THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ACTION

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 or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **ZHAOJIN MINING INDUSTRY COMPANY LIMITED**, you should at once hand this circular together with the accompanying form of proxy and reply slip to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.

招金

ZHAOJIN

ZHAOJIN MINING INDUSTRY COMPANY LIMITED*
招金礦業股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1818)

(1) CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF EQUITY INTERESTS IN THE TARGET COMPANIES AND THE TARGET ASSETS INVOLVING THE NON-PUBLIC ISSUANCE OF CONSIDERATION SHARES
(2) SPECIFIC MANDATES
(3) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION
(4) REGISTRATION AND ISSUE OF RENEWABLE CORPORATE BONDS OF NOT MORE THAN RMB6.0 BILLION IN THE PRC
(5) REGISTRATION AND ISSUE OF SUPER SHORT-TERM NOTES OF NOT MORE THAN RMB10 BILLION IN THE PRC

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

富域 Donvex 富域資本

Donvex Capital Limited
富域資本有限公司

Terms used herein shall have the same meaning ascribed to them in the section headed "Definitions" of this circular.

A letter from the Board is set out on pages 7 to 30 of this circular. A letter from the Independent Board Committee containing their recommendations to the Independent Shareholders is set out on pages 31 to 32 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 33 to 64 of this circular. Notices convening the EGM and the Class Meetings of the Company were despatched to the Shareholders on 27 September 2019.

Any Shareholder(s) entitled to attend and vote at the EGM and the Class Meetings are entitled to appoint one or more proxies to attend and vote on his/her behalf. A proxy need not be a Shareholder of the Company. In the event that a Shareholder appoints more than one proxy to attend the meeting, such proxies may only exercise their voting rights in a poll. If you intend to appoint a proxy in accordance with the instructions printed thereon and return it to the Company's H Shares registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 24 hours before the time appointed for the holding of the EGM and the Class meetings (for the H Share Shareholders) or an adjournment thereof (as the case may be); or to the place of business of the Company in the PRC not less than 24 hours before the time appointed for the holding of the EGM and the Class Meetings (for the Domestic Share Shareholders) or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM and the Class Meetings or any adjournment thereof if you so desire.

* *For identification purposes only*

30 October 2019

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

"Acquisition"	the acquisition of the Target Interests and the Target Assets by the Company from Zhaojin Group pursuant to the terms and conditions of the Transfer Agreement
"Announcement"	the announcement dated 27 September 2019 of the Company in relation to the (i) the Transfer Agreement and the transactions contemplated thereunder; (ii) the grant of Specific Mandates; and (iii) the proposed amendments to the Articles of Association
"Articles of Association"	the articles of association of the Company
"Assets Completion Date"	the date on which (i) the change of registration in respect of the transfer of the Target Assets from Zhaojin Group to the Company has been completed at local natural resources and planning bureau; and (ii) Zhaojin Group has delivered the Target Assets to the Company
"associates"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Days"	any day other than (i) Saturdays and Sundays; (ii) public holidays in the PRC; or (iii) days in which banks in the PRC are entitled to or required to close for business pursuant to laws of the PRC
"Class Meeting(s)"	the Domestic Share Class Meeting and the H Share Class Meeting
"Company"	Zhaojin Mining Industry Company Limited* (招金礦業股份有限公司), a joint stock company incorporated in the PRC with limited liability
"connected person(s)"	has the meaning ascribed to it in the Listing Rules
"Consideration"	the aggregate consideration of RMB402,048,800 payable by the Company to Zhaojin Group for the Target Interests and the Target Assets

"Consideration Shares"	49,697,009 new Domestic Shares based on an issue price of RMB8.09 per Consideration Share to be allotted and issued by the Company to Zhaojin Group as consideration for the Target Interests and the Target Assets pursuant to the Transfer Agreement
"Director(s)"	the director(s) of the Company
"Domestic Share(s)"	the ordinary share(s) issued by the Company, with a RMB-denominated par value of RMB1.00 each, which are subscribed for and fully paid up in RMB
"Domestic Share Class Meeting"	the 2019 second class meeting of the Domestic Share Shareholders to be convened and held to approve, among other things, the Transfer Agreement and the transactions contemplated thereunder and the grant of Specific Mandates to allot and issue the Consideration Shares
"Domestic Share Shareholder(s)"	holder(s) of Domestic Shares
"EGM"	the 2019 second extraordinary general meeting of the Company to be convened and held to approve, among other things, the Transfer Agreement and the transactions contemplated thereunder, the grant of Specific Mandates to allot and issue the Consideration Shares, the proposed amendments to the Articles of Association, the registration and issue of renewable corporate bonds of not more than RMB6.0 billion in the PRC, and the registration and issue of super short-term notes of not more than RMB10 billion in the PRC
"Equity Interests Completion Date"	the date on which the changes in registration of the transfer of the Target Interests from Zhaojin Group to the Company have been completed at the State Administration for Market Regulation and the local administrations for industry and commerce
"Goldsoft Technology"	Shandong Goldsoft Technology Company Limited* (山東金軟科技股份有限公司), a limited liability company established in the PRC on 27 August 2001, which is owned as to 67.37% by Zhaojin Group as at the Latest Practicable Date
"Goldsoft Technology Valuation Report"	the valuation report in respect of Goldsoft Technology (Lin Tian Heng Xin Ping Bao Zi (2019) No. 2046) dated 10 May 2019 issued by Linyi Tianhengxin
"Group"	the Company and its subsidiaries

"Guarantee Letter"	guarantee letter dated 27 September 2019 granted by Zhaojin Group to the Company in respect of the operating results of Zhaojin Geology Exploration
"H Share(s)"	the overseas-listed foreign invested share(s) in the share capital of the Company, with a RMB-denominated par value of RMB1.00 each, which are traded in Hong Kong dollars and listed on the main board of the Stock Exchange
"H Share Class Meeting"	the 2019 second class meeting of the H Share Shareholders to be convened and held to approve, among other things, the Transfer Agreement and the transactions contemplated thereunder and the grant of Specific Mandates to allot and issue the Consideration Shares
"H Share Shareholder(s)"	holder(s) of H Shares
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent committee of the Board comprising all the independent non-executive Directors, namely (i) Ms. Chen Jinrong, (ii) Mr. Choy Sze Chung Jojo, (iii) Mr. Wei Junhao; and (iv) Mr. Shen Shifu, established to advise the Independent Shareholders in respect of the Transfer Agreement and the transactions contemplated thereunder and the Specific Mandates
"Independent Financial Adviser"	Donvex Capital Limited, a licensed corporation under the SFO, to carry on Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Transfer Agreement and the transactions contemplated thereunder and the Specific Mandates
"Independent Shareholder(s)"	Shareholder(s) other than (i) Zhaojin Group and its associates; and (ii) any other Shareholder who has a material interest in the Transfer Agreement and the transactions contemplated thereunder
"Issue Price"	the issue price of each Consideration Share

"Latest Practicable Date"	29 October 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information of this circular
"Linyi Tianhengxin"	Linyi Tianhengxin Assets Appraisal Limited* (臨沂天恒信資產評估有限公司), the independent professional valuer appointed to appraise the valuation of the Target Assets and the entire equity interest of Goldsoft Technology for the purpose of the Acquisition
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Non-Public Issuance"	the non-public issuance of the Consideration Shares by the Company to Zhaojin Group, and the subscription of the Consideration Shares by Zhaojin Group pursuant to the Transfer Agreement
"PRC"	the People's Republic of China
"Price Referencing Date"	27 September 2019, being the date of the Announcement
"RMB"	Renminbi, the lawful currency of the PRC
"SASAC Authority"	State-owned Assets Supervision and Administration Commission of the State Council of the PRC and its local offices
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shandong Zhengyuan"	Shandong Zhengyuan Hexin Assets Appraisal Limited* (山東正源和信資產評估有限公司), the independent professional valuer appointed to appraise the valuation of the entire equity interests of each of Zhaojin Geology Exploration and the Supplies Centre for the purpose of the Acquisition
"Share(s)"	ordinary share(s) of RMB1.00 each in the share capital of the Company, comprising Domestic Shares and H Shares
"Share Registration Completion Date"	the date of allotment and issue of the Consideration Shares by the Company to Zhaojin Group and completion of share registration procedures with China Securities Depository and Clearing Corporation Limited
"Shareholder(s)"	the registered holder(s) of Domestic Shares and H Shares

"Specific Mandates"	the specific mandates to be sought from the Independent Shareholders at the EGM and the Class Meetings for the allotment and issue of the Consideration Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supplies Centre"	Zhaoyuan Gold Supplies Centre Company Limited* (招遠市黃金物資供應中心有限公司), a limited liability company established in the PRC in 1992, which is wholly-owned by Zhaojin Group as at the Latest Practicable Date
"Supplies Centre Valuation Report"	the valuation report in respect of Supplies Centre (Lu Zheng Xin Ping Bao Zi (2019) No. 1009) dated 18 May 2019 issued by Shandong Zhengyuan
"Target Assets"	the land use rights of two parcels of state-owned land in Zhaoyuan City, Shandong Province, the PRC, together with the buildings, fixtures, machinery and equipment thereon, which are owned by Zhaojin Group as at the Latest Practicable Date
"Target Assets Valuation Report"	the valuation report in respect of the Target Assets (Lin Tian Heng Xin Ping Bao Zi (2019) No. 2046) dated 10 May 2019 issued by Linyi Tianhengxin
"Target Companies"	collectively, (i) Zhaojin Geology Exploration, (ii) the Supplies Centre; and (iii) Goldsoft Technology
"Target Interests"	collectively, (i) the 100% equity interest in Zhaojin Geology Exploration; (ii) the 100% equity interest in the Supplies Centre; and (iii) the 67.37% equity interest of Goldsoft Technology
"Transfer Agreement"	the transfer agreement entered into between the Company and Zhaojin Group on 27 September 2019 in respect of the Acquisition
"Valuation Reports"	collectively, (i) Zhaojin Geology Exploration Valuation Report, (ii) Supplies Centre Valuation Report, (iii) Goldsoft Technology Valuation Report, and (iv) Target Assets Valuation Report
"Valuers"	Shandong Zhengyuan and Linyi Tianhengxin, both of which are the independent professional valuers appointed for the purpose of the Acquisition

"Wear-resistant Materials Company"	Shandong Zhaojin New Wear-resistant Materials Company Limited (山東招金新型耐磨材料有限公司), a limited liability company established in the PRC in 2017, which is owned as to 60% by the Company as at the Latest Practicable Date
"Zhaojin Geology Exploration"	Shandong Zhaoyuan Geology Exploration Company Limited* (山東招金地質勘查有限公司), a limited liability company established in the PRC in 1987, which is wholly-owned by Zhaojin Group as at the Latest Practicable Date
"Zhaojin Geology Exploration Valuation Report"	the valuation report in respect of Zhaojin Geology Exploration (Lu Zheng Xin Ping Bao Zi (2019) No. 1002) dated 18 May 2019 issued by Shandong Zhengyuan
"Zhaojin Group"	Shandong Zhaojin Group Company Limited* (山東招金集團有限公司), a state-owned limited company established in the PRC on 28 June 1992 and a promoter and the controlling shareholder of the Company
"%"	per cent

