2%
6	Russia	1,460.4	15%
7	Switzerland	1,040.0	7%
8	Japan	765.2	2%
9	Netherlands	612.5	61%
10	India	557.7	6%

Source: World Gold Council

2. PRC Gold Industry

The global gold demand is now driven by China which sets a large proportion and becoming the world’s leading gold consumer, while China has been the number one in production since 2007. Analysis of its gold market is challenging because inflows and outflows are not well traced. Analysts have only data from the Hong Kong Census and Statistic Department. The other point is that gold flows are not always pure gold but include manufactured products and other products. Imported and produced gold goes to the Shanghai Gold Exchange (“SGE”). SGE is a membership-based and self-regulatory legal entity established by the People’s Bank of China upon the approval of the State Council and registered with the State Administration for Industry and Commerce. The SGE currently has a network of 58 Certified Vaults (of which 55 are for gold storage and three are for silver storage) in 36 cities nationwide covering all major gold refinement and consumption regions, providing physical delivery, transfer, logistics, and transport services to enterprises and individuals across the country.

2.1 Gold Demand in PRC

Demand for gold jewellery in China fell 17% in Q1 2016, to 179.4t. The global appetite for gold jewellery was curbed by the sharply rising gold price against a background of continued worldwide economic slowdown. Despite Chinese investors increased their demand for gold bars and coins in Q1 2016. The usual seasonal uplift from Chinese New Year drove demand in the first six weeks of the quarter. A number of major commercial banks reported increases in sales of gold investment products, although regional differences were noted with robust demand in the East China countered by relatively subdued demand in the South China.

2.2 Gold Supply in PRC

The supply-side crunch further hampered China's jewellery market. A new national standard for hallmarking of gold jewellery (the National Gold Standard Mark) came into force on 4 May, which requires that all gold jewellery of 99% purity be hallmarked. During March, retailers nationwide were busy adjusting their inventories in order to replace existing stocks with inventory that complies with the new requirements, in time for the early May deadline. This surge in stock replacement activity led to a temporary supply squeeze. But jewellers also took the opportunity to refresh their stocks with more interesting, higher-margin product offerings (e.g. 18k, gem-set, 3-D hard gold etc.). These may entice consumers, and help support profits in the coming quarters, but may be detrimental to gold volumes, given that they have largely replaced plain 24k pieces.

The supply of gold jewellery in China came under further pressure as lines of available capital were constrained. During the quarter, domestic banks tightened the conditions under which they will lend to jewellery manufacturers and retailers. Retailers are gradually streamlining their operations in response to the tougher business climate and reducing overall inventories and order volumes, adding to the supply-side pressure in the market.

According to the statistics of the China Gold Association, the accumulated national gold production was 111.563t in Q1 2016, representing an increase of 0.858t or 0.78% over the same period from 2015. Among that, 87.930t were gold mineral product, representing a decrease of 0.38% over the same period in 2015; 23.632t were gold by-product from non-ferrous metals, representing an 5.32% increase over the same period in 2015. China has been the country of the largest gold

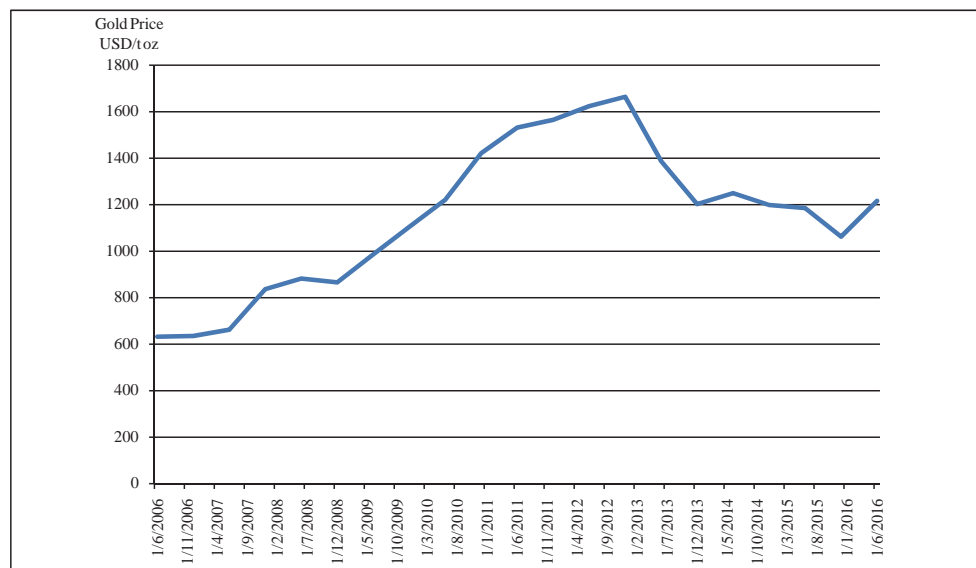
production in succession for the last nine years since 2007. The top ten gold producing groups in China including China Gold Group, Zijin Mining Group, Shandong Gold Group, Shandong Zhaojin Group account for 54.57% and 41.16% in the nationwide gold product and gold mine production respectively.

The gold market in China continues to thrive. In Q1 2016, all categories of gold products totalled transaction volume of 11.3kt in SGE, rising for 45.32% year-on-year, the gold future transaction volume in Shanghai Futures Exchange (“SFE”) also amounted for 22.3kt, an increase of 79.05% year-on-year, and ranked second in future contract trading globally. By mid of April, SGE also published the first gold benchmark price in RMB in the world as at RMB256.92 per gram of gold.

3. Gold Price Analysis

Historical price of gold analysis shows a huge increase in the first and second quarter of 2012 caused by a collapse of the US Dollar, soaring deficits and a lack of decision on fiscal policy so gold became the most reliable hedge. The gold price trend of the last 10 years is shown in the figure below.

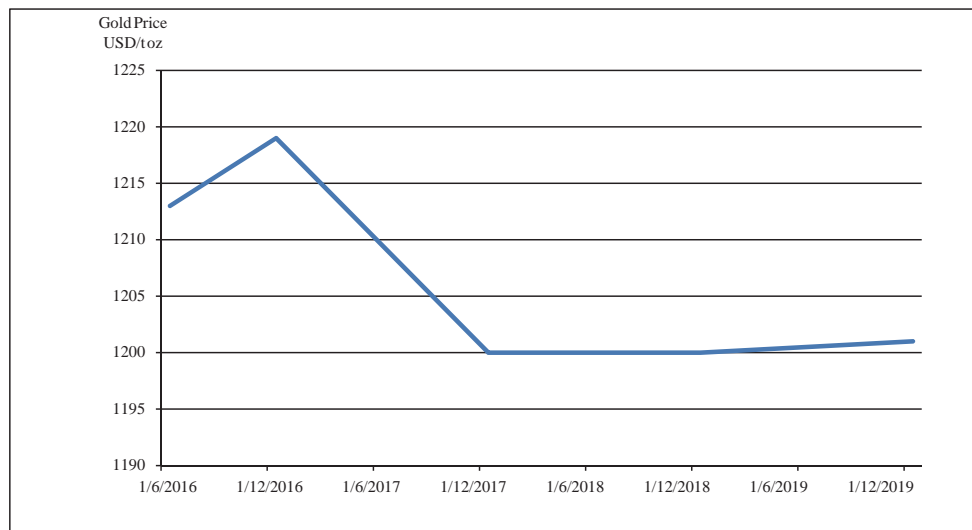
Figure 12 — 1 Historical Gold Price Trend from 2006 to 2016



Source: Bloomberg

The figure below shows the independent gold price forecasts from 2013 to 2025 published in 2016 April Commodity Markets Outlook by World Bank.

Figure 12 – 2 Gold Price Forecast Trend



Source: Bloomberg

Subsequent to the Valuation Date, the United Kingdom’s referendum on whether to stay in or leave the European Union has been great market spotlight to be focused. This has also been a big driver of currency and stock market volatility afterwards. The two major forces that impact the gold price would be the US dollar and uncertainty on market condition, suggested by two investment experts on CNBC interview. As the dollar slips, gold tends to rise, so a post-vote rise in the British pound and euro should tend to hurt gold prices. On the other hand, rises in uncertainty and declines in stock prices tend to be accompanied by gold gains, which is why a vote against the status quo could send gold soaring. Over the course of month, gold has risen to USD1,319 per troy ounce, before sliding back to USD1,272 per troy ounce. In either scenario of result of UK’s referendum, gold price could rise, thus bullish case of this asset is foreseen.

XIII. COMPANY OVERVIEW

1. China Mining Resources Group Limited (the “Company” or the “Commissioning Entity”)

The Company was incorporated in Bermuda and is listed on The Stock Exchange of Hong Kong Limited (stock code: 0340) with its principal activity as investment holding.

2. One Champion International Limited (the “Target Company”)

The Target Company is a company incorporated in the British Virgin Islands with limited liability. It effectively holds 90% equity interest in Tongguan County Xiangshun Mining Development Company Limited.

3. Tongguan County Xiangshun Mining Development Company Limited (the “Project Company”)

The Project Company is a company established in China with limited liability which owns the beneficial interest and holds the mine exploitation licences and mine exploration licence of the Tongguan County Gold Mine. It also owns a gold processing plant.

4. The Tongguan County Gold Mine (the “Gold Mine”)

The Gold Mine is a gold mine located in Weinan City of Tongguan County, Shaanxi Province of the PRC. The Gold Mine is covered by the mining rights of Q301, Q401 and Q198 gold veins, with mining right areas of 5.2002km², 1.8765km² and 0.3328km² respectively. Shaanxi Tongguan County Jinxing Mining Company Limited (“Tongguan Jinxing”) is the nominal owner of the mining right of the Q4112 gold vein, with mining right area of 0.388km². However, according to the Legal Opinion, the Project Company is the current owner of this mining right and the relevant government authorities are processing the application of mining licence name change. No legal barriers are expected. The total mining area is 7.7975km².

XIV. PROJECT OVERVIEW

The Project is located in Tongguan County, Shaanxi Province of the PRC, approximately 155km east of Xi’an, capital of Shaanxi Province. The Project comprises three major facilities, clustered within a 15km diameter. The mine and exploration area lie approximately 10km south of Tongguan County. The processing plant is located at Beidong Village, Daiziying Town, Tongguan County, approximately 10km northeast of the mine. The Project’s administrative office is located at Xizhazi Village, Tongguan County. The three facilities are connected by well-maintained paved provincial roads.

Xiangshun has a portfolio of mineral tenements, including four mining licences (Q401, Q4112, Q301 and Q198), totaling 7.7975km². An application for an exploration licence, covering the adjoining area of Q401 and the area formerly occupied by Xiangshun’s exploration licence (Q4114), with a total area of 16.23km² was submitted to the relevant government authority on 13 January 2016. As of 1 June 2016, mining operations within Q401 and Q301 were continuing. The operation within Q4112 was suspended in October 2015 in order to upgrade the production safety measures, but resumed in late June 2016. A ramping down of production within Q198 is underway as closure planned.

1. Mining Areas and Exploration Area

Xiangshun has a portfolio of mineral tenements, including four mining licences (Q401, Q4112, Q301 and Q198), totalling 7.7975km². An application for an exploration licence, covering the adjoining area of Q401 and the area formerly occupied by Xiangshun's exploration licence (Q4114), with a total area of 16.23km² was submitted to the relevant government authority on 13 January 2016. The Legal Opinion was provided to the Company on the status of each tenement and tenement application by Tian Yuan Law Firm on 31 October 2016. This Legal Opinion indicated that all tenements were issued by the competent authority and are currently valid. The Legal Opinion also indicated that the tenement under pending application has received an initial approval by the relevant authority on 29 July 2016 which implies that there is no further legal obstacle before the licence is formally granted.

The details of the Mining Licences of Q401, Q4112, Q301 and Q198 gold veins and the Exploration Licence Application of Q4114 and Q401 adjoining area gold veins are shown as below:

Table 14 – 1 Details of Licence Q401

Q401	
Mining Licence No.	C6100002011044120110592
Mine Name	Tongguan County Tongyu Gold Field Q401 Gold Vein
Mining Right Owner	Tongguan County Xiangshun Mining Development Company Limited
Mining Method	Underground Mining
Production Capacity	15,000t/a
Mining Area	1.8765km ²
Mining Depth	1,250 — 900m elevation
Mining Period	6 May 2015 — 6 May 2018

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Table 14 – 2 Details of Licence Q4112**Q4112**

Mining Licence No.	C6100002013064110130335
Mine Name	Tongguan County Jinxing Mining Company Limited Haochayu Gold Field Q4112 Gold Vein
Nominal Mining Right Owner	Tongguan County Jinxing Mining Company Limited
Effective Mining Right Owner*	Tongguan County Xiangshun Mining Development Company Limited
Mining Method	Underground Mining
Production Capacity	30,000t/a
Mining Area	0.388km ²
Mining Depth	1,280 — 950m elevation
Mining Period	22 June 2016 — 22 June 2019

**Note:* Tongguan Jinxing is the nominal owner of the mining right of the Q4112 gold vein, with mining right area of 0.388km². However, advised by Tian Yuan Law Firm, the Project Company is the current owner of this mining right and the relevant government authorities are processing the application of change of owner of the mining licence in which no legal barriers are expected.