ZHAOJIN

ZHAOJIN MINING INDUSTRY COMPANY LIMITED*
招金礦業股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1818)

Executive Directors:	*Registered address:*
Mr. Weng Zhanbin	299 Jinhui Road
Mr. Dong Xin	Zhaoyuan City
Mr. Wang Ligang	Shandong Province
	PRC
Non-executive Directors:	
Mr. Xu Xiaoliang	*Principal place of business in Hong Kong:*
Mr. Liu Yongsheng	31st Floor, Tower Two
Mr. Huang Zhen	Times Square
Mr. Gao Min	1 Matheson Street
	Causeway Bay
Independent non-executive Directors:	Hong Kong
Ms. Chen Jinrong	
Mr. Choy Sze Chung Jojo	
Mr. Wei Junhao	
Mr. Shen Shifu	

30 October 2019

To the Shareholders

Dear Sir or Madam,

(1) CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF EQUITY INTERESTS IN THE TARGET COMPANIES AND THE TARGET ASSETS INVOLVING THE NON-PUBLIC ISSUANCE OF CONSIDERATION SHARES
(2) SPECIFIC MANDATES
(3) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION
(4) REGISTRATION AND ISSUE OF RENEWABLE CORPORATE BONDS OF NOT MORE THAN RMB6.0 BILLION IN THE PRC
(5) REGISTRATION AND ISSUE OF SUPER SHORT-TERM NOTES OF NOT MORE THAN RMB10 BILLION IN THE PRC

* *For identification purpose only*

INTRODUCTION

The purpose of this circular is to provide you with information regarding the notices of the EGM and Class Meetings and the resolutions to be proposed at the EGM and/or the Class Meetings (where applicable) relating to, among other things, the following:

(i) the Transfer Agreement and the transactions contemplated thereunder;

(ii) the proposal for the grant of Specific Mandates to allot and issue the Consideration Shares;

(iii) the proposed amendments to the Articles of Association;

(iv) registration and issue of renewable corporate bonds of not more than RMB6.0 billion in the PRC; and

(v) registration and issue of super short-term notes of not more than RMB10 billion in PRC.

I. CONNECTED TRANSACTION

Reference is made to the Announcement in relation to, among other things, the Transfer Agreement and the transactions contemplated thereunder and the grant of the Specific Mandates. On 27 September 2019, the Company and Zhaojin Group entered into the Transfer Agreement, pursuant to which the Company conditionally agreed to acquire, and Zhaojin Group conditionally agreed to sell, the Target Interests and the Target Assets at the Consideration of RMB402,048,800, which shall be satisfied in full by the allotment and issuance of 49,697,009 Consideration Shares at the Issue Price of RMB8.09 per Consideration Share.

Upon completion of the Acquisition, each of Zhaojin Geology Exploration and the Supplies Centre will become a wholly-owned subsidiary of the Company and Goldsoft Technology will become a non-wholly owned subsidiary of the Company. The Company will also acquire the ownership of the Target Assets.

Material terms of the Transfer Agreement

Date

27 September 2019 (after trading hours)

Parties

Vendor: Zhaojin Group

Purchaser: the Company

Subject matter

The Company agreed to acquire, and Zhaojin Group agreed to sell, the Target Interests and the Target Assets, free from any encumbrances including any pledge or freezing order imposed by any judicial body.

The Target Interests represents all of Zhaojin Group's interests in the Target Companies as at the date of the Transfer Agreement. The Transfer Agreement further provides that should all or any of the Target Companies undertake capital increase exercise such as a capitalisation of capital reserve prior to completion, Zhaojin Group shall transfer all of its equity interests in the Target Companies after such capital increase to the Company. The aggregate consideration payable by the Company for the Target Interests shall not be affected by such capital increase exercise and shall remain unchanged.

The Target Assets represent the land use rights of two parcels of state-owned land together with the buildings (structures) and machinery and equipment thereon legally owned by Zhaojin Group as at the date of the Transfer Agreement.

The completion of the transfer of the Target Interests and the completion of the transfer of the Target Assets from Zhaojin Group to the Company shall be inter-conditional upon each other.

Consideration and Basis

The Consideration for the Target Interests and the Target Assets, in aggregate, shall be RMB402,048,800, calculated as follows:

(a) RMB88,076,700 as consideration for 100% equity interests of Zhaojin Geology Exploration, determined based on the appraised value for 100% equity interests of Zhaojin Geology Exploration as at 31 December 2018, i.e. RMB88,076,700, as set out in the Zhaojin Geology Exploration Valuation Report;

(b) RMB62,780,000 as consideration for 100% equity interests of Supplies Centre, determined based on the appraised value for 100% equity interests of Supplies Centre as at 31 December 2018, i.e. RMB62,780,000, as set out in the Supplies Centre Valuation Report;

(c) RMB44,956,100 as consideration for 67.37% equity interests of Goldsoft Technology, determined based on the appraised value for 100% equity interests of Goldsoft Technology as at 31 December 2018, i.e. RMB66,730,100, as set out in the Goldsoft Technology Valuation Report; and

(d) RMB206,236,000 as consideration for 100% interests of the Target Assets, determined based on the appraised value for 100% interests of the Target Assets as at 31 December 2018, i.e. RMB206,236,000, as set out in the Target Assets Valuation Report.

The Valuation Reports have been filed and approved by SASAC Authority. For further information about the Valuation Reports, please refer to the section headed "Further information about the Valuation Reports" in this letter from the Board.

Payment of Consideration

The Consideration of RMB402,048,800 shall be satisfied in full by the allotment and issuance of 49,697,009 Consideration Shares at the Issue Price of RMB8.09 per Consideration Share.

The Issue Price of RMB8.09 per Consideration Share is equivalent to HK$8.96 per Consideration Share at the exchange rate of HK$1:RMB0.9025, being the central parity rate of Hong Kong dollar against RMB in the inter-bank foreign exchange market on 26 September 2019 as announced by China Foreign Exchange Trading Centre.

The Consideration Shares, when issued, shall be free from all encumbrances.

For further information on the Consideration Shares, please refer to the section headed "Further information about the Consideration Shares" in this letter from the Board.

Conditions Precedent

The completion of the Acquisition is conditional upon the fulfilment or waiver (if applicable) of the following conditions:

(a) conditions to be satisfied jointly by the Company and Zhaojin Group:

(i) having obtained all necessary approvals, consents and permits that are required to be obtained from all the competent governmental authorities and regulatory departments, including but not limited to the relevant SASAC Authority, in respect of the Transfer Agreement and the transactions contemplated thereunder; and

(ii) all such approvals, consents and permits have not caused any material change to any terms and conditions of the Transfer Agreement and the transactions contemplated thereunder (including but not limited to the assets or equity interests to be transferred and the consideration under the Transfer Agreement);

(b) conditions to be satisfied by the Company (unless fully or partially waived by Zhaojin Group, subject to compliance with the stipulations of the relevant laws):

(i) the completion of the Company's internal approval procedures for approving the Acquisition, including but not limited to the passing of the resolutions by the Independent Shareholders at the EGM, the H Share Shareholders at the H Share Class Meeting and the Domestic Share Shareholders at the Domestic Share Class Meeting, respectively;

(ii) the warranties given by the Company not being breached by the Company; and

(iii) the obligations of the Company under the Transfer Agreement not being breached by the Company;

(c) conditions to be satisfied by Zhaojin Group (unless fully or partially waived by the Company, subject to compliance with the stipulations of the relevant laws):

(i) the completion of the relevant internal approval procedures of Zhaojin Group for approving the Acquisition;

(ii) the Target Assets being truthfully, legally and validly held by Zhaojin Group and are not subject to any encumbrance, including any pledge or freezing order imposed by any judicial body, and are in good condition for the purpose of transfer;

(iii) each of the Target Interests being truthfully, legally and validly held by Zhaojin Group and is not subject to any encumbrance, including any pledge or freezing order imposed by any judicial body, and is in good condition for the purpose of transfer;

(iv) the warranties given by Zhaojin Group not being breached by Zhaojin Group; and

(v) the obligations of Zhaojin Group under the Transfer Agreement not being breached by Zhaojin Group.

As at the Latest Practicable Date, save for the conditions numbered (a)(i), (a)(ii) and (b)(i) in the above, the other conditions have been fulfilled.

Completion

After fulfilment or waiver (as the case may be) of the conditions precedent under the Transfer Agreement, Zhaojin Group shall submit the relevant documents to the relevant authorities so as to procure completion of the transfers of the Target Interests and Target Assets.

Completions of the transfers of the Target Interests and the Target Assets from Zhaojin Group to the Company shall take place on the Equity Interests Completion Date and the Assets Completion Date, respectively.

On the Assets Completion Date, the Company will directly own the right of ownership or right of use of the Target Assets. On the Equity Interests Completion Date, the Company will directly hold each of the Target Interests.

Pursuant to the Transfer Agreement, the Company shall allot and issue the Consideration Shares to Zhaojin Group and complete the share registration procedures at the China Securities Depository and Clearing Corporation Limited within 30 Business Days from the satisfaction or waiver (as the case may be) of all the conditions precedent under the paragraph headed "Conditions Precedent" in this letter from the Board.

Upon completion of the above-mentioned share registration, Zhaojin Group will become the holder of the Consideration Shares.

Post-completion Guarantee in relation to Zhaojin Geology Exploration

Zhaojin Group has also granted the Guarantee Letter to the Company pursuant to which Zhaojin Group guaranteed that Zhaojin Geology Exploration shall narrow the loss by 50%, achieve breakeven and record a profit of RMB3 million (excluding the revenue from disposal of the mining right in Madagascar at a price lower than the cost) within 12 months, 24 months and 36 months, respectively, from the Share Registration Completion Date. If Zhaojin Geology Exploration fails to meet the above targets within 12 months, 24 months and 36 months, respectively, from the Share Registration Completion Date, Zhaojin Group shall make up the difference in the relevant operating results of Zhaojin Geology Exploration to the Company by way of cash payment and on a dollar-to-dollar basis after the end of 12 months, 24 months and 36 months, respectively, from the Share Registration Completion Date. If the Non-Public Issuance does not proceed, the guarantee shall lapse automatically.

The Company will comply with the disclosure requirements set out in Rule 14A.63 of the Listing Rules in respect of such guarantee.

Further Information About The Valuation Reports

The valuation methods applied by Shandong Zhengyuan for the valuation of Zhaojin Geology Exploration and Supplies Centre are (i) the assets based approach for Zhaojin Geology Exploration; and (ii) a combination of assets based and income approach for Supplies Centre.

The valuation methods applied by Linyi Tianhengxin for the valuation of Goldsoft Technology and the Target Assets are (i) a combination of assets based and income approach for Goldsoft Technology; and (ii) the cost approach for the Target Assets. With respect to the valuation approach for building (structure) assets set out in Appendix V to this circular, the analogy calculation approach was adopted in determining the construction and replacement cost of the building (structure) assets, on the basis that there is no final account information available in respect of the buildings of the Target Assets. As stated in the Target Assets Valuation Report, the analogy calculation approach requires comparison to be made between other buildings (structures) of the same structural type and such type of buildings (structures). The construction and installation cost of the other buildings (structures) is determined by making adjustment to factors affecting the construction and installation cost due to the differences between the comparable buildings (structures) and such buildings (structures) in terms of professional standards of structure, decoration and ancillary facilities.

Given that the valuation of Supplies Centre and Goldsoft Technology involved the income approach which constitutes a profit forecast under Rule 14.61 of the Listing Rules, the Company is required to comply with the requirements under Rules 14.60A, 14.62 and 14A.68(7) of the Listing Rules to publish additional information such as details of the principal assumptions for the profit forecast, a letter from the Company's auditors or reporting accountants confirming that they have reviewed the accounting policies and calculations for the forecast and a letter from the board of directors of the Company confirming that they have made the forecast after due and careful enquiry. The principal assumptions used in relation to the valuation of Supplies Centre and Goldsoft Technology are set out in Appendix I and Appendix II to this circular, respectively.

Ernst & Young, acting as the Company's auditor, has reported to the Directors on the arithmetical accuracy of the calculations of the discounted cash flow forecast upon which the Supplies Centre Valuation Report and the Goldsoft Technology Valuation Report were based. The Directors confirm that the valuation of the equity interests in each of the Supplies Centre and Goldsoft Technology has been made after due and careful enquiry.

The reports from Ernst & Young in compliance with Rule 14.62(2) of the Listing Rules and a letter from the Board in compliance with Rule 14.62(3) of the Listing Rules have been submitted to the Stock Exchange, the texts of which are included in Appendix III and Appendix IV to this circular, respectively.

The Target Assets Valuation Report has been set out in Appendix V. A summary of each of the Zhaojin Geology Exploration Valuation Report, the Supplies Centre Valuation Report and the Goldsoft Technology Valuation Report has been set out in Appendix VA, VB and VC, respectively.

Further Information about the Consideration Shares

Class of shares and par value

The Consideration Shares to be issued are Domestic Shares with par value of RMB1.00 each.

Issue Price

The Issue Price represents the 90-day average closing price of HK$8.96 per H Share as quoted on the Stock Exchange immediately preceding and excluding the Price Referencing Date, and shall not be less than the audited net asset value attributable to the owner of the Company per Share as at 31 December 2018 of RMB4.13.

The Issue Price of RMB8.09 per Consideration Share represents:

(a) a discount of approximately 1.21% to the closing price of HK$9.07 per H Share as quoted on the Stock Exchange on the Price Referencing Date;

(b) a discount of approximately 6.47% to the average closing price of HK$9.58 per H Share as quoted on the Stock Exchange in the last 5 consecutive trading days up to and excluding the Price Referencing Date;

(c) a discount of approximately 4.98% to the average closing price of HK$9.43 per H Share as quoted on the Stock Exchange in the last 10 consecutive trading days up to and excluding the Price Referencing Date;

(d) a discount of approximately 6.60% to the average closing price of HK$9.59 per H Share as quoted on the Stock Exchange in the last 20 consecutive trading days up to and excluding the Price Referencing Date; and

(e) a premium of approximately 95.63% over the audited net asset value attributable to the owner of the Company per Share of approximately RMB4.13 (from the Company's financial statements for the year ended 31 December 2018 prepared in accordance with the PRC accounting standards, equivalent to approximately HK$4.58 (based on the exchange rate of HK$1:RMB0.9025, which is determined on the basis of the central parity rate of Hong Kong dollar against RMB in the inter-bank foreign exchange market on the trading day immediately preceding the Price Referencing Date as announced by China Foreign Exchange Trading Centre) as at 31 December 2018), based on the total number of issued Shares as at 31 December 2018.

The Directors consider that the issue price of the Consideration Share is fair and reasonable and is in the interests of the Company and its Shareholders as a whole.

Number of Consideration Shares

The 49,697,009 Consideration Shares represent approximately 2.29% of the total number of issued Domestic Shares, and approximately 1.54% of the total issued Shares of the Company, as at the Latest Practicable Date, and approximately 2.24% of the total number of issued Domestic Shares and approximately 1.52% of the total issued Shares of the Company as enlarged by the allotment and issue of the Consideration Shares, assuming no other changes to the issued share capital of the Company after the Latest Practicable Date and before the Share Registration Completion Date.

Ranking of the Consideration Shares

The Consideration Shares will rank, upon issue, pari passu in all respects with the Domestic Shares in issue at the time of the allotment and issue of the Consideration Shares.

The Domestic Shares are not listed on any stock exchanges and currently there is no intention to apply for the listing of the Consideration Shares on the Stock Exchange.

Specific Mandates

The Consideration Shares will be issued pursuant to the Specific Mandates to be sought form the Independent Shareholders at the EGM and the Class Meetings.

The resolution in relation to the grant of the Specific Mandates will be valid for 12 months from the date of approval of the resolution at the EGM.

Reasons for and Benefits of Entering into the Transfer Agreement

Since geological exploration, procurement of supplies and digital mine construction are integral parts of the Company in its ordinary course of business, the acquisition of each of Zhaojin Geology Exploration, the Supplies Centre and Goldsoft Technology by the Company can reduce the number of connected transactions between the Company and Zhaojin Group in the future, and reduce the fees and expenses payable by the Company relating to exploration, procurement of materials, digital mine construction and other matters. The acquisition of the Target Assets will also help to further ensure the independence and completeness of the Company's business.

The Directors consider that the Transfer Agreement was entered into on normal commercial terms that are fair and reasonable, in the ordinary and usual course of business of the Group and in the interests of the Company and its Shareholders as a whole.

Fund-raising Activity in the Past Twelve Months

The Company has not conducted any fund-raising activity by the issue of Shares in the twelve months immediately preceding the Latest Practicable Date.

Shareholding Structure of the Company

As at the Latest Practicable Date, the Company has 3,220,696,195 Shares in issue, comprising 2,171,481,195 Domestic Shares and 1,049,215,000 H Shares. Zhaojin Group holds (directly and indirectly) 1,137,481,195 Domestic Shares, representing 52.38% of the issued Domestic Shares and approximately 35.32% of the total issued Shares of the Company as at the Latest Practicable Date. Immediately upon completion of the allotment and issue of the Consideration Shares, Zhaojin Group will hold 1,187,178,204 Domestic Shares, representing 53.45% of the total number of issued Domestic Shares as enlarged by the allotment and issue of the Consideration Shares, and approximately 36.30% of the total issued Shares of the Company as enlarged by the allotment and issue of the Consideration Shares, assuming no other changes to the shareholding structure of the Company after the Latest Practicable Date and before the Share Registration Completion Date, save for the allotment and issue of the Consideration Shares.

For illustrative purposes only, set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after the allotment and issue of the Consideration Shares (assuming 49,697,009 Consideration Shares will be issued and there are no other changes in the shareholding structure of the Company save for the allotment and issue of the Consideration Shares):

			As at the Latest Practicable Date			Immediately after the allotment and issue of the Consideration Shares		
Name of Shareholder	*Notes*	Class of Shares	Number of Shares	Approximate % of the relevant class of Shares (%)	Approximate % of the total issued Shares of the Company (%)	Number of Shares	Approximate % of the relevant class of Shares (%)	Approximate % of the total issued Shares of the Company (%)
Zhaojin Group		Domestic Shares	1,086,514,000	50.04	33.74	1,136,211,009	51.15	34.74
Shanghai Yuyuan Tourist Mart (Group) Co., Ltd.		Domestic Shares	742,000,000	34.17	23.04	742,000,000	33.41	22.69
Shanghai Fosun Industrial Investment Co., Ltd.		Domestic Shares	106,000,000	4.88	3.29	106,000,000	4.77	3.24
Zhaojin Non-Ferrous Mining Company Limited	*1*	Domestic Shares	50,967,195	2.35	1.58	50,967,195	2.29	1.56
Shanghai Laomiao Gold Co., Ltd.	*2*	Domestic Shares	21,200,000	0.98	0.66	21,200,000	0.95	0.65
Zhaoyuan City State-owned Assets Operation Company Limited* (招遠市國有資產經營有限公司)		Domestic Shares	84,800,000	3.91	2.63	84,800,000	3.82	2.59
The First Employees' Shares Subscription Plan of Zhaojin Mining Industry Company Limited		Domestic Shares	80,000,000	3.68	2.48	80,000,000	3.60	2.45
Total Domestic Shares			2,171,481,195	100	67.43	2,221,178,204	100	67.92
Luyin Trading Pte. Ltd.	*3*	H Shares	28,645,000	2.73	0.89	28,645,000	2.73	0.88
Other Public Shareholders		H Shares	1,020,570,000	97.27	31.69	1,020,570,000	97.27	31.20
Total H Shares			1,049,215,000	100	32.58	1,049,215,000	100	32.08
Total (Domestic Shares and H Shares)			3,220,696,195		100	3,270,393,204		100

Notes:

1. Zhaojin Non-Ferrous Mining Company Limited is a wholly-owned subsidiary of Zhaojin Group.

2. Shanghai Laomiao Gold Co., Ltd is a wholly-owned subsidiary of Shanghai Yuyuan Tourist Mart (Group) Co., Ltd.

3. Luyin Trading Pte. Ltd. is a wholly-owned subsidiary of Zhaojin Group.

Board's Approval

The resolution approving the Transfer Agreement and the transactions contemplated thereunder was approved at the Board meeting of the Company held on 27 September 2019. As executives of Zhaojin Group, Mr. Weng Zhanbin and Mr. Liu Yongsheng have abstained from voting at the Board meeting relating to approval of the Transfer Agreement.

Information of the Parties

The Group is principally engaged in gold exploration, mining, ore processing and smelting, and processing and sale of by-products in the PRC.

Zhaojin Group is principally engaged in the business of gold exploration, mining and refining, and has investments in gold exploration, mining, smelting and refining and other gold related businesses.

Information of the Target Companies

1. Zhaojin Geology Exploration

Zhaojin Geology Exploration is principally engaged in the exploration of solid mining resources, geological drilling and the analysis and testing of rocks and minerals. It holds approximately 10% interest in the mining right of a mine in madagascar.