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Table 14 – 3 Details of Licence Q301**Q301**

Mining Licence No.	C6100002009084120031621
Mine Name	Tongguan County Xiangshun Mining Development Company Limited Q301 Gold Vein
Mining Right Owner	Tongguan County Xiangshun Mining Development Company Limited
Mining Method	Underground Mining
Production Capacity	15,000t/a
Mining Area	5.2002km ²
Mining Depth	1,240 — 1,080m elevation
Mining Period	30 May 2016 — 30 May 2018

Table 14 – 4 Details of Licence Q198**Q198**

Mining Licence No.	C6100002010034120059580
Mine Name	Tongguan County Xiangshun Mining Development Company Limited Q198 Gold Vein
Mining Right Owner	Tongguan County Xiangshun Mining Development Company Limited
Mining Method	Underground Mining
Production Capacity	15,000t/a
Mining Area	0.3328km ²
Mining Depth	1,250 — 1,020m elevation
Mining Period	9 July 2015 – 9 July 2017

Table 14 – 5 Exploration Licence Application

Area	Area (km²)
Q4114	8.8
Q401 adjoining area	7.43
Total	16.23

For more details, please refer to the ITR under the section of “Project Description”.

2. History of Mining and Mining Method

Since 2009, two geological teams have worked in the Project area, namely Shaanxi Geological Bureau Team 6 (“Team 6”) and Northwest Nonferrous Geological Bureau Team 712 (“Team 712”). Details of their exploration works have been properly recorded. The production records between 2013 and May 2016 are shown in the following table:

Table 14 – 6 Production Records of the Gold Mine from 2013 to May 2016

Project Area	2013		2014		2015		Jan-May 2016	
	Tonnes (t)	Grade (g/t Au)	Tonnes (t)	Grade (g/t Au)	Tonnes (t)	Grade (g/t Au)	Tonnes (t)	Grade (g/t Au)
#1 Q301	2,104	5.69	18,660	5.75	3,992	5.75	14,080	4.64
#2 Q401	18,468	6.30	6,835	6.39	15,664	6.37	14,561	5.62
#3 Q4112	21,899	6.05	11,585	6.16	15,560	6.20	—	—
#4 Q4112	4,065	6.30	—	—	16,037	6.13	—	—
#5 Q401	—	—	14,619	5.77	—	—	—	—
Q198	—	—	—	—	—	—	3,888	4.62
Total	46,536	6.15	51,699	5.93	51,253	6.20	32,529	5.08

Please refer to the ITR under the section of “Mining and Ore Reserves” for more details.

3. Current Operational Status

- The Q401 project area has been in operation since 2012; the Q4112 project area had been in operation since 2013, but was suspended in October 2015 in order to upgrade the production safety measures, the operation resumed in late June 2016; the Q301 area had been in production between 2013 and 2015 and the current scale of production is restricted as the remaining resource in this area is limited;
- Milling of self-mined ores and third parties' ore feeds is under operation; and
- The current nameplate capacity of the processing plant which is 157ktpa while the current approved mining capacity totals 75ktpa, which is sufficient to process all the self-mined ores. Excess capacity is utilized for processing third parties' ores.

4. Geology

Regionally, the Project forms parts of the Xiaoqinling gold field, which is located in the northernmost Qinling Terrane. The Xiaoqinling gold field represents the second largest gold belt in China and is highly prospective for high-grade, narrow-vein gold deposits.

Structurally, the Project area is marked by a primary east-west trending structure that marks the axis of an anticline. The width of this structure varies between several to tens of metres wide and can be traced for kilometres. A secondary conjugate set of north west and north east trending structure are present. These fractures can be traced for up to a few hundred metres along strike. A north-south trending set of fractures, interpreted as the third-order structure is also present. Gold mineralization tends to be associated with second- and third-order structures. Radiometric dating of the mineralization revealed that the Xiaoqinling gold mineralization occurred in the Early Cretaceous (Zhou et al., 2015).

The Project displays structural features typical of gold mineralization of an orogenic affinity. Orogenic gold deposits are associated with regionally metamorphosed terranes of all ages (Archean to Present). Ores were formed during compressional to transpressional deformation processes in accretionary and collisional orogens. Subduction-related thermal events initiate and drive long distance hydrothermal fluid migration, with the resulting gold-bearing quartz veins being emplaced some 15-20km to be near-surface environment. Pervasive wall-rock alteration and mineralization often accompany gold-bearing veins.

For more details, please refer to the ITR under the section of "Geology".

5. Ore Reserve, Mining Inventory and Mineral Resources

Based on the Mineral Resources defined in Chapter 6 of the ITR, a mine plan was designed based on the technical parameters set out in the FS, which were reviewed and modified by SRK. No Measured Resources have been declared for the Project. The economically minable part of the Indicated Resources were converted to Probable Ore Reserves. In addition, SRK has used the modifying factors set out in the FS Report, to convert the defined Indicated Resources in all tenements to Mining Inventory. The Mining Inventory is not part of the Ore Reserve because some of the Mining Inventory is located outside the existing mining licences and thus cannot be mined until all the exploration licences applications are converted to mining licences and all required approvals are in place. The Ore Reserve, Mining Inventory and Mineral Resources estimate as at 1 June 2016 are as follows:

Table 14 – 7 Ore Reserve Statement of the Gold Mine as at 1 June 2016

Domain	Category	Tonnage (t)	Average Grade (g/t Au)	Au (oz)	Au (kg)
Q401-3 ML	Probable	62,600	7.3	14,600	454
Q4112	Probable	126,600	4.7	19,100	594
Total	Probable	189,200	5.5	33,700	1,048

* Sum of individual may not be equal to total due to rounding

Table 14 – 8 Mining Inventory Statement of the Gold Mine as at 1 June 2016

Licence Type	Project Area	Resource Category	Tonnage (t)	Average Grade (g/t Au)	Au (oz)	Au (kg)
Mining Licence	Q401-3	Indicated	62,600	7.3	14,600	454
	Q4112	Indicated	126,600	4.7	19,100	594
Exploration Licence Application	Q4114	Indicated	54,000	5.9	10,300	320
	Q429	Indicated	5,500	6.4	1,100	35
	Q1403	Indicated	31,400	6.8	6,800	212
	Q401-3	Indicated	27,600	7.5	6,700	208
	Q401-4	Indicated	277,100	7.0	62,400	1,940
Total		Indicated	584,800	6.4	121,000	3,764

* Sum of individual may not be equal to total due to rounding

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Table 14 – 9 Mineral Resources Statement of the Gold Mine as at 1 June 2016

Licence Type	Project Short Name	Domain	Category	Tonnage (t)	Average Grade		Au (kg)	
					(g/t Au)	Au (oz)		
Mining Licence	Q401	Q401-3ML	Indicated	98,900	7.25	23,100	717	
			Inferred	115,700	6.93	25,800	802	
	Q4112	Q4112	Indicated	149,800	5.31	25,600	795	
			Inferred	113,500	4.90	17,900	556	
	Q301	Q301	Inferred	16,400	5.10	2,700	84	
	Q198	Q198	Inferred	19,300	3.87	2,400	75	
	Total			Indicated	248,700	6.08	48,600	1,512
				Inferred	264,900	5.72	48,700	1,516
	Exploration Licence Application	Q4114	Q4114	Indicated	75,800	6.01	14,600	456
				Inferred	139,000	9.32	41,700	1,295
Q429			Indicated	7,800	7.81	2,000	61	
			Inferred	7,000	6.46	1,500	45	
Q1403		Q1403	Indicated	56,900	6.70	12,300	381	
			Inferred	52,800	7.03	11,900	371	
Q401 adjoining area		Q401-3ELA	Indicated	40,400	7.88	10,200	318	
			Inferred	20,900	6.01	4,000	126	
Q401-4		Q401-4	Indicated	420,000	7.60	102,600	3,192	
			Inferred	103,000	2.95	9,800	304	
Total			Indicated	600,900	7.34	141,700	4,408	
			Inferred	322,700	6.64	68,900	2,141	
Total			Indicated	849,600	6.97	190,300	5,921	
			Inferred	587,600	6.22	117,600	3,658	

* Sum of individual may not be equal to total due to rounding

6. Mining and Processing Operations

The ore mined from the Gold Mine will be transferred to the self-owned processing plant for milling. The processing plant flowsheet is simple and conventional. The feed ore metallurgical behavior is considered to be conventional. As a result, the floatation process used in the plant is simple, is capable of achieving good levels of production, and yield favorable technical processing parameters including throughout, gold recoveries and reagent consumptions.

The workflow in the processing plant is as follows:

1. Primary and secondary crushing;
2. Grinding;
3. Rougher flotation;
4. Cleaner and scavenger flotation; and
5. Dewatering.

The production capacity of the processing plant is 475 tpd or 157ktpa with a designed work schedule of 330 working days per year, and annual operating rate is 90.4%.

According to the ITR, the key production performance parameters from 2013 to 2015 showed that the gold concentrate had an average grade of 60 g/t Au and a gold recovery rate of 96.5%. SRK noted that mercury was blended into the ore slurry before the flotation process to produce a gold alloy, but the Project Company stopped using the mercury in 2013 for environmental protection reasons. Therefore, no alloy has been produced since 2013. A high gold recovery rate can be obtained by simple flotation processing.

The Project Company did not conduct any systematic assay on the associated economically recoverable minerals of lead, silver and copper during production, there is insufficient information on their recovery rates. These minerals were recovered together with gold and sold for a price based on their content detected when sold.

For more details about the processing plant, please refer to the ITR section “Metallurgy and Processing”.

XV. VALUATION METHODOLOGY

The valuation of any asset can be broadly classified into one of the three approaches, namely the cost approach, the market approach and the income approach. In any valuation analysis, all three approaches must be considered, and the approach or approaches deemed the most relevant will then be selected for use in the Market Value analysis of that asset. While there are many methods that can be used to determine the Market Value of a company or project comprised of tangible or intangible assets, this specific assignment dictates that certain methodologies are inappropriate for this purpose. We will begin by discussion of each of the methods under the three approaches and provide reasons for unsuitable methods and conclude the methods that will be used in this valuation.