Set out below is the consolidated financial information of Zhaojin Geology Exploration, prepared in accordance with the PRC accounting standards for the two financial years immediately preceding the Acquisition and for the six months ended 30 June 2019:

	For the year ended 31 December		For the six months ended 30 June
	2017	2018	2019
	RMB	*RMB*	*RMB*
	(unaudited)	(audited[4])	(unaudited)
Net loss before tax	2,329,000	3,963,000	1,273,000
Net loss after tax	3,719,000	5,428,000	1,292,000

According to the audited[4] consolidated financial information statements of Zhaojin Geology Exploration, prepared in accordance with the PRC accounting standards, the total assets and net assets of Zhaojin Geology Exploration were approximately RMB150,851,500 and RMB70,907,900, respectively, as at 31 December 2018. The unaudited total assets and net assets of Zhaojin Geology Exploration as at 30 June 2019 were approximately RMB127,839,800 and RMB72,069,700, respectively.

Note:

4. The audit report of Shandong Hexin Accounting Firm dated 28 April 2019 (He Xin Shen Zi (2019) No. 030150).

According to the Zhaojin Geology Exploration Valuation Report, the appraised value of the 100% equity interest of Zhaojin Geology Exploration was RMB88,076,700 as at 31 December 2018.

2. Supplies Centre

The Supplies Centre is principally engaged in the business of steel, construction materials, mining machinery and accessories, reagent, chemical raw materials and products.

Set out below is the consolidated financial information of the Supplies Centre, prepared in accordance with the PRC accounting standards for the two financial years immediately preceding the Acquisition and for the six months ended 30 June 2019:

	For the year ended 31 December		For the six months ended 30 June
	2017	**2018**	**2019**
	RMB	*RMB*	*RMB*
	(unaudited)	(audited[5])	(unaudited)
Net profit before tax	9,209,000	9,746,000	5,310,000
Net profit after tax	7,060,000	7,210,000	3,963,000

According to the audited[5] consolidated financial information statements of the Supplies Centre, prepared in accordance with the PRC accounting standards, the total assets and net assets of the Supplies Centre were approximately RMB88,175,900 and RMB44,251,000, respectively, as at 31 December 2018. The unaudited total assets and net assets of the Supplies Centre as at 30 June 2019 were approximately RMB67,748,000 and RMB46,521,900, respectively.

According to the Supplies Centre Valuation Report, the appraised value of the 100% equity interest of the Supplies Centre was RMB62,780,000 as at 31 December 2018.

Note:

5. The audit report of Shandong Hexin Accounting Firm dated 28 April 2019 (He Xin Shen Zi (2019) No. 030149).

3. Goldsoft Technology

Goldsoft Technology is principally engaged in the design and construction of safety technology preventive engineering, the development of technology for communications and computer software and hardware, the design of computer systems, the provision of computer-based technical services and technical consulting, construction of smart engineering and security maintenance engineering.

Set out below is the consolidated financial information of Goldsoft Technology, prepared in accordance with the PRC accounting standards for the two financial years immediately preceding the Acquisition and for the six months ended 30 June 2019:

	For the year ended 31 December		For the six months ended 30 June
	2017	**2018**	**2019**
	RMB	*RMB*	*RMB*
	(audited[6])	(audited[6])	(unaudited)
Net profit before tax	1,588,000	2,244,000	308,000
Net profit after tax	1,201,000	1,872,000	272,000

According to the audited[6] consolidated financial information statements of Goldsoft Technology, prepared in accordance with the PRC accounting standards, the total assets and net assets of Goldsoft Technology were approximately RMB86,691,700 and RMB57,510,600, respectively, as at 31 December 2018. The unaudited total assets and net assets of Goldsoft Technology as at 30 June 2019 were approximately RMB79,331,500 and RMB60,683,100, respectively.

According to the Goldsoft Technology Valuation Report, the appraised value of the 100% equity interest of Goldsoft Technology was RMB66,730,100 as at 31 December 2018. Accordingly, the appraised value of the 67.37% equity interest of Goldsoft Technology was RMB44,956,100 as at 31 December 2018.

Note:

6. The audit report of Zhongtianyun Accounting Firm dated 11 April 2018 and 15 April 2019 (Zhong Tian Yun (2018) Shen Zi No. 90603 and Zhong Tian Yun (2019) Shen Zi No. 90578).

4. Original acquisition cost of the Target Interests

As Zhaojin Group established each of the Target Companies (namely, Zhaojin Geology Exploration, Supplies Centre and Goldsoft Technology) and did not acquire any of them from a third party, the original acquisition cost of the Target Interests to Zhaojin Group is not applicable.

Information of the Target Assets

The Target Assets represent the land use rights of two parcels of state-owned land together with the buildings (structures) and machinery and equipment thereon. Of the two parcels of land, one is located within the factory area that is 700 meters north of the road and west of the intersection of Guoda Road and S608 in Zhaoyuan City ("**Guoda Road Factory Area**"), which is currently leased to the Wear-resistant Materials Company, a subsidiary of the Company. The other parcel of land is located in Xiwudang Village, Zhaocheng Town, Luo Feng ("**Xiwudang Village**"), which is now used by the Supplies Centre. The buildings (structures) and machinery and equipment to be transferred are the above-ground buildings and factory machinery and equipment on the above-mentioned two parcels of land, which are currently used by the Wear-resistant Materials Company and the Supplies Centre on a lease basis.

The book value of the Target Assets was RMB194,033,100 according to the audited consolidated financial information statements of Zhaojin Group, prepared in accordance with the PRC accounting standards as at 31 December 2018. The appraised value of the Target Assets was RMB206,236,000 as at 31 December 2018 according to the Target Assets Valuation Report. The original acquisition cost of the Target Assets paid by Zhaojin Group was approximately RMB195,095,634.51.

As the buildings erected on the Guoda Road Factory Area have not obtained the real estate ownership certificates, the valuation of the Target Assets (details of which are set out in the Target Assets Valuation Report in Appendix V to this circular) has not taken into account the urban infrastructure facilities fee. If the urban infrastructure facilities fee for residential and industrial properties is included in the valuation of the Target Assets, such fee is equivalent to RMB10 per square meter according to guidance price imposed by local regulatory authorities of the place where the Target Assets are located.

According to the Company's PRC legal advisers, it is expected that the real estate ownership certificates for the buildings erected on the Guoda Road Factory Area will be obtained by June 2020.

Listing Rules Implications

As at the Latest Practicable Date, Zhaojin Group is the controlling shareholder of the Company and therefore a connected person of the Company under Chapter 14A of the Listing Rules. Therefore, the Acquisition (which involves the allotment and issue of the Consideration Shares) constitutes a connected transaction of the Company, which is subject to reporting, announcement and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Pursuant to Rule 19A.38 of the Listing Rules and the Articles of Association, the allotment and issue of the Consideration Shares is also subject to the approval by a special resolution of Shareholders at the EGM, and the approvals by special resolutions of the H Share Shareholders and the Domestic Share Shareholders at separate class meetings conducted in accordance with the Articles of Association. Therefore, the EGM, the H Share Class Meeting and the Domestic Share Class Meeting will be held to approve the allotment and issue of the Consideration Shares.

Independent Board Committee and Independent Financial Adviser

The Independent Board Committee has been formed to advise the Independent Shareholders in connection with the Transfer Agreement and the transactions contemplated thereunder, including the Specific Mandates. Ms. Chen Jinrong and Mr. Choy Sze Chung Jojo, Mr Wei Junhao and Mr Suen Shifu have been appointed by the Board to serve as members of the Independent Board Committee. No member of the Independent Board Committee has any material interest in the Transfer Agreement and the transaction contemplated thereunder, including the Specific Mandates. A letter from the Independent Board Committee is set out on pages of 31 to 32 of this circular.

The Company has appointed Donvex Capital Limited as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Transfer Agreement and the transactions contemplated thereunder, including the Specific Mandates. A letter from the Independent Financial Adviser is set out on pages 33 to 64 of this circular.

II. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Upon completion of the Non-Public Issuance, the registered capital and shareholding structure of the Company will change. Meanwhile, one of the Company's founder shareholder, Shanghai Yuyuan Tourist Mart Co., Ltd., changed its name to "Shanghai Yuyuan Tourist Mart (Group) Co., Ltd." and the Articles of Association are required to be amended to reflect the relevant changes.

The Company proposes to amend the Articles of Association as follows:

(a) Article 1.1

The original Article 1.1 reads as:

"Zhaojin Mining Industry Company Limited (hereinafter referred to as the "**Company**") is a joint stock limited company established in accordance with the Company Laws of the People's Republic of China (hereinafter referred to as the "**Company Law**") and Special Provisions of the State Council Concerning the Flotation and Listing Abroad of Stocks by Joint Stock Limited Companies (hereinafter referred to as the "**Special Provisions**") and other relevant laws and administrative regulations of the State. The Company was jointly established by Shandong Zhaojin Group Company Limited (hereinafter referred to as the "**Zhaojin Group**"), Shanghai Fosun Industrial Investment Co., Ltd. (hereinafter referred to as the "**Fosun Investment**"), Shanghai Yuyuan Tourist Mart Co., Ltd. (hereinafter referred to as the "**Yuyuan Mart**"), Shenzhen Guangxin Investments Co., Ltd. (hereinafter referred to as the "**Guangxin Investments**") and Shanghai Laomiao Gold Co., Ltd. (hereinafter referred to as the "**Laomiao Gold**") as its promoters and registered at Shandong Provincial Administration of Industry and Commerce on 16 April 2004.

The Company's business licence registration number is: 370000018082374.

Prior to the initial public offering of its overseas-listed foreign-invested shares (as defined in Article 3.4), the shareholders of the Company were Zhaojin Group, Fosun Investment, Yuyuan Mart, Guangxin Investments and Laomiao Gold. The shares held by Zhaojin Group are State-owned legal person shares in nature, and the shares held by Fosun Investment, Yuyuan Mart, Guangxin Investments and Laomiao Gold are social legal person shares in nature."

It is proposed that Article 1.1 be amended to read as follows:

"Zhaojin Mining Industry Company Limited (hereinafter referred to as the "**Company**") is a joint stock limited company established in accordance with the Company Laws of the People's Republic of China (hereinafter referred to as the "**Company Law**") and Special Provisions of the State Council Concerning the Flotation and Listing Abroad of Stocks by Joint Stock Limited Companies (hereinafter referred to as the "**Special Provisions**") and other relevant laws and administrative regulations of the State. The Company was jointly established by Shandong Zhaojin Group Company Limited (hereinafter referred to as the "**Zhaojin Group**"), Shanghai Fosun Industrial Investment Co., Ltd. (hereinafter referred to as the "**Fosun Investment**"), Shanghai Yuyuan Tourist Mart (Group) Co., Ltd. (hereinafter referred to as the "**Yuyuan**"), Shenzhen Guangxin Investments Co., Ltd. (hereinafter referred to as the "**Guangxin Investments**") and Shanghai Laomiao Gold Co., Ltd. (hereinafter referred to as the "**Laomiao Gold**") as its promoters and registered at Shandong Provincial Administration of Industry and Commerce on 16 April 2004.

The Company's business licence registration number is: 370000018082374.