Figure 15 – 1 Different Valuation Methodologies

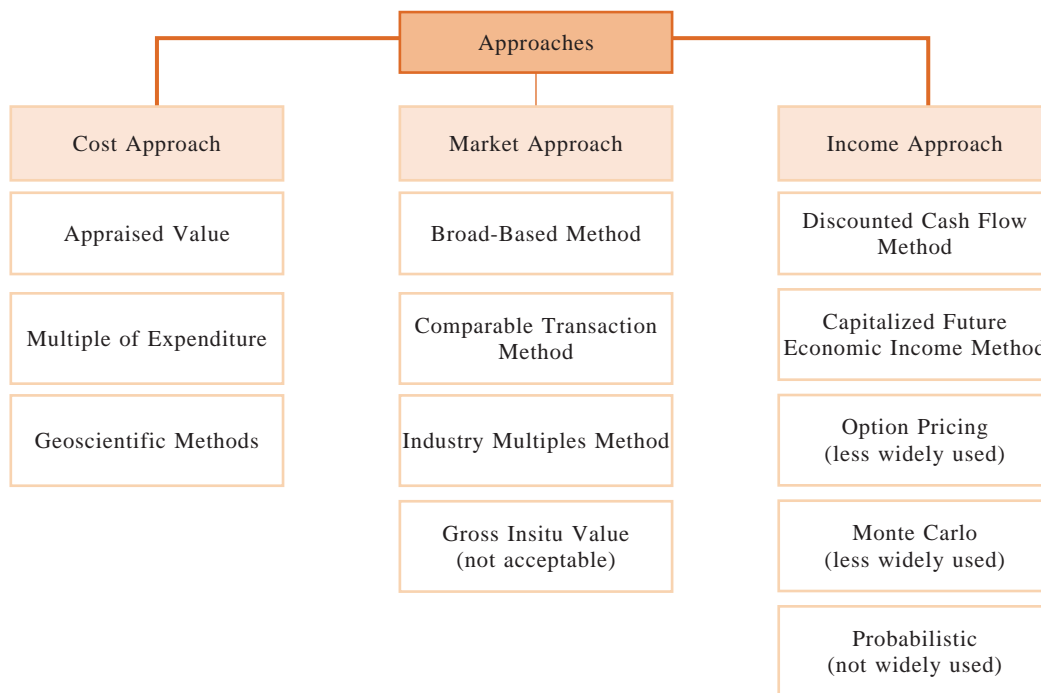


Table 15 – 1 Applicable Valuation Approaches for Different Stages of Mining Operation

Valuation Approach	Exploration Projects	Pre-development Projects	Development Projects	Production Projects
Market	Yes	Yes	Yes	Yes
Income	No	In some cases	Yes	Yes
Cost	Yes	In some cases	No	No

Source: *The Valmin Code 2015 Edition*

1. Cost Approach

The cost approach is based on the principle of contribution to value. It evolves from the cost principle of accounting, on which most business financial statements are based. It is also known as the asset-based approach. The fundamental accounting principle is the book value of assets minus the book value of liabilities equals the book value of the business owners' equity. In valuation, the fundamental valuation principle is the current value of assets minus the current value of liabilities equals the current value of the business or project owners' equity. They are economics identities. Based on the purpose and objective of the valuation, the valuer will apply the appropriate standard of value to the subject equity interest. If an asset-based approach is used, the valuer will apply a corresponding appropriate standard of value to all of the assets and liabilities of the subject company or project. One of the most commonly used methods is the appraised value method for which the Market Value of the mineral asset approximates the amount of exploration expenditure incurred/likely to be incurred. Asset accumulation method is also widely used in which a valuer restates all of the assets and liabilities of the subject company from their historical cost basis to the appropriate standard of value.

2. Market Approach

While there are many ways to determine the value of mineral assets, one of the most reliable and the most likely to be accepted to resolve legal disputes is based on the price as determined by actual market transactions.

In the market approach, value is established based on the principle of competition. This simply means that if one thing is similar to another and could be used for the other, then they must be equal. Furthermore, the price of two alike and similar items should approximate one another. For the market approach to be used, there must be a sufficient number of comparable companies/transaction to make comparisons, or, alternatively, the industry composition must be such that meaningful comparisons can be made.

There are several different methods and variations under this approach:

Broad-based Method: It consists of determining the value of mineral assets by comparing it with the values of similar mineral assets under similar circumstances. This method is more difficult when applied to mineral assets because the underlying mineral assets have a number of unique characteristics that make it complicated to perform direct comparisons between different situations; characteristics such as quality and quantity of each mineral, mining and processing systems and costs, production quantities and products, and location and schedule of mining.

Comparable Transaction Method: Value is determined on a per unit basis, such as value per tonne. Differences in the mineral and property characteristics are reflected in the unit value of the mineral.

Industry Multiples Method: This method involves comparing the value of two or more publicly traded companies on the basis of stock price. If one of the companies is not publicly traded, financial and performance ratios taken as indicators of stock worth can be determined and compared.

3. Income Approach

The income approach is based upon the economic principle of anticipation (sometimes also called the principle of expectation). In the income approach, the value of the subject investment is the present value of the economic income expected to be generated by the investment. This is a general way of determining a Market Value of a mineral asset by converting anticipated benefits into a present value amount.

In the income approach, an economic benefit stream of the asset under analysis is selected, usually based on historical and/or forecasted cash flow. The focus is to determine a benefit stream that is reasonably reflective of the asset's most likely future benefit stream. This selected benefit stream is then discounted to present value with an appropriate risk-adjusted discount rate. Discount rate factors often include general market rates of return at the valuation date, business risks associated with the industry in which the company operates, and other risks specific to the asset being valued.

Major methods commonly used under this approach are Discounted Cash Flows Method ("DCF") and Capitalized Future Economic Income Method.

XVI. METHODS CONSIDERED BUT REJECTED**1. Cost Approach**

The Project is identified to be production properties. We have considered but rejected the cost approach to arrive at the Market Value of the Project as at the Valuation Date. The explanations for rejecting this method as a whole are as follows:

- The amounts of exploration expenditure incurred/to be incurred do not truly reflect the value of the Project on the basis of the followings:
 - Expenditures that had been incurred do not provide tangible evidence of residual or future value;
 - Expenditures that are likely to be incurred are not always indicative of future value; and
 - It is not always the case that expenditures can be incurred efficiently and be fully reflected in the value of the Project.

- It does not address technical or economic aspects of the prospects of the commodity market and financial market, economic conditions or country risk; and

- Each ore reserve and mineral resource is unique as it varies from the geological structure of the mineral assets to mineral grading, etc. The value of the Project depends on the underlying mineral value. The value of the Project is determined by the amount of reserve/resource in the mine deposits from which economic benefits can be derived, rather than the expenditure spent on the exploration.

2. Market Approach — Broad-based Method

It is very difficult to apply the Broad-based Method to mining assets. We considered but rejected this method to be applied to this valuation to arrive at the Market Value of the Project as of the Valuation Date for the following reasons:

- The market approach is the approximate transaction price of a company/business/asset. Direct comparison of natural resource is often difficult;

- Mining asset often consists of a number of unique characteristics that make direct comparisons complicated. Such characteristics include, but are not limited to quality and quantity of each mineral, mining and processing systems and costs, production quantities and products, and location and schedule of mining; and

- Available public information in relation to the acquisitions frequently involves specific buyers who pay a premium/discount under their unique circumstances. This makes it difficult to know if the price paid truly represents the approximate value of the transaction.

3. Market Approach — Industry Multiples Method

We have considered but rejected Industry Multiples Method to arrive at the Market Value of the Project as at the Valuation Date for the following reason:

- It would be very difficult to compare two gold mining companies on the basis of stock prices as the comparison on the basis of stock prices cannot reflect the difference in the value of the underlying mineral assets.

XVII. METHODS CONSIDERED AND APPLIED

Under VALMIN Code, a valuation report should make use of at least two valuation approaches. In subject valuation, both income approach and market approach are adopted.

1. Income Approach — Discounted Cash Flow Method (“DCF”)

After careful consideration of the DCF method under the income approach, we arrived at the conclusion that this method is suitable for the purpose of this valuation and therefore, we have adopted the DCF method as one of the methodologies to arrive at the Market Value of the Project as at the Valuation Date. We have considered and accepted this method because:

- It is the preferred valuation method (under the VALMIN Code) for operating mining projects;
- Economic benefit streams for the Project can be identified and ascertained based on the mineral resources estimation and estimated capital expenditure to be incurred, as well as other cost estimates as detailed in the ITR;
- The project has known production history and operating costs; and
- This method is commonly used in and widely accepted for the valuation of mineral assets and resources projects.

2. Market Approach — Comparable Transaction Method

We have also considered and applied the Comparable Transaction Method for this valuation because there were sufficient number of comparable transactions could be identified. Each mining project has its own characteristics and composition of mineral resources, thus the Comparable Transaction Method can provide a high level comparison. Therefore, it provides additional information to the investors about the value of the Mineral Asset when comparing with other similar transactions, whilst also providing a useful comparison with the DCF valuation estimate.

XVIII. GENERAL ASSUMPTION OF VALUATION

A number of assumptions have to be established in order to sufficiently support our conclusion. The general assumptions adopted in the valuation are:

- There will be no material change in the existing political, legal, fiscal, foreign trade and economic conditions in China;
- There will be no major change in the current taxation law in China, that the rates of tax payable will remain unchanged and that all applicable laws and regulations will be complied with;
- There will be no material change in interest rates or foreign currency exchange rates from those currently prevailing;
- Future mining schedule for the Project will conform to those forecasted;
- Cost, expenses and profit margins will conform to those forecasted by the management of the Project Company and the ITR;
- Future capital expenditure (“Capex”) would conform to those forecasted by the management of the Project Company and shown in the ITR; and
- The Project Company can retain competent management, key personnel, and technical staff to support on-going operations.

XIX. INCOME APPROACH — DISCOUNTED CASH FLOW METHOD**1. Major Assumptions**

The income approach is an economic measure reflecting the Market Value. Our development of the Market Value under the income approach will be performed by using the DCF methodology, which requires a number of parameters, including revenue and expense forecasts, working capital requirement and capital expenditure requirement. DCF requires an explicit forecast of the future benefit streams over a reasonably foreseeable short-term to medium-term in accordance with detailed business plan and technical parameters in the ITR and an estimate of a long-term benefit stream that is stable and sustainable, i.e. not varying from period to period and the benefit stream is determined to continue into the future without compromise.

The essential elements of DCF are: (1) the expected earnings streams to be discounted, and (2) the discount rate.

The net cash flows from the Project were estimated, and we discounted the sum to a present value at the appropriate discount rate, as illustrated below:

$$PV = \frac{E_1}{(1+k)} + \frac{E_2}{(1+k)^2} + \frac{E_3}{(1+k)^3} + \dots + \frac{E_n}{(1+k)^n}$$

PV = Sum of present value of the expected economic income as at the Valuation Date.

$E_1, E_2, E_3, \text{ etc.}$ = Expected economic income in the 1st, 2nd, 3rd periods, and etc.

E_n = Expected economic income in the last period

k = Discount Rate

In the valuation of the Equity Interest, we have considered the Ore Reserve Statement in the ITR and the production schedule of the Mining Inventory. The production of the Mining Inventory can be considered an expansion plan from the ore reserves as at the Valuation Date. From the ITR, SRK reviewed the feasibility study report on production expansion plan prepared by Xi'an Nonferrous Metallurgy Engineering and Research Institute Co., Ltd. ("XAENFI"). The feasibility study has considered all Resources within the mining licences, and the pending exploration licence application. Those Resources within the pending exploration licence application cannot be converted to Ore Reserves. After the review, SRK has applied the term

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“Mining Inventory” to represent the planned production targets of the expansion plan. We have confirmed from the management of the Project Company that they has been working in progress towards the expansion plan. Hence, we considered the expansion plan would be a fair basis of the DCF.

Provided below is a brief description and analysis of the major assumptions applied in the valuation of the Equity Interest.

1.1 Mining & Third Parties’ Ores

Based on the ITR, the total amount of Mining Inventory of the Gold Mine were 584,800t at 6.4g/t Au as at 1 June 2016. Taking into account the mining loss and mining dilution, there will be mining inventory for production as shown in the table below:

Table 19 — 1 Estimated Mining Inventory of the Gold Mine as at 1 June 2016

Category	Tonnage (t)	Grade (g/t Au)	Grade	
			Au (oz)	Au (g)
Mining Inventory	584,800	6.4	121,000	3,763,559

Table 19 – 2 Mining Schedule of the Gold Mine

	2013 (Actual)	2014 (Actual)	2015 (Actual)	Jan-May	
				2016 (Actual)	Jun-Dec 2016
Mining Capacity of the Gold Mine (Tonne)	46,536	51,699	51,253	32,529	25,167
	2017	2018	2019	2020	2021
Mining Capacity of the Gold Mine (Tonne)	45,727	45,264	156,757	156,734	155,151

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Table 19 – 3 Production Schedule of Processing Plant in terms of Gold Ore in Base Case

	Jan-May			2017	2018	
	2015 (Actual)	2016 (Actual)	Jun-Dec 2016			
Input from Gold Mine (Tonne)	51,253	32,529	25,167	45,727	45,264	
Input from third parties' ores (Tonne)	34,777	29,084	40,718	100,000	100,000	
Output of Gold Concentrate (g)	419,760	382,140	348,985	834,389	814,824	
	2019	2020	2021	2022	2023	
Input from Gold Mine (Tonne)	156,757	156,734	155,151	—	—	
Input from third parties' ores (Tonne)	—	—	—	100,000	100,000	
Output of Gold Concentrate (g)	1,080,446	981,073	939,843	575,830	575,830	
	2024	2025	2026	2027	2028	2029
Input from Gold Mine (Tonne)	—	—	—	—	—	—
Input from third parties' ores (Tonne)	100,000	100,000	100,000	100,000	100,000	100,000
Output of Gold Concentrate (g)	575,830	575,830	575,830	575,830	575,830	575,830

Based on the track record of historical successful applications of mining licences in the domains of the Gold Mine, the Project Company was capable and eligible to obtain approval for the mining licences in the domains to be included in the expansion plan of the mining schedule as stated in the ITR. Moreover, advised by Tian Yuan Law Firm, there was no legal barrier expected to the Project Company in application for the change of ownership of domain Q4112, we considered that the Project Company could eventually obtain all the mining licence approval of domains to execute the expansion plan of mining schedule as stated in the ITR.

The existing third parties' ores supply contracts were signed between the Project Company and Lingbao City Kaiyuan Mining Company Limited ("Lingbao Kaiyuan")³ and Henan Zhongjiamingke Mining Company Limited ("Zhongjiamingke")⁴ respectively. Pursuant to the contracts, Lingbao Kaiyuan and Zhongjiamingke agreed to provide gold ores to the Project Company by no less than 100,000 tonnes and 80,000 tonnes respectively from 1 January 2015 to 31 December 2029. Both supplier companies also agreed that the gold ore would be provided with gold grade from 3g/t to 7g/t at a price of RMB80 per gram adjusted for the market gold price and gold grade.

The business license of the Project Company does not require the Project Company to have mining activities in order to operate the processing plant. While the Project Company will seek to expand the mining business by further exploration, as advised by the PRC legal advisors, there is no legal restriction to operate the processing plant to process ores feed from third parties even if self-owned mines have been exhausted.

In total, for each year until maturity of contracts the supplier companies have to supply third parties' ores to the Project Company by no less than 180,000 tonnes per year on request. The maximum annual capacity of the processing plant is 156,750 tonnes gold ore, thus the excess capacity of processing plant over the self-mined ores could be utilized by the supply of third parties' ores. Hereby, we considered that in base case of the Valuation under income approach, 100,000 tonnes of third parties' gold ore supply is expected in the projection period, while in optimal case, 156,750 tonnes of third parties' gold ore supply, which is the maximum processing capacity of the processing plan, is expected. The base case and optional case forms the basis of lower range and higher range of value of the DCF.

The ore mined from the Gold Mine and acquired from the third parties are processed in the self-owned processing plant. The third parties' ore is purchased under existing contract according to its gold content. From that point, the ore is mixed with ex-mine ore and processed as a single, mingled ore stream. The recovery rate is assumed to be 96% as reviewed by SRK in the ITR, which is a solid estimate as it is lower than the latest operating records and the recovery rate from 2013 to 2015.

³ For identification only; official Chinese name is 靈寶市開源礦業有限責任公司

⁴ For identification only; official Chinese name is 河南中加明科礦業有限公司

1.2 Commodity Prices

Gold price projection is mainly based on Bloomberg database. Gold prices applied in the valuation are as follows:

Table 19 – 4 Forecasted Gold Price

	2016 May	2016F	2017F	2018F	2019F
Gold Price (USD/t oz)	1,216	1,219	1,200	1,236	1,273

Source: Bloomberg and GCA research

The gold price for 2016 May was the spot price as at the Valuation Date. The future gold prices in 2016 and 2017 are the forecasted prices from Bloomberg. The gold price is assumed to grow at 3% per annum starting from 2018 which matches with the long-term growth rate.

1.3 Basis of Revenue

Revenue is generated from the sales of gold concentrate. The gold concentrate is projected to be sold to the smelter. For every tonne of concentrate output after milling of the processing plant, there is a smelter charge reduction from the selling price for handling and smelting of concentrate into gold bullion by the historical contract signed between the Project Company and the smelter. In the financial projection, the concentrate grade of concentrate output of the processing plant and the smelter charge on that concentrate were assumed to be 58.97g/t and RMB1,300/t following the historical operating record and the signed contract respectively.

As discussed in the ITR, the Project Company did not conduct any systematic assay on the associated economically recoverable minerals of lead, silver and copper during production, there is insufficient information on their recovery rates. However, these minerals were recovered together with gold and sold for a price based on their content detected when sold. Historically, the revenue from sales of tag along metals including silver and lead accounted for 2.63% and 2.43% of sales of gold concentrate in 2015 and first five months of 2016 respectively. It is assumed that the ratio would stay at 2.5% for the projection period.

Since the existing processing plant is able to handle the extra third parties' ores to gain more sales on gold concentrate. The processed amount of gold ore would be larger than that of the self-owned mines as well as the other tag-along metals in milling. The following tables would demonstrate two scenarios which represent the revenue to be made by the Project Company in absence and presence of the input from the third parties' ores:

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Table 19 – 5 Projected Revenue Without Processing Third Parties’ Ores from June 2016 to 2021

RMB’000	Jun-Dec					
	2016	2017	2018	2019	2020	2021
Sales of Gold Concentrate of Self-Owned mines	27,007	59,938	57,223	267,168	250,523	247,194
Sales of other tag-along metals in milling without third parties’ ore	675	1,498	1,431	6,679	6,263	6,180

Table 19 – 6 Projected Revenue With Processing Third Parties’ Ores from Jun 2016 to 2029 in Base Case

RMB’000	Jun-Dec					
	2016	2017	2018	2019	2020	
Sales of Gold Concentrate of Self-Owned mines	27,007	59,938	57,223	267,168	250,523	
Sales of Gold Concentrate from milling of third parties’ ore feed	55,295	133,486	137,872	—	—	
Sales of other tag-along metals in milling with third parties’ ore	2,058	4,836	4,877	6,679	6,263	
RMB’000	2021	2022	2023	2024	2025	
Sales of Gold Concentrate of Self-Owned mines	247,194	—	—	—	—	
Sales of Gold Concentrate from milling of third parties’ ore feed	—	155,996	160,676	165,496	170,461	
Sales of other tag-along metals in milling with third parties’ ore	6,180	3,900	4,017	4,137	4,262	

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RMB'000	2026	2027	2028	2029
Sales of Gold Concentrate of Self-Owned mines	—	—	—	—
Sales of Gold Concentrate from milling of third parties' ore feed	175,575	180,842	186,268	191,856
Sales of other tag-along metals in milling with third parties' ore	4,389	4,521	4,657	4,796

1.4 Basis of Resource Tax, Levy and Surcharge

According to the Legal Opinion prepared by Tian Yuan Law Firm, the Gold Mine is subject to resource tax of RMB4.2 per tonne of ores. According to a letter issued by the local government, the Project Company was required to pay RMB156 per tonne of ores as additional local resource levy on the mining activities of owned mines. In the financial projections, we have assumed that the Project Company would incur the resource tax and resource levy at the same rate as the historical levels. For the sales of tag-along metals, it is projected that the sales would be subject to value-added tax (“VAT”) of 17% plus 12% surcharges on the VAT.

1.5 Basis of Operating Cost

The operating cost includes the mining cost, environmental and backfilling charge, operating development cost, direct milling cost of the processing plant, labour, management and administrative cost, transportation cost, site services cost and other administrative cost.

Since the gold industry just begins to step into an rising trend yet with low confidence of gold price rebound in recent year, the management estimated that the operating cost would keep low as the level in 2015 and maintain for 5 years until 2020. We have also made reference to the ITR, the operating cost forecast reviewed by SRK also resembles the similar cost pattern. The operating costs are then subject to an annual increment of 3% to reflect the effect of inflation after 2020.

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Table 19 – 7 Operating Cost from June 2016 to 2020

Items	Unit	Amount
Direct Mining Cost	RMB/tonne of ore	400.00
Operating Development Cost	RMB/tonne of ore	85.60
Milling Cost of Processing Plant	RMB/tonne of ore	97.10
Transportation Cost	RMB/tonne of ore	16.53
Site Services Cost	RMB/tonne of ore	3.60
Management and Administrative Cost	RMB/tonne of ore	26.90
Environmental and Backfilling Charge	RMB/tonne of ore	26.58
Subtotal	RMB/tonne of ore	656.30
Non-income taxes, royalties and other governmental charges	RMB/tonne of ore	160.20
Total (including taxes and governmental charges)	RMB/tonne of ore	816.50

The direct mining cost is supported by the signed mining contracts between the Project Company and mining service providers in 2015. According to the contracts, the Project Company will pay the mining service providers at a rate of RMB400 per tonne of ores produced until end of 2015. Though the mining contracts have not been renewed, it is assumed that the Project Company would successfully retain the same rate of mining service.

The environmental and backfilling charge and the transportation cost are estimated through the historical operating record in first five months ended 2016 at an average of RMB26.58 and RMB16.53 per tonne of ore mined respectively.

The operating development cost is development cost used for mining that would be expensed in less than one year. The direct milling cost of the processing plant includes auxiliary materials, reagents, fuel, water and electricity excluding depreciation, which is directly related to the processing of ores to produce gold concentrate. In addition, labour overhead cost together with management and administrative cost of the management of the Project Company are costs required to operate the processing plant. Moreover, the site services cost is essentially expense related to on-site laboratory expense. With reference to the ITR, the operating development cost, the milling cost of processing plant and the management and administrative cost and the site services are assumed to be RMB86, RMB97, RMB27 and RMB4 per tonne of ores respectively.

In addition to the self-owned mine, the processing is required to process extra third parties' ores in order to fully utilize the nameplate capacity of the plant. Additional operating cost regarded as other administrative cost is required. The historical management and administrative cost of the Project Company in five months ending 2016 was around RMB5 million, other administrative cost would use the historical record as reference.

Overall, the cost projection applied has only minor variance with those presented in the ITR. The variance is actually between actual cost from latest operating records and the estimated cost in the feasibility study quoted by the ITR.

1.6 Basis of Capital Expenditure

Based on the ITR, RMB107 million of capital expenditure has been budgeted for the development of the project under the expansion plan to extract the Mining Inventory, with most of the costs to be spent on underground capital development, mining equipment and the new tailing storage facility. Additional mining and auxiliary equipment will be installed for sustaining or upgrading the current mining operation. Future capital expenditure at the processing plant as included in the current mining plan is limited to sustaining capital expenditure requirements. Others include fees for land usage, preliminary design report, environmental evaluation and insurance trail test. A 10% contingency has also been budgeted.

Table 19 – 8 Capital Expenditure

RMB' million	Jun-Dec					
	2016	2017	2018	2019	2020	2021
Capital Expenditure	13.2	12	14.7	38.5	26.3	2.3

1.7 Basis of Working Capital Requirement

The required working capital for the Project Company is projected based on the discussion with the management of the Project Company in consideration of the financial ratios including account receivable collection period, account payables repayment period, inventory turnover days and other payables and accruals in days from historical record and management practice. Other receivables and receipts in advance which amounts to RMB134.3 million and RMB41.8 million respectively would be considered to collect and offset in proximity. We have also compared with comparable companies for a reasonable range. The table below summarizes the working capital assumptions:

Table 19 – 9 Working Capital Assumptions

Working Capital Assumptions	2016	2017	2018	2019	2020	2021 and afterwards
Account Receivables in Days	—	—	—	—	—	—
Inventory Turnover in Days	4	4	4	4	4	4
Account Payables in Days	300	264	228	192	156	120
Other Payables and accruals in Days	180	168	156	144	132	120

2. Determination of Discount Rate

For this particular valuation, we considered using weighted average cost of capital (“WACC”) as the discount rate.

Firstly, we developed the cost of equity (“ R_e ”) and the cost of debt (“ R_d ”) for the Target Company which holds the Project based on data and factors relevant to the economy, the industry, and the Target Company itself as at the Valuation Date. Secondly, these costs were then weighted in terms of estimated capital structure expected by the Target Company to arrive at the WACC.

We considered market and industry data to develop the WACC for the Project.

The traditional formula for calculating the WACC is:

$$\text{WACC} = [(\%D) \times (R_d) \times (1 - \text{Tax Rate})] + [(\%E) \times (R_e)]$$

Where WACC: Weighted Average Cost of Capital;

%D: Weight of Interest Bearing Debt;

R_d: Cost of Debt;

%E: Weight of Equity; and

R_e: Cost of Equity

2.1 Development of Cost of Equity (“R_e”)

We considered the Modified Capital Asset Pricing Model (“MCAPM”) to calculate the R_e.

Modified Capital Asset Pricing Model

MCAPM, as applied in the valuation model, can be summarized as follows:

$$R_e = R_f + \text{Beta} \times \text{ERP} + \text{RP}_s + \text{RP}_u$$

Where R_e: Cost of Equity;

R_f: Risk Free Rate;

Beta: A measure of systematic risk;

ERP: Equity Risk Premium;

RP_s: Size Premium; and

RP_u: Specific Company Adjustment

2.1.1 Risk Free Rate (“R_f”)

R_f was found by looking at the yields of the Chinese government bond yield. Ideally, the duration of the security used as an indication of R_f should match the horizon of the projected cash flows that were being discounted. Thus, we relied on the yield of the long term Chinese government bond with a yield of 3.17% as at the Valuation Date.