Prior to the initial public offering of its overseas-listed foreign-invested shares (as defined in Article 3.4), the shareholders of the Company were Zhaojin Group, Fosun Investment, Yuyuan, Guangxin Investments and Laomiao Gold. The shares held by Zhaojin Group are State-owned legal person shares in nature, and the shares held by Fosun Investment, Yuyuan, Guangxin Investments and Laomiao Gold are social legal person shares in nature."

(b) Article 3.5

The original Article 3.5 reads as:

"The share capital structure of the Company: 3,220,696,195 ordinary shares, of which Zhaojin Group holds 1,086,514,000 Domestic Shares, representing 33.74% of the issued ordinary shares of the Company; Yuyuan Mart holds 742,000,000 Domestic Shares, representing 23.04% of the issued ordinary shares of the Company; Fosun Investment holds 106,000,000 Domestic Shares, representing 3.29% of the issued ordinary shares of the Company; Zhaoyuan City State-owned Assets Operation Company Limited holds 84,800,000 Domestic Shares, representing 2.63% of the issued ordinary shares of the Company; Laomiao Gold holds 21,200,000 Domestic Shares, representing 0.66% of the issued ordinary shares of the Company; Zhaojin Non-Ferrous Mining Company Limited holds 50,967,195 Domestic Shares, representing 1.58% of the issued ordinary shares of the Company; Zhaojin Mining Industry Company Limited First Employee Share Subscription Plan holds 80,000,000 Domestic Shares, representing 2.48% of the issued ordinary shares of the Company; Shareholders of overseas-listed foreign-invested shares hold 1,049,215,000 shares, representing 32.58% of the issued ordinary shares of the Company."

It is proposed that Article 3.5 be amended to read as follows:

"The share capital structure of the Company: 3,270,393,204 ordinary shares, of which Zhaojin Group holds 1,136,211,009 Domestic Shares, representing 34.74% of the issued ordinary shares of the Company; Yuyuan holds 742,000,000 Domestic Shares, representing 22.69% of the issued ordinary shares of the Company; Fosun Investment holds 106,000,000 Domestic Shares, representing 3.24% of the issued ordinary shares of the Company; Zhaoyuan City State-owned Assets Operation Company Limited holds 84,800,000 Domestic Shares, representing 2.59% of the issued ordinary shares of the Company; Laomiao Gold holds 21,200,000 Domestic Shares, representing 0.65% of the issued ordinary shares of the Company; Zhaojin Non-Ferrous Mining Company Limited holds 50,967,195 Domestic Shares, representing 1.56% of the issued ordinary shares of the Company; Zhaojin Mining Industry Company Limited First Employee Share Subscription Plan holds 80,000,000 Domestic Shares, representing 2.45% of the issued ordinary shares of the Company; Shareholders of overseas-listed foreign-invested shares hold 1,049,215,000 shares, representing 32.08% of the issued ordinary shares of the Company."

(c) Article 3.8

The original Article 3.8 reads as:

"The registered capital of the Company is RMB3,220,696,195."

It is proposed that Article 3.8 be amended to read as follows:

"The registered capital of the Company is RMB3,270,393,204."

III. REGISTRATION AND ISSUE OF RENEWABLE CORPORATE BONDS OF NOT MORE THAN RMB6.0 BILLION IN THE PRC

In order to ensure the sustainable, healthy and steady business development of the Company, and to further enhance the overall competitiveness and long-term profitability, the Board proposes to register and issue renewable corporate bonds (the "**Renewable Bonds**") in the PRC with an aggregate principal amount of not more than RMB6.0 billion. The proposed registration and issue of the Renewable Bonds is subject to the approval of the Shareholders by way of a special resolution.

The proposed registration and issue of the Renewable Bonds is also subject to the review and approval of the relevant PRC regulatory authorities.

(a) Issue Proposal of Renewable Bonds

Details of the Renewable Bonds proposed to be registered and issued are as follows:

(i) Issuer: the Company;

(ii) Method of issue: Public issue to qualified investors;

(iii) Place of issue: the PRC;

(iv) Size of application: the principal amount of not more than RMB6.0 billion, to be issued in one or more tranches;

(v) Term of the bonds: each term of the Renewable Bonds shall be not more than 5 interest accruing years. The issuer is entitled to exercise the renewal option at the end of each term. When the issuer exercises the renewal option, the Renewable Bonds will be renewed for an additional term. In the event that no renewal option is exercised, the Renewable Bonds will become payable in full when they fall due;

(vi) Renewal option: each term of the Renewable Bonds shall be not more than 5 interest accruing years. At the end of each term, the issuer is entitled to renew the Renewable Bonds for an additional term, or repay and redeem the Renewable Bonds in full as they fall due at the end of the term;

(vii) Use of proceeds: mainly used for the production and operation of the Company, including but not limited to replenishment of liquid capital, repayment of borrowings and project investment expenses, which shall be within the scope as permitted by the relevant regulatory authorities;

(viii) Others: terms such as interest deferral will be included in the terms of the Renewable Bonds; and

(ix) Validity period of the resolution: 36 months from the date of passing of this resolution at the EGM.

(b) Authorisation and mandate to be granted to the Board

To ensure the proper completion of the proposed issue of the Renewable Bonds, it is proposed that a special resolution be passed by the Shareholders generally and unconditionally at the EGM to grant authority to the Board to deal with all such matters relating to the registration and issue of the Renewable Bonds, including but not limited to the following:

(i) so far as permitted by laws and regulations according to the actual conditions of the Company and the market, determine and amend the actual plans for the issue of the Renewable Bonds, adjust the plans and relevant terms of the issue of the Renewable Bonds, including but not limited to the timing, method, quantity, price and term of the issue (including the terms of the renewal option), method of determining interest, redemption provision, order of repayment, interest step-up provision, interest deferral provision, tranche structure and uses of proceeds, determine and appoint the relevant intermediaries to participate in the issue of Renewable Bonds, sign the legal documents and agreements relating to the issue of Renewable Bonds, etc.;

(ii) take all necessary and ancillary actions relating to the issue of the Renewable Bonds, including but not limited to, making underwriting arrangements and lodging the application to the relevant PRC regulatory authorities for the issue of the Renewable Bonds, obtaining the approval(s) from the relevant PRC regulatory authorities, appointing trustee for the proposed issue of the Renewable Bonds, executing trust and custodian agreements and stipulating rules for Renewable Bonds holders' meeting and arranging for other issues and liquidity matters;

(iii) take all necessary actions to determine and make arrangements for all matters relating to the proposed issue and listing of the Renewable Bonds, including negotiating, approving, authorising, executing, amending and completing the relevant legal documents, agreements, contracts relating to the issue and listing of the Renewable Bonds and make appropriate disclosure, and to approve, confirm and ratify any actions taken by the Board for the foregoing matters;

(iv) deal with any matters relating to the issue and listing of the Renewable Bonds pursuant to the relevant rules of the relevant domestic stock exchange(s); and take all actions as deemed necessary by the Board relating to the issue of and listing of the Renewable Bonds;

(v) should there be any changes in the policies of the PRC regulatory authorities in relation to the issue of the Renewable Bonds or any new requirements under the relevant accounting standards, save for those matters subject to resolutions by the Shareholders at general meetings as stipulated by the relevant laws, regulations and the Articles of Association, amend the specific proposal for the issue of the Renewable Bonds based on the feedback (if any) from the relevant PRC regulatory authorities or exercise discretion to postpone or suspend the issue of the Renewable Bonds; and

(vi) the Board may delegate the authority to Mr. Weng Zhanbin, the Chairman, and Mr. Dong Xin, a Director, for dealing with the abovementioned matters.

The grant of authority to the Board to deal with the above matters will take effect from the date of the passing of such resolution at the EGM.

IV. REGISTRATION AND ISSUE OF SUPER SHORT-TERM NOTES OF NOT MORE THAN RMB10 BILLION IN THE PRC

In order to supplement the working capital of the Company, to adjust the respective proportions of long-term, middle-term and short-term financing of the Company, to further optimize the debt structure, to alleviate the needs for short-term funding, so as to ensure the sustainable, healthy and steady business development of the Company, and to further enhance the overall competitiveness and long-term profitability, the Board proposes to register and issue super short-term notes (the "**Super Short-Term Notes**") in the PRC with an aggregate principal amount of not more than RMB10 billion. The proposed registration and issue of the Super Short-Term Notes is subject to the approval of the Shareholders by way of a special resolution.

The proposed issue of the Super Short-Term Notes shall also be registered and approved by China Inter-bank Market Dealers Association.

(a) Issue Proposal of Super Short-Term Notes

Details of the Super Short-Term Notes proposed to be registered and issued are as follows:

(i) Issuer: the Company;

(ii) Method of issue: public issue in China inter-bank markets by way of centralised book-building among members of the underwriting syndicate and centralised placing;

(iii) Size of application: the principal amount of the issue shall be not more than RMB10 billion (inclusive), which will be issued in tranches;

(iv) Term: not more than 270 days (inclusive);

(v) Method of repayment of principal and interest: the principal and interest shall be repaid in one lump sum on maturity;

(vi) Use of proceeds: mainly be used for the production and operation activities of the Company, including but not limited to the replenishment of liquid capital and repayment of borrowings, which shall be within the scope as permitted by the relevant regulatory authorities;

(vii) Determination of interest rate: determine the interest rate of the issuance by way of centralised book-building among the members of the underwriting syndicate;

(viii) Targets of the issue: qualified institutional investors in China inter-bank bond markets (other than those investors prohibited by relevant PRC laws and regulations); and

(ix) Validity period for the resolution: 36 months from the date of the passing of the resolution at the EGM.

(b) Authorisation and mandate to be granted to the Board

To ensure the proper completion of the proposed issue of the Super Short-Term Notes, it is proposed that a special resolution be passed by the Shareholders generally and unconditionally at the EGM to grant the authority to the Board to deal with all such matters relating to the registration and issue of the Super Short-Term Notes, including but not limited to the following:

(i) so far as permitted by laws and regulations according to the actual conditions of the Company and the market, to determine the actual plans for the issue of the Super Short-Term Notes, and amend, adjust the plans and relevant terms of the issue, including but not limited to specific matters such as the timing, method, quantity, price and term of the issue, interest rate of issue, tranche structure and use of proceeds; to determine and appoint the relevant intermediaries to participate in the issue, sign the legal documents and agreements relating to the issue, etc.;

(ii) should there be any changes in the policies of the PRC regulatory authorities in relation to the issue of the Super Short-Term Notes or any changes in market conditions, save for those matters subject to the resolutions passed by the Shareholders in general meetings as stipulated by the relevant laws, regulations and the Articles of Association, to amend the specific proposal for the issue of the Super Short-Term Notes based on the feedback (if any) from the relevant PRC regulatory authorities or exercise discretion to postpone or suspend the issue of the Super Short-Term Notes; and

(iii) the Board may delegate the power and the authority to Mr. Weng Zhanbin, the Chairman, and Mr. Dong Xin, a Director, for dealing with the abovementioned matters.