2.1.2 Beta

In the MCAPM formula, beta is a measure of the systematic risk of a particular investment relative to the market for all investment assets. We obtained betas from Guideline Public Companies. The identified betas were unlevered to remove the effects of financial leverage with the consideration of the effective tax rate and the debt-to-equity ratio of the Guideline Public Companies on the indication of relative risk provided by the beta, and re-levered at the median capital structure of the Guideline Public Companies.

The formula to calculate the unlevered beta, can be illustrated as below:

$$B_u = \frac{B_L}{(1+(1-T_e) \times (D/E))}$$

Where Bu: Un-levered Beta;
BL: Levered Beta;
Te: Effective Tax Rate of the Guideline Public Companies ; and
D/E Debt-to-equity Ratio of the Guideline Public Companies

The formula to calculate the re-levered beta, can be illustrated as below:

$$B_r = B_u \times (1 + (1-T_c) \times (D/E))$$

Where Br: Re-levered Beta;
Bu: Un-levered Beta;
Tc: Corporate Tax Rate of the Target Company; and
D/E Debt-to-equity Ratio of the Guideline Public Companies

Selection of Guideline Public Companies

As aforementioned, the Guideline Public Companies are selected to compute beta in our determination of R_e . One would start with a description of the subject company, in terms of lines of business, markets served, size and other criteria. Due care was exercised in the selection of the Guideline Public Companies by using reasonable criteria in deciding whether or not a particular company is relevant to compute beta in our determination of the R_e .

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For this valuation, we have searched information from Bloomberg and the Internet, and reviewed the business description on the website of the Guideline Public Companies to ensure the companies adopted are fair and representative. We have selected the companies which are engaged in explores, mines and produces gold in China, and the revenue are mainly generated from China which is comparable to the Target Company. The following is the list of Guideline Public Companies that we have reviewed and selected in connection with this valuation:

Table 19 – 10 Guideline Public Companies

Company	Ticker	Description
Zijin Mining Group Co Ltd	2899 HK	— Explores, mines, produces, refines, and sells gold and other mineral resources in China.
Zhaojin Mining Industry Co Ltd	1818 HK	— Explores, mines, and produces gold.
Lingbao Gold Co Ltd	3330 HK	— Mines and smelts gold.
Gansu Ronghua Industry Group Co Ltd	600311 CH	— Mines, process and sales gold..
Chifeng Jilong Gold Mining Co Ltd	600988 CH	— Products and sales gold ingots.
Zhongjin Gold Co Ltd	600489 CH	— Acquires, explores and develops properties for gold production.
Shandong Humon Smelting Co Ltd	002237 CH	— Mines, concentrate and smelt gold.

Sources: Bloomberg and Morningstar

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Table 19 – 11 Summary of Beta

	Un-Levered Beta	Re-levered Beta
Zijin Mining Group Co Ltd	0.75	1.02
Zhaojin Mining Industry Co Ltd	0.44	0.59
Lingbao Gold Co Ltd	0.11	0.15
Gansu Ronghua Industry Group Co Ltd	1.19	1.61
Chifeng Jilong Gold Mining Co Ltd	1.27	1.71
Zhongjin Gold Co Ltd	0.81	1.09
Shandong Humon Smelting Co Ltd	0.73	0.98
	Median Un-Levered Beta	Median Re-levered Beta
	0.75	1.02

Source: Bloomberg

2.1.3 Equity Risk Premium (“ERP”)

We adopted the recent 30 years of equity risk premium of the market where the subject company is located. The long term equity risk premium of the United States market is multiplied by the relative volatility between S&P 500 and equity indices of respective country where the subject company is located to obtain the equity risk premium of the respective country. The volatility of the United States equity market and other equity indices are developed based on the daily closing price of the indices which obtained from Bloomberg database. This is one of the common market practices in estimating the equity risk premium of different countries. The formula to calculate the ERP, can be illustrated as below:

$$\text{U.S. ERP} \times \text{Volatility of respective equity indices} / \text{Volatility of S\&P 500}$$

We also made reference to the ERP published by Prof. Aswath Damodaran of New York University. We took average of the aforesaid two ERPs and adopted in this valuation.

2.1.4 Size Premium (“RP_s”)

RP_s, over the risk premium for the market, can be calculated by subtracting the estimated return in excess of the riskless rate from the realized return in excess of the riskless rate of companies. In this valuation, we applied the RP_s return in excess of CAPM in the United States. We relied on the studies performed by Ibbotson Associates as reflected in their Stocks, Bonds, Bills, and Inflation: 2015 Classic Yearbook.

2.1.5 Specific Company Adjustment (“RP_u”)

RP_u for unsystematic risk attributable to the specific company is designed to account for additional risk factors specific to the Project.

Company specific risk factors may include the following:

- Competition
- Customer Concentration
- Poor Access to Capital
- Thin Management
- Lack of Diversification
- Potential Environmental Issue
- Potential Litigation
- Narrow Distribution Channels
- Obsolete Technology
- Uncertain Company Outlook
- Liquidity

In this case, the financial projection is subject two major uncertainties. The first is successful execution of expansion plan to extract the Mining Inventory according to the production schedule estimated by the ITR. The second is the stability of ore supply from third parties. Therefore, after considering the two factors, we have applied a 4% RP_u adjustment.

Table 19 – 12 Cost of Equity

MCAPM	
Risk Free Rate (“ R_f ”)	3.17%
Beta	1.02
Equity Risk Premium (“ERP”)	8.88%
Size Premium (“ RP_s ”)	3.74%
Specific Company Adjustment (“ RP_u ”)	4.00%
Cost of Equity (“ R_e ”)	19.96%

2.2 Cost of Debt (“ R_d ”)

In order to estimate the R_d of the Target Company, we relied on China above 5-Year Best Lending rate and with a gross up margin of 20%, which is 5.88% as at the Valuation Date.

2.3 Development of Weighted Average Cost of Capital (“WACC”)

WACC is determined by the weighted average, at market value, of the cost of all financing sources in the business enterprises’ capital structure. We have “levered” the Target Company as if it mirrored the median percentage of debt as the comparable companies on the assumption that over time, the Target Company would need to approach the median amount of debt of the Guideline Public Companies. Subsequent to the calculations of the R_e and the R_d , the calculation of the WACC, or the discount rate, therefore becomes:

Subsequent to the calculations of the R_e and the R_d , the calculation of the WACC, or the discount rate, therefore becomes:

Table 19 – 13 Weighted Average Cost of Capital

WACC	
Weight of Interest Bearing Debt (%D)	31.82%
× Cost of Debt (“ R_d ”)	5.88%
× (1 – Tax Rate)	75.00%
Weighted Cost of Debt	1.40%
+	
Weight of Equity (%E)	68.18%
× Cost of Equity (“ R_e ”)	19.96%
Weighted Cost of Equity	13.61%
WACC (Applied Discount Rate)	15.01%

3. Conclusion of Market Value by the Income Approach

As discussed in the section of “Mining & Third Parties’ Ores” of the major assumptions of the DCF, base case and optimal case represents different level of utilization of the processing plant. The DCF result of 100% Equity Interest in the Target Company is summarized in the table below. Meanwhile, the value attributing to processing of third parties’ ores is separately presented.

Table 19 – 14 Market Value of the Equity Interest

		Market Value (’000)
Lower Range of Value (Base Case)	HKD	493,559
Higher Range of Value (Optimal Case)	HKD	608,106
Value Attributable to Third Parties’ Ores Processing (Base Case)	HKD	286,725
Value Attributable to Third Parties’ Ores Processing (Optimal Case)	HKD	401,271

XX. MARKET APPROACH – COMPARABLE TRANSACTION METHOD

1. Major Assumptions

The Comparable Transaction Method is considered as one of the appropriate methods for valuation of the Project. Under this method, the Market Value is derived from the acquisition prices at which business similar to that of the Project Company was exchanged (i.e. guideline transactions). Comparable Transaction Method provides an indication of value by comparing the prices at which business of similar properties (business nature and risk assumed) are being exchanged between independent and informed willing buyers and sellers. An indicative price multiple is derived by referring to the consideration transferred in comparable acquisitions. Application of Comparable Transaction Method is subject to the following requirements:

1. Existence of historical (and recent) comparable transactions;
2. Availability of public information on comparable transactions; and
3. Arm’s length transactions between the independent uncontrolled parties.

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In this valuation, data and information are available for comparatively recent completed market transactions for gold mine projects with similar characteristics to the Gold Mine in terms of stage of development, type of mineral and overall exploration potential and therefore these are considered appropriate to use as a basis for a comparable transaction valuation after making adjustments on the percentage of acquired interest and gold price.

The measured and indicated (“M&I”) mineral resources data available in the public market was presented at a 100% basis, while the comparable transaction might not involve 100% interest. It is necessary to adjust the considerations of each comparable transaction for percentage of interest acquired to a 100% basis for the calculation of price multiple:

$$\text{Acquired Interest Adjustment} = \frac{\text{(Consideration of comparable transaction in USD)}}{\text{(Percentage of acquired interest)}}$$

An underlying assumption when using the comparable transaction method is that the terms negotiated and agreed are linked to the mineral price at the time of the transaction. Therefore, to compare any transaction to the Gold Mine as at the Valuation Date, it is necessary to establish what the likely transaction value would have been if it had occurred at that date. The transaction value is determined by adjusting the actual transaction parameters at the date of the transaction to the change in gold prices by multiplying the acquisition parameters by the following “Price Adjustment Factor”:

$$\text{Price Adjustment Factor} = \frac{\text{(Gold price per kg as at the Valuation Date)}}{\text{(Gold price per kg as at the completion date of comparable transaction)}}$$

In each case, the price multiple which is the transaction consideration in USD per kilogram (“kg”) of gold resources has been established as follow:

$$\text{Price Multiple} = \frac{\text{(Adjusted consideration of comparable transaction in USD)}}{\text{(Measured \& indicated gold resources in kg)}}$$

It is noted that M&I mineral resources of comparable transactions were categorizing under Chinese Classification System instead of the JORC code. To provide a consistent basis for the market approach, we made reference to the State Bureau of Technical and Quality Supervision Classification for Resources/Reserves of Solid fuels and Mineral Commodities, 1999 edition for conversion to JORC equivalent resources. The figure below shows the details of classification.

Figure 20 – 1 Chinese Mineral Resource/Reserves Classification

		Discovered			Undiscovered	
		Measured	Indicated	Inferred	Predicted	
Economic	Fea-	111 111b				
	Pre-	121 121b	122 122b			
Marginally Economic		2M11 2M21	2M22			
	Sub-Economic	2S11 2S21	2S22			
Intrinsic Economic		331	332	333	334?	

Source: Committee for Mineral Reserves International Reporting Standards, CRIRSCO

It is assumed that applying such conversion would not result in significant deviation if the resources of the comparable companies are classified under JORC Code.

2. Identify Comparable Transactions

We have performed a search on similar transaction which can provide a base to perform the comparable transaction method. We conducted our search based on Bloomberg database and the Internet in this valuation. We have identified transaction targets that shared similar attributes with the Gold Mine. In particular, the specific attributes of the targets we have considered were summarised:

- Targets with gold mine located in the PRC;
- Targets with principal business operations in gold mining;
- Targets with mining right;
- Targets with identifiable M&I mineral resources;
- Targets with M&I to total resources ratio above 30%; and
- Targets with adequate transaction information disclosed.

Five comparable transactions with similar attributes were identified. Information were obtained from the selected transactions, including but not limited to M&I mineral resources, consideration paid, percentage of interest acquired, gold price as at the completion date, etc.