The grant of authority to the Board to deal with the above matters will take effect from the date of the passing of such resolution at the EGM.

V. EGM AND THE CLASS MEETINGS

The EGM will be held at 9:00 a.m. on 14 November, 2019 at the meeting room of the Company at 299 Jinhui Road, Zhaoyuan City, Shandong Province, the PRC to consider and, if thought fit, pass resolutions to approve, among other things, the Transfer Agreement and the transactions contemplated thereunder, the grant of Specific Mandates to allot and issue the Consideration Shares, the proposed amendments to the Articles of Association, the registration and issue of renewable bonds of not more than RMB6.0 billion in the PRC, and the registration and issue of super short-term notes of not more than RMB10 billion in the PRC.

The Domestic Share Class Meeting will be held at 10:00 a.m. on 14 November, 2019 at the meeting room of the Company at 299 Jinhui Road, Zhaoyuan City, Shandong Province, the PRC to consider and, if thought fit, pass resolutions to approve, among other things, the Transfer Agreement and the transactions contemplated thereunder and the grant of Specific Mandate to allot and issue the Consideration Shares.

The H Share Class Meeting will be held at 10:30 a.m. on 14 November, 2019 at the meeting room of the Company at 299 Jinhui Road, Zhaoyuan City, Shandong Province, the PRC to consider and, if thought fit, pass resolutions to approve, among other things, the Transfer Agreement and the transactions contemplated thereunder and the grant of Specific Mandate to allot and issue the Consideration Shares.

The relevant resolutions in respect of, among other things, the Transfer Agreement and the transactions contemplated thereunder and the grant of Specific Mandates to allot and issue the Consideration Shares will be proposed by way of special resolutions at the EGM and the Class Meetings for approval by the Independent Shareholders.

The relevant resolutions in respect of, among other things, the proposed amendments to the Articles of Association, the registration and issue of renewable corporate bonds of not more than RMB6.0 billion in the PRC, and the registration and issue of super short-term notes of not more than RMB10 billion in the PRC will be proposed by way of special resolutions at the EGM for approval by the Shareholders.

Save as otherwise disclosed in this circular, the resolutions to be proposed at the EGM and the Class Meetings (such as those relating to the general authorisation to any executive Director(s) in connection with the Transfer Agreement and the transactions contemplated thereunder and the proposed amendments to the Articles of Association) do not have any validity period.

Whether or not you are able to attend the meeting, please complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's H Shares registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 24 hours before the time appointed for the holding of the EGM and the H Share Class Meeting (for the holders of H Shares) or any adjournment thereof (as the case may be); or to the place of business of the Company in the PRC not less than 24 hours before the time appointed for the holding of the EGM and the Domestic Share Class Meeting (for the holders of Domestic Shares) or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person in the EGM and the Class Meetings or any adjournment thereof if you so desire.

VI. CONNECTED PERSONS WHO ARE REQUIRED TO ABSTAIN FROM VOTING ON THE RESOLUTIONS

Pursuant to Rule 14A.36 of the Listing Rules, any Shareholder with a material interest in the Transfer Agreement and the transactions contemplated thereunder is required to abstain from voting on the relevant resolutions at the EGM and the Class Meetings.

Since Zhaojin Group holds (directly and indirectly) 1,137,481,195 Domestic Shares, representing 52.38% of the Domestic Shares issued by the Company and approximately 35.32% of the total issued Shares of the Company as at the Latest Practicable Date, Zhaojin Group and its associates must abstain from voting on the resolutions approving the Transfer Agreement and the transactions contemplated thereunder and the Specific Mandates at the EGM and the Class Meetings.

VII. BOOK CLOSURE PERIOD

In order to determine the list of Shareholders who will be entitled to attend and vote at the EGM and the Class Meetings, the register of members of the Company will be closed from 15 October 2019 to 14 November 2019, both days inclusive, during which period no transfer of Shares will be registered.

For identification of Shareholders who are qualified to attend and vote at the EGM, the H Share Class Meeting and Domestic Share Class Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's H shares registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for H Share Shareholders) or the registered address of the Company at No. 299 Jinhui Road, Zhaoyuan City, Shandong Province, the PRC (for Domestic Share Shareholders) for registration not later than 4:30 pm on 14 October 2019. Shareholders whose names appear on the register of members of the Company on 14 November 2019 will be entitled to attend and vote at the EGM, the H Share Class Meeting, and the Domestic Share Class Meeting.

VIII. VOTING BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll. The chairman of the EGM and the Class Meetings shall therefore demand voting on all resolutions set out in the notices of EGM and the Class Meetings be taken by way of poll pursuant to Article 8.18 of the Articles of Association.

On a poll, every Shareholder present in person or by proxy (or being a corporation by its duly authorised representative) shall have one vote for each Share registered in his/her/its name in the register of members of the Company. A Shareholder entitled to more than one vote needs not use all his/her/its votes or cast all the votes he/she/it uses in the same manner.

The Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

IX. RECOMMENDATIONS

The Directors consider that the proposed resolutions in respect of the proposals for, among other things, the Transfer Agreement and the transactions contemplated thereunder; the grant of the Specific Mandates; the proposed amendments to the Articles of Association; the registration and issue of the renewable corporate bonds of not more than RMB6.0 billion in the PRC; and the registration and issue of the super short-term notes of not more than RMB10 billion in the PRC are on normal commercial terms that are fair and reasonable and in the interests of the Company and its Shareholders as a whole. In addition, the Transfer Agreement and the transactions contemplated thereunder are entered into in the ordinary and usual course of business of the Group. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolutions to be proposed at the EGM and/or the Class Meetings (as applicable).

Your attention is also drawn to the recommendation of the Independent Board Committee as set out in pages 31 to 32 to this circular and the letter from the Independent Financial Adviser as set out on pages 33 to 64 to this circular.

X. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
By order of the Board
ZHAOJIN MINING INDUSTRY COMPANY LIMITED*
Weng Zhanbin
Chairman

* *For identification purpose only*

The following is the full text of the letter of recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Transfer Agreement and the transactions contemplated thereunder and the Specific Mandates, which has been prepared for the purpose of incorporation in this circular.

招金

ZHAOJIN

ZHAOJIN MINING INDUSTRY COMPANY LIMITED*

招金礦業股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1818)

30 October 2019

To the Shareholders

Dear Sir or Madam,

(1) CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF EQUITY INTERESTS IN THE TARGET COMPANIES AND THE TARGET ASSETS INVOLVING THE NON-PUBLIC ISSUANCE OF CONSIDERATION SHARES
(2) SPECIFIC MANDATES

We refer to the circular of the Company dated 30 October 2019 (the "**Circular**"), of which this letter forms part. Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed by the Board as the Independent Board Committee to advise you in connection with the Transfer Agreement and the transactions contemplated thereunder and the Specific Mandates. Donvex Capital Limited has been appointed as the Independent Financial Adviser to advise you and us in this regard. Details of their advice, together with the principal factors and reasons they have taken into consideration in giving such advice, are set out on pages 33 to 64 of the Circular. Your attention is also drawn to the "Letter from the Board" in this Circular and the additional information set out in the appendices thereto.

* *For identification purpose only*

Having considered the terms of the Transfer Agreement and the transactions contemplated thereunder and taking into account the independent advice of Donvex Capital Limited, in particular the principal factors, reasons and recommendation as set out in their letter, we consider that the Transfer Agreement and the transactions contemplated thereunder and the Specific Mandates are entered into on normal commercial terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole. In addition, the Transfer Agreement and the transactions contemplated thereunder are entered into in the ordinary and usual course of business of the Group. Accordingly, we recommend you to vote in favour of the special resolutions to be proposed at the EGM and the Class Meetings to approve the Transfer Agreement and the transactions contemplated thereunder and the grant of the Specific Mandates.

Yours faithfully,
Independent Board Committee

Chen Jinrong **Choy Sze Chung Jojo** **Wei Junhao** **Shen Shifu**
Independent non-executive Directors

The following is the full text of the letter from Donvex Capital Limited setting out their advice to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.

Donvex
富域資本
Donvex Capital Limited
富域資本有限公司

Unit 1305, 13th Floor,
Carpo Commercial Building
18-20 Lyndhurst Terrace
Central
Hong Kong

30 October 2019

The Independent Board Committee and the Independent Shareholders of
Zhaojin Mining Industry Company Limited

Dear Sirs,

CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF EQUITY INTERESTS IN THE TARGET COMPANIES AND THE TARGET ASSETS INVOLVING THE NON-PUBLIC ISSUANCE OF CONSIDERATION SHARES

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect to the Subscription Agreement and the transactions contemplated thereunder, details of which are set out in the Letter from the Board contained in the circular of the Company dated 30 October 2019 to the Shareholders (the "**Circular**") of which this letter forms part. Capitalised terms used herein have the same meanings as defined elsewhere in the Circular unless the context requires otherwise.

Reference is made to the Company's announcement dated 27 September 2019 in relation to the Transfer Agreement. On 27 September 2019, the Company and Zhaojin Group entered into the Transfer Agreement, pursuant to which the Company conditionally agreed to acquire, and Zhaojin Group conditionally agreed to sell (i) 100% equity interest in Zhaojin Geology Exploration; (ii) 100% equity interest in the Supplies Centre; (iii) the 67.37% equity interest of Goldsoft Technology; and (iv) the Target Assets.

Zhaojin Group is the controlling shareholder of the Company and therefore a connected person of the Company under Chapter 14A of the Listing Rules. Therefore, the Acquisition (which involves the allotment and issue of the Consideration Shares) constitutes a connected transaction of the Company, which is subject to the reporting, announcement and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In view of the foregoing, the Company will convene the EGM to seek the approval of the Independent Shareholders on the Transfer Agreement. Mr. Chen Jinrong, Mr. Choy Sze Chung Jojo, Mr. Wei Junhao and Mr. Shen Shifu, the independent non-executive Directors, have been appointed as members of the Independent Board Committee to advise the Independent Shareholders on the terms and conditions of the Transfer Agreement and the transactions contemplated thereunder. Being the Independent Financial Adviser approved and appointed by the Independent Board Committee, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in this regard.

We are independent from, and not connected with, the Company or any of its substantial shareholders, directors, chief executive, or any of their respective associates, and have sufficient expertise and resources to give an opinion on the transactions. As at the Latest Practicable Date, we did not have any relationship with or interest in the Company or any other parties that could reasonably be regarded as relevant to our independence. Apart from normal professional fees in connection with this appointment as the Independent Financial Adviser, no other arrangements exist whereby we had received or will receive any fees and/or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and management of the Company. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all statements, information, opinions and representations contained or referred to in the Circular, which have been provided by the Directors and management of the Company and for which they are solely and wholly responsible, were true and accurate at the time they were made and continue to be true up to the Latest Practicable Date.