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The following tables showed the details of the targets and the comparable transactions we have reviewed and applied in connection with the valuation of the Mineral asset:

Table 20 – 1 Details of Target Companies Reviewed

Target Name	Principal Activities	Mine	Location	M&I to Total Resources %	Application
1. Shanxi Ankang Shengan Mining Co Ltd	Mines underground gold.	Shen Ba Gold Mine	Shanxi, PRC	32%	Accepted
2. Shaanxi Xinyuan Kegongmao Co Ltd	Mines and processes mineral resources.	1) Chen Er Gold Mine 2) Da Wang Gold Mine 3) Wang Yu Gold Mine	Shanxi, PRC	72%	Accepted
3. Shandong Jinshi Mining Co Ltd	Mines mineral resources.	Teng Jia Gold Mine	Shandong, PRC	43%	Accepted
4. Penglai City Wangtai Mining Industry Co., Ltd	Mines underground gold.	Shi Jia Gold Mine	Shandong, PRC	37%	Accepted
5. Hunan Huang Jin Dong Mining Industry Co Ltd	Mines gold and other mineral resources.	1) Huang Jin Dong Gold Mine 2) Wan Gu Gold Mine 3) Cheng Chong Gold Mine	Hunan, PRC	54%	Accepted
6. Tuoli Shifeng Gold Mining Co Ltd	Invests in mineral asset.	1) Hui Lu Shan Gold Mine 2) Da Luo Men Gou Gold Mine	Xinjiang, PRC	0%	Rejected

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Target Name	Principal Activities	Mine	Location	M&I to Total Resources %	Application
7. Sinowise Century Limited	Explores, exploits and sales of gold.	1) Bianfushan Gold Mine 2) Shangzhai Gold Mine	Yunnan, PRC	29%	Rejected
8. Luoyang Kunyu Mining Co Ltd	Mines, buys, sells and processes mineral products	Luoning Gold Mine	Luoyang, PRC	7%	Rejected
9. Port First Limited	Mines and exploits gold.	1) Shanchakou Mine 2) Yaojia Mine	Shandong, PRC	11%	Rejected

Table 20 – 2 List of Selected Comparable Transactions

Completion Date	Acquirer Name	Target Name	Acquired Interest Percentage (%)	Measured & Indicated Resources (kg)	Consideration (USD'000)
1. 15 Aug 2013	Fujian Guanfu Modern Household Wares Co Ltd	Shanxi Ankang Shengan Mining Co Ltd	100%	1,522	32,717
2. 11 Nov 2011	Zhongjin Gold Co Ltd	Shaanxi Xinyuan Kegongmao Co Ltd	69%	4,698	33,477
3. 13 Dec 2011	Shandong Gold Mining Co Ltd	Shandong Jinshi Mining Co Ltd	25%	30,561	65,190
4. 24 Nov 2014	Shandong Geo-Mineral Co., Ltd	Penglai City Wangtai Mining Industry Co., Ltd	60%	5,037	34,514
5. 8 Apr 2015	Chenzhou Mining Group Co Ltd	Hunan Huang Jin Dong Mining Industry Co Ltd	100%	32,792	248,841

3. Acquired Interest Adjustment

As aforesaid, each of the comparable transactions had specific circumstances. Adjustment on percentage of acquired interest is applied to the considerations. The following table shows the 100% considerations after making acquired interest adjustment of each comparable transaction:

Table 20 – 3 100% Considerations of Comparable Transactions

	Completion Date	Acquirer Name	Target Name	Consideration (USD'000)	Acquired Interest Percentage (%)	100% Consideration (USD'000)
1.	15 Aug 2013	Fujian Guanfu Modern Household Wares Co Ltd	Shanxi Ankang Shengan Mining Co Ltd	32,717	100%	32,717
2.	11 Nov 2011	Zhongjin Gold Co Ltd	Shaanxi Xinyuan Kegongmao Co Ltd	33,477	69%	48,455
3.	13 Dec 2011	Shandong Gold Mining Co Ltd	Shandong Jinshi Mining Co Ltd	65,190	25%	260,760
4.	24 Nov 2014	Shandong Geo-Mineral Co., Ltd	Penglai City Wangtai Mining Industry Co., Ltd	34,514	60%	57,524
5.	8 Apr 2015	Chenzhou Mining Group Co Ltd	Hunan Huang Jin Dong Mining Industry Co Ltd	248,841	100%	248,841

4. Gold Price Adjustment

Following to the adjustment on the 100% consideration basis, gold price adjustment is necessary for the consideration. Since the gold price fluctuates significantly, the effect on estimated value is considered due to the fluctuation of gold price. Gold Prices were searched from Bloomberg. Price adjustment factors were determined for each of the selected comparable transaction and applied in this valuation. The relevant gold prices used for the comparable transactions and the adjusted considerations are shown in below table:

Table 20 – 4 Gold Prices Utilised in Comparable Transactions and Adjusted Consideration

Completion Date	Event	Gold Price at Transaction Date (USD/kg)	Price Adjustment Factor	Adjusted Consideration (USD'000)
1 Jun 2016	GCA Effective Valuation Date for the Mineral Asset.	1,216		
15 Aug 2013	Fujian Guanfu Modern Household Wares Co Ltd acquired Shanxi Ankang Shengan Mining Co Ltd.	1,337	0.9099	29,769
11 Nov 2011	Zhongjin Gold Co Ltd acquired Shaanxi Xinyuan Kegongmao Co Ltd.	1,789	0.6800	32,949
13 Dec 2011	Shandong Gold Mining Co Ltd acquired Shandong Jinshi Mining Co Ltd	1,666	0.7301	190,388
24 Nov 2014	Shandong Geo-Mineral Co., Ltd acquired Penglai City Wangtai Mining Industry Co., Ltd	1,196	1.0173	58,521
8 Apr 2015	Chenzhou Mining Group Co Ltd acquired Hunan Huang Jin Dong Mining Industry Co Ltd	1,211	1.0045	249,959

5. Calculation of Price Multiple

After making adjustment on the acquired interest and gold prices for each comparable transaction to derive the adjusted consideration, price multiples were calculated by dividing the adjusted consideration to the M&I mineral resources in kg. We took the median of the price multiples from the aforesaid comparable transactions and applied in this valuation. The price multiples for the comparable transactions are shown in below table:

Table 20 – 5 Price Multiple of Comparable Transactions

Completion Date	Event	Adjusted Consideration (USD'000)	Measured & Indicated Resources (kg)	Price Multiple (USD/kg)
15 Aug 2013	Fujian Guanfu Modern Household Wares Co Ltd acquired Shanxi Ankang Shengan Mining Co Ltd.	29,769	1,522	19,554
11 Nov 2011	Zhongjin Gold Co Ltd acquired Shaanxi Xinyuan Kegongmao Co Ltd.	32,949	4,698	7,013
13 Dec 2011	Shandong Gold Mining Co Ltd acquired Shandong Jinshi Mining Co Ltd	190,388	30,561	6,230
24 Nov 2014	Shandong Geo-Mineral Co., Ltd acquired Penglai City Wangtai Mining Industry Co., Ltd	58,521	5,037	11,619
8 Apr 2015	Chenzhou Mining Group Co Ltd acquired Hunan Huang Jin Dong Mining Industry Co Ltd	249,959	32,792	7,623
			Median	7,623

6. Summary of Result

To utilize the comparable transactions above in valuing the Gold Mine, it is necessary to establish the gold endowment. Consequently we used an attributable gold endowment for the Gold Mine and the median price multiple of the comparable transaction, USD per equivalent unit of gold as indicated as follows:

Table 20 – 6 Market Value of the Target Company

Resources Category	Resources Au-eq (kg)	Median Price Multiple (USD/kg Au-eq)		Market Value ('000)
Measured & Indicated	5,921	7,623	USD	45,132
Inferred	3,658	—	USD	—
Total	9,580		USD	45,132
100% Interest in the Gold Mine			*RMB	296,969
100% Interest in the Gold Mine			**HKD	350,721
90% Equity Interest in the Gold Mine			HKD	315,649
Lower Range of 90% Equity Interest in the Gold Mine			HKD	268,301
Higher Range of 90% Equity Interest in the Gold Mine			HKD	362,996
Add: Value Attributable to Third Parties' Ore Processing (Base Case)			HKD	286,725
Lower Range of 100% Equity Interest in the Target Company			HKD	555,026
Higher Range of 100% Equity Interest in the Target Company			HKD	649,721

*USD: RMB = 1.000: 6.580

**RMB: HKD = 1.000: 1.181

The comparable transaction method under the market approach covers the value of the Gold Mine. To reflect the value of the Project, we have added the value attributable to third parties’ ore processing calculated by the income approach.

The gold price fluctuates along the timeline. In the past three years, the highest and lowest gold price recorded were USD1,423 and USD1,051 respectively. The calculation of higher and lower range of the Market Value of the Equity Interest by market approach make reference to the aforementioned record prices, where 15% up and down has been multiplied to the spot gold price as the Valuation Date to reflect the possible variation in the Market Value. The graph of the gold price from June 2013 to June 2016 is shown below:

Figure 20 – 2 Gold Price from June 2013 to June 2016



Source: Bloomberg

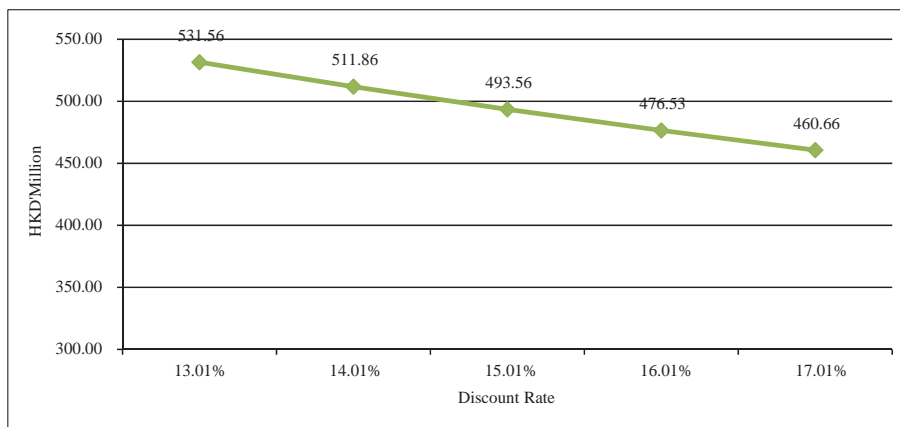
XXI. SENSITIVITY ANALYSIS

We have examined the sensitivity of the DCF in relation to changes in some of the core model parameters, such as the discount rate, gold price, direct mining cost and total processing cost of the processing plant.

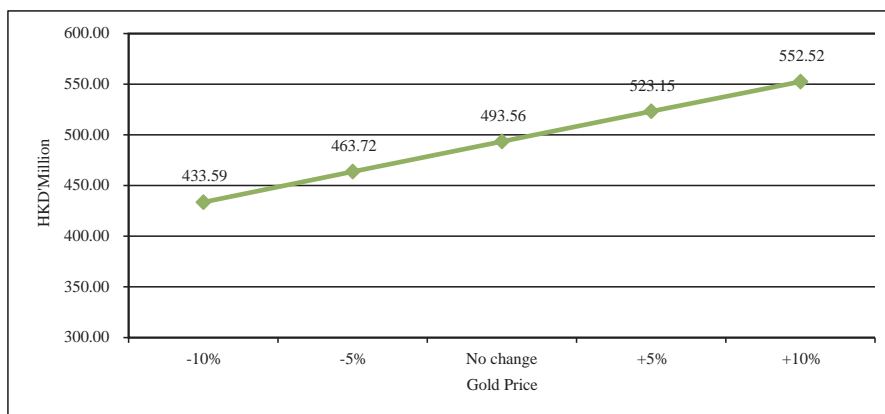
Table below shows the values of the Equity Interest under different settings. In each setting, only one parameter is changed while other parameters are held constant.

The 100% equity interest of Target Company

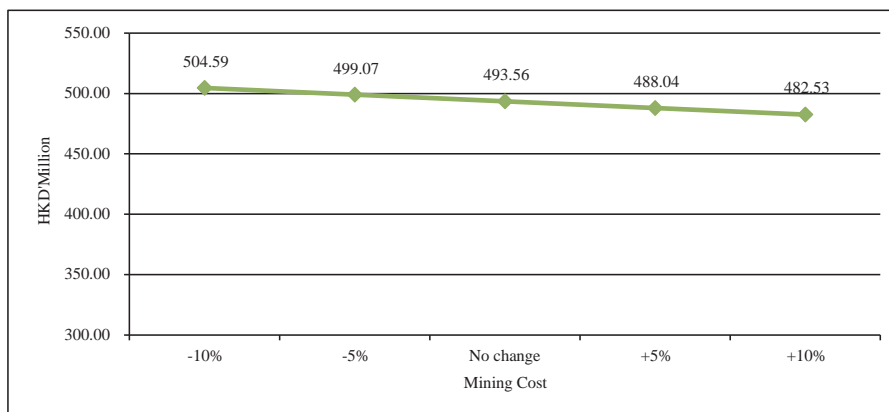
(1) Discount rate (in HKD million)



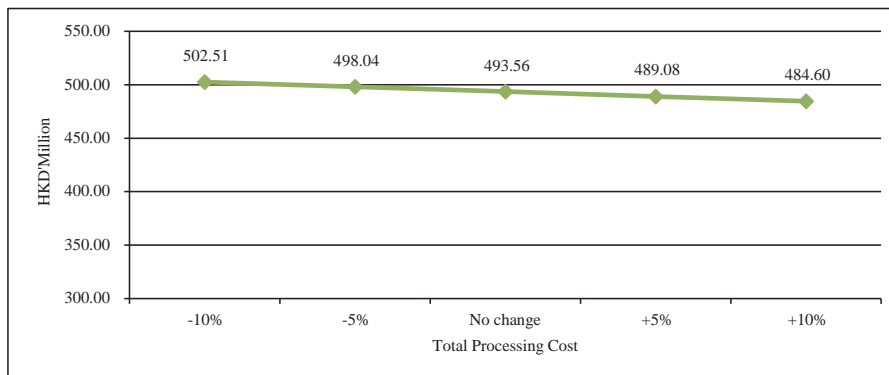
(2) Gold Price (in HKD million)



(3) Direct Mining Cost (in HKD million)



(4) Total Processing Cost (in HKD million)



XXII. SUMMARY OF RESULT

The following comparative data summarizes the methods we have accepted or considered and rejected, along with their respective final values of the Equity Interest. Each method is rated relative to the applicability of the method relative to the facts and circumstances of Project.