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.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, for the purpose of this exercise, conducted any form of independent in-depth investigation or audit into the businesses or affairs or future prospects of the Company, Zhaojin Group and their respective associates, nor have we carried out independent verification on the information supplied. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Independent Shareholders should note that subsequent developments, including any material change in market and economic conditions, may affect or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

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

BACKGROUND OF THE PARTIES

1. Background information of the Group

The Group is principally engaged in gold exploration, mining, ore processing and smelting, and processing and sale of by-products in the PRC.

Set out below is a summary of the Group's operating results and financial position extracted from the Company's annual report for the year ended 31 December 2018 and interim report for the six months ended 30 June 2019.

	Year ended 31 December		**For the six months ended 30 June**
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
	(audited)	(audited)	(unaudited)
Revenue	6,673,999	7,177,057	2,817,982
Gross profit	2,634,529	2,482,208	1,071,636
Profit for the year/period	754,029	576,303	255,923

	As at 31 December		As at 30 June
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
	(audited)	(audited)	(unaudited)
Non-current assets	25,775,192	26,900,851	27,402,322
Current assets	8,037,694	8,986,328	11,941,574
Total assets	33,812,886	35,887,179	39,343,896
Non-current liabilities	3,271,441	7,276,013	9,319,927
Current liabilities	13,777,537	11,803,601	13,108,114
Total liabilities	17,048,978	19,079,614	22,428,041
Net assets	16,763,908	16,807,565	16,915,855

For the six months ended 30 June 2019

The revenue of the Group decreased by approximately 1.8% from approximately RMB2,868.6 million for the six months ended 30 June 2018 to approximately RMB2,818.0 million for the six months ended 30 June 2019. The decrease was mainly due to the decrease in copper sales prices and the decrease in copper production volume.

During the six months ended 30 June 2019, the gross profit and gross profit margin were approximately RMB1,071.6 million and 38.0% respectively, representing a decrease in gross profit of approximately 10.0% and a decrease in gross profit margin of approximately 8.4%, respectively as compared to the corresponding period in 2018. The decrease in gross profit margin was mainly due to the decrease in gold production volume, resulting in the increase in unit mining costs during the six months ended 30 June 2019.

As such, the net profit of the Group decreased by approximately 33.9% from approximately RMB386.9 million for the six months ended 30 June 2018 to approximately RMB255.9 million for the six months ended 30 June 2019.

For the year ended 31 December 2018

The revenue of the Group increased by approximately 7.5% from approximately RMB6,674 million for the year ended 31 December 2017 to approximately RMB7,177 million for the year ended 31 December 2018. The increase was mainly due to the increase in volume of sales of gold by the Group during the year ended 31 December 2018.

During the year ended 31 December 2018, the gross profit and gross profit margin were approximately RMB2,482.2 million and 34.6% respectively, representing a decrease in gross profit of approximately 5.8% and a decrease in gross profit margin of approximately 4.9%, respectively as compared to the year ended 31 December 2017. The decrease in gross profit margin was primarily attributable to the influence of inflation, increase in labour costs and increase in construction costs due to the increased depth of mining.

As such, the net profit of the Group decreased by approximately 23.6% from approximately RMB754 million for the year ended 31 December 2017 to approximately RMB576 million for the year ended 31 December 2018.

2. Information of the Zhaojin Group

Zhaojin Group is principally engaged in the business of gold exploration, mining and refining, and has investments in gold exploration, mining, smelting and refining and other gold related businesses. As at the Latest Practicable Date, Zhaojin Group is the controlling shareholder of the Company, holding directly and indirectly approximately 33.74% of the issued share capital of the Company.

3. Information of the Target Companies and the Target Assets

Zhaojin Geology Exploration

Zhaojin Geology Exploration is principally engaged in the exploration of solid mining resources, geological drilling and the analysis and testing of rocks and minerals.

The following is a summary of financial information of Zhaojin Geology Exploration as extracted from the audited consolidated financial statements of Zhaojin Geology Exploration for the year ended 31 December 2018.

	Year ended 31 December	
	2017	**2018**
	RMB'000	*RMB'000*
Revenue	66,923	69,591
Net loss before tax	2,331	3,963
Net loss after tax	3,721	5,427

	As at 31 December	
	2017	**2018**
	RMB'000	*RMB'000*
Non-current assets	23,005	25,617
Current assets	122,003	125,235
Total assets	145,008	150,852
Current liabilities and total liabilities	110,370	79,944
Net assets	34,638	70,908

As illustrated above, the net loss of Zhaojin Geology Exploration increased from approximately RMB3.7 million for the year ended 31 December 2017 to approximately RMB5.4 million for the year ended 31 December 2018, which was mainly due to the increase in salary expenses of approximately RMB3.2 million from approximately RMB14.8 million for the year ended 31 December 2017 to approximately RMB18.0 million for the year ended 31 December 2018.

The Supplies Centre

The Supplies Centre is principally engaged in the business of steel, construction materials, mining machinery and accessories, reagent, chemical raw materials and products.

The following is a summary of financial information of the Supplies Centre as extracted from the audited consolidated financial statements for the year ended 31 December 2018.

	Year ended 31 December	
	2017	**2018**
	RMB'000	*RMB'000*
Revenue	165,931	170,944
Net profit before tax	9,209	9,746
Net profit after tax	7,066	7,210

	As at 31 December	
	2017	**2018**
	RMB'000	*RMB'000*
Non-current assets	1,906	2,025
Current assets	83,797	86,151
Total assets	85,703	88,176
Current liabilities and total liabilities	60,663	43,925
Net assets	25,040	44,251

As illustrated above, the revenue of the Supplies Centre increased from approximately RMB165.9 million for the year ended 31 December 2017 to approximately RMB170.9 million for the year ended 31 December 2018. As such, the net profit after tax of the Supplies Centre increased from approximately RMB7.1 million for the year ended 31 December 2017 to approximately RMB7.2 million for the year ended 31 December 2018.

Goldsoft Technology

Goldsoft Technology is principally engaged in the design and construction of safety technology preventive engineering, the development of technology for communications and computer software and hardware, the design of computer systems, the provision of computer-based technical services and technical consulting, construction of smart engineering and security maintenance engineering.

The following is a summary of financial information of Goldsoft Technology as extracted from the audited consolidated financial statements for the two years ended 31 December 2018.

	Year ended 31 December	
	2017	**2018**
	RMB'000	*RMB'000*
Revenue	39,325	65,108
Net profit before tax	1,588	2,244
Net profit after tax	1,201	1,872

	As at 31 December	
	2017	**2018**
	RMB'000	*RMB'000*
Non-current assets	30,159	35,728
Current assets	43,132	50,964
Total assets	73,291	86,692
Current liabilities	18,202	28,972
Non-current liabilities	500	209
Total liabilities	18,702	29,181
Net assets	54,589	57,511

As illustrated above, the revenue of the Goldsoft Technology increased from approximately RMB39.3 million for the year ended 31 December 2017 to approximately RMB65.1 million for the year ended 31 December 2018. As such, the net profit after tax of the Goldsoft Technology increased from approximately RMB1.2 million for the year ended 31 December 2017 to approximately RMB1.9 million for the year ended 31 December 2018.

The Target Assets

The Target Assets represented the land use rights of two parcels of state-owned land in Zhaoyuan City with a total size of approximately 61,675 square meters and the buildings (structures) and the machinery and equipment on top of them. The two parcels of land are currently leased to the Wear-resistant Materials Company, a subsidiary of the Company, and the Supplies Centre. The buildings (structures) and machinery and equipment to be transferred are the above-ground buildings and factory machinery and equipment on the above-mentioned two parcels of land, which are currently used by the Wear-resistant Materials Company and Supplies Centre on a lease basis.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving our opinion in respect of the Acquisition, we have taken into consideration the following principal factors and reasons:

1. Reasons for and benefits for entering into the Transfer Agreement

As stated in the Letter from the Board, each of the geological exploration, procurement of supplies and digital mine construction is an integral part of the ordinary business of the Group as a mining enterprise.

(i) Safeguard smooth operation of the Group

As advised by the management of the Company, the Group incurred the following transactions with the Target Companies during the years ended 31 December 2017 and 2018:

	Year ended 31 December	
	2017	**2018**
	RMB'000	*RMB'000*
Service fee to Zhaojin Geology Exploration	46,756	36,830
Service fee to Supplies Centre	118,701	130,304
Service fee to Goldsoft Technology	13,283	32,318

As illustrated above, the Group continued to engage the Target Companies for geological exploration, procurement of supplies and digital mine construction in the past. As such, the acquisition of the Target Companies represented an upstream acquisition of business which may allow the Group to exercise full control over the Target Companies to safeguard the smooth operation of the Group as a whole.

(ii) Improve profitability

The Acquisition may allow (i) the Company to consolidate the financial results of the Target Companies to reduce the fees and expenses of the Company related to exploration, procurement of materials and digital mine construction; and (ii) improve the independence of the Company's assets and related business operations.

(iii) Settlement of the Consideration by way of issuing the Consideration Shares

Despite the Company maintained a balance of cash and cash equivalents of approximately RMB3,538.9 million as at 30 June 2019, the Company intends to utilise such balances as working capital for the expansion of the Company's operation. As such, the Company resolved to issue the Consideration Shares for the settlement of the Consideration.

Having taken into account of the above, we consider that the Acquisition is in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Transfer Agreement

The Consideration of RMB402,048,800 shall be satisfied in full by the allotment and issuance of 49,697,009 Consideration Shares at the Issue Price of RMB8.09 per Consideration Share. The Consideration Shares to be issued are Domestic Shares with par value of RMB1.00 each.

Assessment of the fairness and reasonableness of the Consideration

The Consideration of the Target Interests and the Target Assets is RMB402,048,800, which is determined as follows:

(a) RMB88,076,700 as consideration for 100% equity interests of Zhaojin Geology Exploration, determined based on the appraised value of RMB88,076,700 for 100% equity interests of Zhaojin Geology Exploration as at 31 December 2018 as set out in the Zhaojin Geology Exploration Valuation Report;

(b) RMB62,780,000 as consideration for 100% equity interests of Supplies Centre, determined based on the appraised value of RMB62,780,000 for 100% equity interest of Supplies Centre as at 31 December 2018 as set out in the Supplies Centre Valuation Report;

(c) RMB44,956,100 as consideration for 67.37% equity interests of Goldsoft Technology, determined based on the appraised value of RMB66,730,100 for 100% equity interest of Goldsoft Technology as at 31 December 2018 as set out in the Goldsoft Technology Valuation Report; and

(d) RMB206,236,000 as consideration for the Target Assets, determined based on the appraised value of RMB206,236,000 for the Target Assets as set out in the Target Assets Valuation Report.

In assessing the fairness and reasonableness of the Consideration, we have reviewed the Valuation Reports as detailed below.

(A) Zhaojin Geology Exploration Valuation Report

We have reviewed the Zhaojin Geology Exploration Valuation Report prepared by Shandong Zhengyuan, an independent and qualified valuer and noted that the fair value of 100% equity interests of Zhaojin Geology Exploration was RMB88,076,700 as at 31 December 2018. As disclosed in the Letter from the Board, the Zhaojin Geology Exploration Valuation Report have been filed and approved by the SASAC Authority.