Table 22 – 1 Summary of Market Value of 100% Equity Interest in the Target Company

	Application	Lower Range HKD'000	Upper Range HKD'000
Cost Approach	Rejected	N/A	N/A
Market Approach	Accepted		
— Comparable Transaction Method			
Market Value			
The Gold Mine		268,301	362,996
Third Parties' Ores Processing		286,725	286,725
Total		555,026	649,721
Income Approach	Accepted		
— Discounted Cash Flow			
Market Value			
The Gold Mine		206,834	206,834
Third Parties' Ores Processing		286,725	401,271
Total		493,559	608,106
Preferred Value (HKD'000)	Accepted	493,559	

We have considered the cost approach, the market approach and the income approach for this valuation and considered both the market approach and the income approach to conclude the Market Value of the Equity Interest.

In the market approach, we used the Comparable Transaction Method to evaluate the Equity Interest. There are comparable transactions which can be identified and can provide additional information to investors about the value of the Project when compared with other similar transactions.

The Market Value of the comparable transactions was affected by the gold price as of the completion date of that transaction. Although the price multiple (adjusted consideration per kg of gold) has been adjusted by multiplying the ratio of the gold price as of the valuation date to the gold price as of the completion date of each transaction, the adjustment may not be able to reflect the fair multiple under the market condition as at the Valuation Date. In addition, the transaction price may have included buyer's discount to specific risk or premium for future development potentials including but not limited to further exploration and potential value of Inferred Mineral Resources. Hence, we did not adopt the result from the market approach as the preferred value due to a lower uncertainty of value.

In the income approach, we used the Discounted Cash Flow Method to evaluate the Equity Interest. It determines the forecasted cash flow to be received in future years and discounted to present value by a suitable discount rate described. The cash flow under concern is more specific and relevant to the Project and the method used can also address the timing of the cash flows more accurately. All the major inputs of the discounted cash flow model including production schedule, processing capacity, costs, capital expenditure, tax and working capital requirements were assessed and justified by historical operating and financial records and the ITR. Major uncertainty lies on the sourcing third parties' was started in 2015 and we observed increased capacity in the first five months in 2016. The sourcing of third parties' ores is actually secured by contracts. The lower range under the income approach represented the base case estimated by the Management of the Target Company and we have applied specific risk premium of 4% in cost of equity when building up the discount rate for the Target Company.

In conclusion, based on the information provided and project specific factors, we considered and applied the result of the income approach as the preferred value as the income approach is commonly used in, and widely accepted for, valuation of mineral assets and resources in a production stage. Therefore, we accepted the results derived from the DCF method (Base Case) with details summarized above for conclusion.

XXIII. RISK FACTORS**1. Fluctuation of Gold Price**

Commodity prices are always volatile. Volatility in the price of gold will cause direct effect on the valuation. Different gold price assumptions has been modeled and assessed in the scenario analysis to analyze the impact of gold price to the value conclusion. Should the valuation be taken at a different date with a different spot price, the value conclusion might be higher or lower.

2. Gold Ore Supply

The operation of the Target Company relies on its own drilled gold ore and gold ore supplied by the third parties. Since the amount of gold ore supplied by the third parties is significant, any breach of contract or failure for the third parties in complying with the gold ore supply contract would materially reduce the processing capacity utilization of the processing plant of the Project Company. As a result, the production schedule of the processing plant in the projection would likely be hard to match and likewise the forecasted revenue, so that the forecasted net profit would be also under risk.

3. Social and Environmental Issues

Any complaints or protests by the local community might have an adverse impact on the mining operation. The valuation team regards this risk as remote. The Project area is well known for gold mining activities. The Project has been operating for more than a decade.

However, if there are any changes to the environmental regulations or requirements which would impact the operations, the valuation conclusion might be lower.

4. Government Policy Change

Our DCF based evaluations of the Project are reliant on the existing government policy as it existed at the time of the evaluation. Any changes in the government policy will result in a higher or lower valuation conclusion.

5. Economic Conditions

Economic conditions, both domestic and global, may affect the perception of the value of the Project at some time in the future. Whilst this may rightly be perceived as a transactional risk to both the buyer and seller, it must be stressed that our valuation is expressly valid and only valid as at the Valuation Date.

6. Key Personnel

In normal circumstances where an operating mine transfers in ownership, the loss or potential loss of key project personnel presents a significant project risk factor.

7. Operational Risk

By its very nature, the business of mineral development and production involves above average risk. Success depends on skilful design, operation, management and marketing across the entire operation. Mining operations can also be hampered by force majeure circumstances as well as cost overruns caused by unforeseen events. In this instance, the operational risk presents itself as the challenge to successfully continue the operation within the current operational cost and marketing constraints.

8. Mineral Resource

There is no certainty that the Project's Mineral Resources will be realised as Ore Reserve, as the estimates are just that – estimates, until proven by actual mineral extraction from the ground. In addition, the actual quantities of saleable mineral produced may vary due to factors such as commodity price, currency exchange rates, ore grade and operating costs. Any substantial change to any of these parameters will affect the mine operating plan and associated waste stripping ratio.

9. Legal Compliance

The transaction, in which the sale of this property is a part of, is complex and also subject to a number of legal jurisdictions, which may lead to ambiguous or even conflicting legal and regulatory requirements. Furthermore, the interpretation of these requirements may be applied inconsistently where there is no guiding precedent.

Non-compliance with regulation carries the potential for penalties, and in addition, changes to regulations can sometimes be applied retrospectively. It is not possible to predict what, if any, future legal and regulatory changes may be made to the requirements under which this transaction is proposed to be completed.

XXIV. LIMITING CONDITIONS

We have made no investigation of, and assume no responsibility for, the title to or any liabilities against the Company and the Target Company. We do not represent that any of our findings constitute legal advice.

The opinions expressed in this report have been based on the information supplied to us by the Target Company and the Company and their staff, as well as from various institutes and government bureaus without verification. All information and advice related to this valuation are provided by the management of the Company and the Target Company. Readers of this report should perform due diligence themselves. We have exercised all due care in reviewing the supplied information. Although we have compared key supplied data with expected values, the accuracy of the results and conclusions from the review are reliant on the accuracy of the supplied data. We have relied on this information and have no reason to believe that any material facts have been withheld, or that a more detailed analysis may reveal additional information. We do not accept responsibility for any errors or omissions in the supplied information and do not accept any consequential liability arising from commercial decision or actions resulting from them.

This valuation reflects facts and conditions existing at the Valuation Date. Subsequent events have not been considered, and we have no obligation to update our report for such events and conditions.

XXV. CONCLUSION OF VALUE & SIGN OFF

In conclusion, based on the analysis stated above and on the valuation methods employed, it is our opinion that the Market Value of the Equity Interest excluding Inferred Mineral Resources as at 1 June 2016 is in the range of HKD494,000,000 to HKD650,000,000 and our Preferred Value is HKD494,000,000.

The opinion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We hereby certify that we have neither present nor prospective interests in the subject under valuation. Moreover, we have neither personal interests nor bias with respect to the parties involved. We have remained independent in carrying out our activities.

This valuation report is issued subject to our general service conditions.

Yours faithfully,
For and on behalf of
GREATER CHINA APPRAISAL LIMITED

John S. Dunlop
BE, MEngSc, PCertArb, FAusIMM(CP), FIMMM, MCIMMM,
MSME, MMICA, Nominal AIMVA (CPV)
Principal Mineral Representative
Competent Evaluator

APPENDIX A. INVOLVED STAFF BIOGRAPHY

Mr. John S. Dunlop, *BE, MEngSc, PCertArb, FAusIMM (CP), FIMMM, MCIMM, MSME, MMICA, Nominal AIMVA (CPV)*

Principal Mineral Representative

Mr Dunlop is presently the Principal Mineral Representative of Greater China Appraisal Limited. He is an Australian mining engineer, with Bachelors and Masters Degrees in Mining Engineering from the University of Melbourne. He has approximately 45 years of mining experience, surface and underground, in a variety of base metal and precious metal production and management situations in more than 30 countries.

A former BHP Billiton Mine Manager in both the Gulf and the Kimberleys, he then rose to the position of General Manager Operations with Aztec Mining in Perth. He now works as a freelance mining engineer and company director. He conducts his own internationally active consulting group, from small offices in North Queensland.

Mr Dunlop holds a certificate as a licenced mineral asset valuer issued by the Australasian Institute of Mineral Valuers (AIMV).

He is also a Chartered Engineer in the UK (CEng (UK)) and Australia (CPMin (Aust)). He is also Chairman of Alliance Resources Ltd. and Alkane Resources Ltd, and is the immediate Past Chairman of the Mineral Industry Consultants Association Inc, (MICA)⁵ and is a Director of Copper Strike Ltd., and former Director of The Australasian Institute of Mining and Metallurgy (AusIMM) , which published the JORC code⁶, with a Chartered Professional (“CP”) accreditation⁷.

Mr. Max K. P. Tsang, *CPA, CFA, FRM*

Director

Mr Tsang is presently the Director of Greater China Appraisal Limited. Mr Tsang provides valuation services mainly for financial reporting, transactions and IPO purpose. The valuation services provided included business valuation, equity valuation, biological assets valuation, mining valuation and financial instrument valuation. Most of his clients were listed companies or large private companies looking for going public in Hong Kong, China and Singapore. His experience covers a wide range of different industry sectors including foods & beverage, manufacturing, mining and information technology.

⁵ <http://www.mica.org.au/Committee-Contacts>

⁶ <http://www.jorc.org/development.asp>

⁷ <http://www.ausimm.com.au/content/default.aspx?ID=139>

APPENDIX VI VALUATION REPORT ON THE TARGET GROUP

Marvin K.C. Wong, CPA

Manager, Business Valuation & Transaction Advisory

Mr. Wong is experienced in performing business valuation of business for private and public companies on industries including but not limited to tea plantation, forest, infrastructure, manufacturing, marketing, pharmacy and trading. He has experience in valuation of intangible Asset including customer relationships, trademarks of an international toy company, concession right, mining right, patents and distribution network of a pharmaceutical company, etc.

Keith Y.K. Lui, FRM

Senior Analyst, Business Valuation & Transaction Advisory

Mr. Lui holds bachelor degree of quantitative finance and risk management science. He is experienced in performing business valuation of business for private and public companies. He has the experience in performing business and intangible assets for different industries including food & beverage, retail, manufacturing and public utility industries. Mr. Lui has 3 years of experience in valuation.

GENERAL SERVICE CONDITIONS

The service(s) provided by Greater China Appraisal Limited will be performed in accordance with professional appraisal standard. Our compensation is not contingent in any way upon our conclusions of value. We assume, without independent verification, the accuracy of all data provided to us. We will act as an independent contractor and reserve the right to use subcontractors. All files, working papers or documents developed by us during the course of the engagement will be our property. We will retain this data for at least seven years after completion of the engagement.

Our report is to be used only for the specific purpose stated herein and any other use is invalid. No reliance may be made by any third party without our prior written consent. You may show our report in its entirety to those third parties who need to review the information contained herein. No one should rely on our report as a substitute for their own due diligence. No reference to our name or our report, in whole or in part, in any document you prepare and/or distribute to third parties may be made without our written consent.

You agree to indemnify and hold us harmless against and from any and all losses, claims, actions, damages, expenses, or liabilities, including reasonable attorneys' fees, to which we may become subject in connection with this engagement. You will not be liable for our negligence. Your obligation for indemnification and reimbursement shall extend to any controlling person of Greater China Appraisal Limited, including any director, officer, employee, subcontractor, affiliate or agent. In the event we are subject to any liability in connection with this engagement, regardless of legal theory advanced, such liability will be limited to the amount of fees we received for this engagement.

We reserve the right to include your company/firm name in our client list, but we will maintain the confidentiality of all conversations, documents provided to us, and the contents of our reports, subject to legal or administrative process or proceedings. These conditions can only be modified by written documents executed by both parties.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this 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.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

<i>Authorised:</i>	<i>HK\$</i>
37,761,900,000 CPS of HK\$0.01 each	377,619,000.00
462,238,100,000 Shares of HK\$0.01 each	4,622,381,000.00
<i>Issued and fully paid:</i>	
16,914,972,211 Shares as at the Latest Practicable Date	169,149,722.11
3,507,750,000 Consideration Shares to be allotted pursuant to the Acquisition	35,077,500.00
Total (For illustrative purpose)	
20,422,722,211 Shares	204,227,222.11

3. DISCLOSURE OF INTERESTS**(a) Interests of Directors and Chief Executives of the Company**

As at the Latest Practicable Date, none of the Directors or chief executive of the Company and/or any of their respective associates had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange.

(b) Interests of Shareholders

Save as disclosed below, as at the Latest Practicable Date, no person, other than a Director or chief executive of the Company, had, or were deemed or taken to have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital:

Name of Shareholders	Long position/ Short position	Capacity	Number of Shares	Approximate % of shareholding in the Company
Ho Ping Tanya	Long position	Beneficial owner	3,300,000,000	19.51%
Zhang Wen	Long position	Interest in controlled corporation	910,000,000 (Note 1)	5.38%
Mr. Ma	Long position	Interest in controlled corporation	1,655,250,000 (Note 2)	9.79%
Ms. Lin	Long position	Interest in controlled corporation	1,852,500,000 (Note 3)	10.95%

Notes:

1. These Shares are held by Purple Luck Limited which is 100% beneficially owned by Zhang Wen.
2. These Shares are held by Forever Success which is 100% beneficially owned by Mr. Ma.
3. These Shares are held by Supreme Success which is 100% beneficially owned by Ms. Lin.

(c) Competing Interests

As at the Latest Practicable Date, none of the Directors and his respective associates were considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, other than those businesses to which the Directors and his/her associates were appointed to represent the interests of the Company and/or the Group.

(d) Directors' Interests in Assets/Contacts and Other Interests

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or their respective associates had any direct or indirect interest in any assets which have been, since 31 December 2015, being the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

Save as disclosed above, there is no contract or arrangement entered into by any member of the Group, subsisting as at the Latest Practicable Date in which any of the Directors was materially interested and which was significant in relation to the business of the Group as a whole.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service agreement with any member of the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

5. LITIGATION

As disclosed in the announcement of the Company dated 8 November 2011, the Company has received a writ of summons issued by the High Court of Hong Kong Special Administrative Region on 8 November 2011 (the "Writ") pursuant to which Mr. Lin Min and Fujian Yuansheng Foods Industry Co. Ltd. ("Fujian Yuansheng") (named as the plaintiffs in the Writ) alleged that, amongst other things, the Company and 27 other co-defendants and/or certain PRC government officials had acted in conspiracy in obtaining ownership and control of certain assets of the plaintiffs and they were claiming for, amongst other things, damages from all 28 defendants jointly and severally in the total amount of RMB1,589,000,000.

As announced by the Company on 8 November 2011 and 26 March 2010, the Company has not obtained any interests in Fujian Yuansheng and has been seeking legal advice in response to the Writ, in the opinion of the Directors, the possibility of an outflow of resources embodying economic benefit is remote.

Save as disclosed herein, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries were engaged in any litigation or claim of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

6. EXPERTS AND CONSENTS

The following is the qualifications of the experts whose statements have been included in this circular:

Name	Qualification
GCA	Independent professional valuer
SRK	Independent Technical Consultant
Asian Alliance (HK) CPA Limited	Certified Public Accountants
Tian Yuan Law Firm	Legal adviser as to PRC laws

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report, letter and/or reference to its name or opinion in the form and context in which it appears.

As at the Latest Practicable Date, all the experts above were not beneficially interested in the share capital of any member of the Enlarged Group nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

As at the Latest Practicable Date, all the experts above did not, directly or indirectly, had any interest in any assets which had since 31 December 2015 (being the date to which the latest published audited financial statements of the Group were made up) been acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

7. MATERIAL CONTRACTS

Save as disclosed below, there were not any contracts (not being contracts entered into in the ordinary course of business) entered into by members of the Enlarged Group within the two years immediately preceding the Latest Practicable Date and are or may be material:

- the disposal agreement dated 3 September 2014 entered into among the Company, 哈爾濱金雨礦業有限公司 (Harbin Jinyu Mining Co., Ltd.*) (“Harbin Jinyu”) and 宋建輝 (Mr. Song Jian Hui*) pursuant to which the Company conditionally agreed to dispose of, and Harbin Jinyu conditionally agreed to acquire, the 75.08% equity interests in 哈爾濱松江銅業(集團)有限公司 (Harbin Songjiang Copper (Group) Company Limited*), for an aggregate consideration of RMB90,096,000, which had been completed in October 2014;
- the acquisition agreement entered into between the WFOE and Shaanxi Qinyu dated 23 April 2015 in relation to the acquisition of the 90% equity interests in the Project Company at RMB100,000,000 (“**Project Company Acquisition Agreement**”);

* For identification purposes only

3. the termination agreement dated 28 April 2015 entered into between the WFOE and Shaanxi Qinyu to terminate the Project Company Acquisition Agreement;
4. the sale and purchase agreement entered into among the Purchaser, the Vendors and the Guarantors on 23 April 2015 (as varied and supplemented by an agreement dated 11 August 2015) in relation to the acquisition of the entire issued share capital of the Target Company, for an aggregate considerations of not more than HK\$700,000,000 (“**First Agreement**”);
5. the share swap and cash acquisition agreement dated 15 September 2015 entered into among the PRC Company, 潼關縣金馬國興礦業科技有限公司 (Tongguan County Jinma Guoxing Mining Technology Co., Ltd.*) (“**Tongguan Jinma**”), the Project Company, Shaanxi Qinyu and 陝西鑫淼礦業有限公司 (Shaanxi Xinmiao Mining Co., Ltd.*) (“**Shaanxi Xinmiao**”) in relation to the transfer of 90% and 10% equity interests in the Project Company held by Shaanxi Qinyu to the PRC Company and Tongguan Jinma, respectively, for a consideration of the 90% equity interests in Shaanxi Xinmiao held by the PRC Company and RMB10,000,000 paid by Tongguan Jinma, which had been completed in October 2015;
6. the sale and purchase agreement dated 15 October 2015 entered into between 段佳 (Mr. Duan Jia*) (as seller) and the WFOE (as purchaser) in relation to the acquisition of the entire issued share capital of the PRC company for a consideration of RMB35,000,000, which had been completed in November 2015;
7. the termination agreement dated 7 December 2015 entered into between the Purchaser, the Vendors and the Guarantors to terminate the First Agreement;
8. the Previous Agreement;
9. the placing agreement dated 11 August 2015 entered into between the Company and Guoyuan Capital (Hong Kong) Limited as placing agent (as varied and supplemented by agreements dated 11 November 2015 and 7 December 2015) in relation to the placing of a maximum of 4,000,000,000 new shares of the Company at a price of HK\$0.10 each on a best effort basis;
10. the First Loan Agreement;
11. the Second Loan Agreement;
12. the Agreement; and
13. the Supplemental Agreement.

* For identification purposes only

8. MISCELLANEOUS

- (a) The secretary of the Company is Ms. Leung Lai Ming. Ms. Leung is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants.
- (b) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (c) The head office and principal place of business of the Company in Hong Kong is at Room 1306, 13th Floor, Bank of America Tower, 12 Harcourt Road, Admiralty, Hong Kong.
- (d) The branch share registrar and transfer office of the Company in Hong Kong is Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong.
- (e) The English text of this circular and accompanying form of proxy shall prevail over the Chinese text.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours (other than Saturdays, Sundays and public holidays) at the Company's head office and principal place of business in Hong Kong at Room 1306, 13th Floor, Bank of America Tower, 12 Harcourt Road, Admiralty, Hong Kong, from the date of this circular and up to and including the date of the SGM:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the accountant's reports on the Target Group and the Project Company as set out in Appendix II-A and II-B to this circular respectively;
- (c) the report on unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular;
- (d) the Independent Technical Report as set out in Appendix V to this circular;
- (e) the Valuation Report as set out in Appendix VI to this circular;
- (f) the material contract(s) disclosed in the paragraph under the heading "Material Contracts" in this Appendix;
- (g) the published interim report of the Company for the six months ended 30 June 2016;
- (h) the published annual reports of the Company for each of the two financial years ended 31 December 2014 and 2015; and
- (i) this circular.

NOTICE OF SPECIAL GENERAL MEETING



中國礦業資源集團有限公司*

China Mining Resources Group Limited

(incorporated in Bermuda with limited liability)

(Stock code: 340)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the “**SGM**”) of China Mining Resources Group Limited (the “**Company**”) will be held at Room 1306, 13th Floor, Bank of America Tower, 12 Harcourt Road, Admiralty, Hong Kong on Wednesday, 16 November 2016 at 2:30 p.m. for the purpose of considering and, if thought fit, passing (with or without amendments) the following resolution as ordinary resolution:

ORDINARY RESOLUTION

(1) “**THAT:**

- (a) the agreement (the “**Agreement**”) dated 4 August 2016 entered into among Combined Success Investments Limited (the “**Purchaser**”), Forever Success Investments Limited and Supreme Success Group Limited (the “**Vendors**”) and 馬東生 (Ma Dongsheng) and 林玉華 (Lin Yuhua) and as varied and supplemented by an agreement dated 26 October 2016 (a copy of the Agreement has been produced to the SGM marked “A” and signed by the chairman of the SGM for the purpose of identification) pursuant to which the Purchaser conditionally agreed to purchase, and the Vendors conditionally agreed to sell 73% of the total issued share capital of One Champion International Limited, at a consideration of HK\$360,620,000 and the transaction contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the approval of the listing of, and the permission to deal in, the 3,507,750,000 shares of HK\$0.01 each in the share capital of the Company (the “**Consideration Shares**”), the allotment and issue of the Consideration Shares credited as fully paid at an issue price of HK\$0.08 per Consideration Share to the Vendors pursuant to the Agreement be and is hereby approved and that any two directors of the Company be and are hereby authorised to allot and issue the Consideration Shares in accordance with the terms of the Agreement and to take all steps necessary, desirable or expedient in their opinions to implement or give effect to the allotment and issue of the Consideration Shares; and

* *For identification purposes only*

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- (c) the directors of the Company be and is/are hereby authorised to do all such acts and things, to sign and execute all such documents, deeds, acts, matters and things, as the case may be in their discretion consider necessary, desirable or expedient to carry out and implement the Agreement and all the transactions contemplated thereunder into full effect.”

By Order of the Board
China Mining Resources Group Limited
Leung Lai Ming
Company Secretary

Hong Kong, 31 October 2016

Registered Office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business:
Room 1306, 13th Floor,
Bank of America Tower,
12 Harcourt Road, Admiralty,
Hong Kong

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint one or if he holds two or more shares, more than one proxy to attend and vote in his stead. A proxy need not be a member of the Company.
2. In order to be valid, the form of proxy must be lodged with the Company's branch share registrar in Hong Kong, Union Registrars Limited of Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, together with a power of attorney or other authority, if any, under which it is signed or a certified copy of that power of attorney, not less than 48 hours before the time for holding the meeting or adjourned meeting.
3. Where there are joint holders of a share of the Company, any one of such holders may vote at the meeting, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such holders are present at the meeting, 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 holders, and for this purpose, seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding. Several executors or administrators of a deceased member in whose name any share stands shall for this purpose be deemed joint holders thereof.
4. Delivery of an instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.
5. If Typhoon Signal No. 8 or above, or a "black" rainstorm warning is in effect any time after 11:30 a.m. on the date of the special general meeting, the meeting will be postponed. The Company will post an announcement on the website of Company at www.chinaminingresources.com and on the HKExnews website of the Stock Exchange at www.hkexnews.hk to notify Shareholders of the date, time and place of the rescheduled meeting.

As at the date of this notice, the board of directors of the Company comprises Mr. Wang Hui, Mr. Fang Yi Quan and Mr. Yeung Kwok Kuen as executive Directors and Mr. Chong Cha Hwa, Mr. Chu Kang Nam and Mr. Ngai Sai Chuen as independent non-executive Directors.