In assessing the fairness and reasonableness of the Zhaojin Geology Exploration Valuation Report, we have taken into the following factors:

(i) The qualification and scope of work of Shandong Zhengyuan

We have reviewed and enquired into the qualification and experience of the responsible persons of Shandong Zhengyuan in relation to the preparation of the valuation of 100% equity interests of Zhaojin Geology Exploration. We understand that it is a well-established firm in the provision of asset appraisal services. In addition, the responsible persons of Shandong Zhengyuan in preparing and signing off the Zhaojin Geology Exploration Valuation Report are Certified Public Valuers in the PRC with numerous experiences in performing business valuation.

Besides, Shandong Zhengyuan confirmed that it is an independent third party to the Company, Zhaojin Group and their respective associates. We have also reviewed the terms of Shandong Zhengyuan's engagement, in particular, the scope of work, and noted that it is appropriate to the opinion required to be given and there is no limitation on the scope of work which might adversely impact on the degree of assurance given by them in the Zhaojin Geology Exploration Valuation Report.

Based on the above, we are of the view that the scope of work of Shandong Zhengyuan is appropriate and Shandong Zhengyuan is qualified to perform the valuation.

(ii) Valuation approach

We have reviewed the Zhaojin Geology Exploration Valuation Report and discussed with Shandong Zhengyuan regarding the assumption made and methodology adopted for the valuation of Zhaojin Geology Exploration. We understand that the Shandong Zhengyuan has considered three valuation methodologies, including the market approach, income approach and asset approach. We further understand that Shandong Zhengyuan did not adopt the market approach or income approach and adopted the asset approach due to the following consideration:

(a) market approach was not adopted as there is insufficient market information available in the market for the private entities in the PRC such as Zhaojin Geology Exploration;

(b) income approach was not adopted as the revenue and cost for the exploration businesses of Zhaojin Geology Exploration is project based with seasonal income and expenses. As such, there may not be reliable forecasted information for Shandong Zhengyuan to adopt for the income approach; and

(c) The asset approach is a commonly utilized method in valuation, which considers the fundamental cost to reproduce the assets appraised in accordance with the current market prices of similar assets.

As such, Shandong Zhengyuan did not adopt the market approach and income approach in conducting their valuation. Based on the factors above, we concur with Shandong Zhengyuan that the asset approach was the most appropriate valuation methodology to conduct a fair and reasonable valuation.

(iii) Application of the asset approach

The asset approach is a commonly utilised method in valuation, which considers the fundamental cost to reproduce the assets appraised in accordance with the current market prices of similar assets.

We have reviewed the financial statements of Zhaojin Geology Exploration and noted that the major assets and liabilities include trade and other receivables, long-term equity investment, buildings, machineries and equipment, land use rights and accrued expenses. According to the Zhaojin Geology Valuation Report, Shandong Zhengyuan considered the followings in the valuation of the major asset and liabilities of Zhaojin Geology Exploration.

(a) Current assets – trade and other receivables

The book value of trade receivables and other receivables of Zhaojin Geology Exploration as at 31 December 2018 was approximately RMB59,473,000 and RMB1,671,000 respectively. Based on the relevant accounting policy adopted by Zhaojin Geology Exploration, provision of impairment of approximately RMB5,991,000 and RMB204,000 were recorded as at 31 December 2018 in relation to such trade and other receivables.

As discussed with Shandong Zhengyuan¸ they have reviewed the repayment history and subsequent settlement of such trade receivables and considered, and we concur that there is no evidence that such trade and other receivables will not be settled. As such, Shandong Zhengyuan has adopted the book value of trade and other receivables of Zhaoijn Geology Exploration as at 31 December 2018 as the appraised value, representing an increase of appraised value of approximately RMB6,195,000 as a result of the reverse of the impairment on the trade and other receivables. Shandong Zhengyuan further advised that, the trade receivables of Zhaojin Geology Exploration mainly represented exploration fee receivable from its customers which were project-based and the settlement cycle were usually longer. We have reviewed the subsequent settlement for the trade and other receivables with provision for impairment made, and we noted that approximately 79% of such balances have been subsequently settled up to the Latest Practicable Date. As such, we concur with Shandong Zhengyuan that, the reversal of such impairment is fair and reasonable.

(b) Non-current assets – long-term equity investment

The long-term equity investment of Zhaojin Geology Exploration represents the equity interests in its subsidiaries and associates, which was recorded at the aggregate cost of approximately RMB3,500,000 as at 31 December 2018.

As discussed with Shandong Zhengyuan, they considered that the long-term equity investment recorded at cost may not capture the changes in equity value of such investment. Shandong Zhengyuan and we have reviewed the financial statements of the entities invested by Zhaojin Geology Exploration and Shandong Zhengyuan adopted the net asset value attributable to Zhaojin Geology Exploration, which amounted to approximately RMB4,737,000 as at 31 December 2018, as the appraised value. As such, the appraised value of long-term equity investment increased by approximately RMB1,237,000.

(c) Non-current assets – buildings

The net book value of the buildings of Zhaojin Geology Exploration was approximately RMB6,668,000 as at 31 December 2018, which was recorded at cost less accumulated depreciation under the relevant accounting policy adopted by Zhaojin Geology Exploration.

As discussed with Shandong Zhengyuan, as the buildings of Zhaojin Geology Exploration (1) are not operating independently and may not generate income by itself; and (2) there are no comparable transactions in the market, Shandong Zhengyuan has adopted the replacement cost of the buildings as the appraised value.

In assessing the replacement cost of the buildings, Shandong Zhengyuan has considered the cost of design, material and finance for the construction of such building, and adjusted by factors including tax and expected remaining useful life. As further advised by Shandong Zhengyuan, given (1) the replacement cost of such buildings increased as a result of the increase in latest wages and material cost as compared to the historical year of construction; and (2) the useful life adopted by Zhaojin Geology Exploration under its relevant accounting policy is shorter than that of the actual expected useful life of the buildings, the appraised value of the buildings increased by approximately RMB3,983,000. We have reviewed the calculation adopted by Shandong Zhengyuan and we consider the valuation methodology is properly applied.

(d) Non-current assets – machineries and equipment

The net book value of the machineries and equipment of Zhaojin Geology Exploration was approximately RMB13,306,000 as at 31 December 2018, which was recorded at cost less accumulated depreciation under the relevant accounting policy adopted by Zhaojin Geology Exploration.

As discussed with Shandong Zhengyuan, as the machineries and equipment of Zhaojin Geology Exploration (1) may not independent generate measureable income; and (2) there are no comparable transactions in the market, Shandong Zhengyuan has adopted the replacement cost of the machineries and equipment as the appraised value.

In assessing the replacement cost of the machineries and equipment, Shandong Zhengyuan has considered the cost of the acquisition of such machineries and equipment, and adjusted by factors including tax and expected remaining useful life. As further advised by Shandong Zhengyuan, given (1) the replacement cost of such machineries and equipment decreased as a result of advance in technology; netting off the effect of (2) the useful life adopted by Zhaojin Geology Exploration under its relevant accounting policy is shorter than that of the actual expected useful life of the machineries and equipment, the appraised value of the machineries and equipment increased by approximately RMB3,399,000. We have reviewed the calculation adopted by Shandong Zhengyuan and we consider the valuation methodology is properly applied.

(e) Non-current assets – land use rights

The land use rights of Zhaojin Geology Exploration represented a parcel of land situated in Zhaoyuan, Shandong, in the PRC with a size of 15,523 square meters. The net book value of the land use rights was approximately RMB2,859,000 as at 31 December 2018, which was recorded at cost less accumulated amortisation under the relevant accounting policy adopted by Zhaojin Geology Exploration. In the valuation of the land use rights, Shandong Zhengyuan used both market approach and cost approach in the valuation of the land use rights.

Regarding the market approach, Shandong Zhengyuan used the market value of comparable lands of similar location and similar permitted use to arrive a fair value of the land use rights. We have reviewed the comparable land transactions used by Shandong Zhengyuan and noted that the comparable lands are of industrial use and located in Shandong. For the cost approach, Shandong Zhengyuan used (1) the acquisition cost; and (2) the cost of developing the land to arrive a fair value of the land use rights. Shandong Zhengyuan adopted the average appraised value under the market approach and cost approach and considered the appraised value of the land use rights of Zhaojin Geology Exploration was approximately RMB6,504,000 as at 31 December 2018, representing an increase of approximately RMB2,859,000 as compared to the book value. We have reviewed the calculation adopted by Shandong Zhengyuan and we consider the valuation methodology is properly applied.

(f) Current liabilities – accrued salary expenses

The net book value of the accrued salary expenses of Zhaojin Geology Exploration was approximately RMB7,383,639 as at 31 December 2018, which included provision for employee education expenses of approximately RMB2,702,000. As discussed with Shandong Zhengyuan, employee education expenses shall be capitalised as reserve under the relevant requirement issued by the Ministry of Finance of the PRC. As such, the appraised value for the current liabilities of Zhaojin Geology Exploration decreased by approximately RMB2,702,000. We have reviewed the relevant requirement issued by the Ministry of Finance of the PRC (關於企業公司制改建應付工資等餘金額財務處理的意見) and noted that unutilised provision for employee education expenses may be capitalised as reserve. We further understand from Shandong Zhengyuan that it is a common practice to capitalise such unutilised provision as reserve in the valuation of PRC entities. We have reviewed such balance and noted that it represented provision for employee education expenses for prior years. As such, we are of the view that the capitalisation of the provision for employee education expenses adopted by Shandong Zhengyuan is fair and reasonable.

Shandong Zhengyuan confirmed and we concur the above appraisal methods are common methodologies in establishing the valuation of the respective assets and liabilities.

Based on the above factors, as stated in the Zhaojin Geology Exploration Valuation Report, the valuation of 100% equity interest of Zhaojin Geology Exploration as at 31 December 2018 based on the asset approach was approximately RMB88,076,700, which was higher than the book value of the Zhaojin Geology Exploration by approximately RMB20,425,400 or 30.2%.

Conclusion

During the course of discussion with Shandong Zhengyuan and our review on the Zhaojin Geology Exploration Valuation Report and having considered that (i) the independence, qualification and experience of Shandong Zhengyuan; (ii) the selection and application of the valuation methodology are reasonably prepared, we are of the view that (i) the methodology and assumptions which had been adopted in the Zhaojin Geology Exploration Valuation Report were arrived at after due and careful consideration; and (ii) the valuation was carried out on a fair and reasonable basis by Shandong Zhengyuan.

(B) Supplies Centre Valuation Report

We have reviewed the Supplies Centre Exploration Valuation Report prepared by Shandong Zhengyuan, an independent and qualified valuer and noted that the fair value of 100% equity interests of the Supplies Centre was RMB62,780,000 as at 31 December 2018. As disclosed in the Letter from the Board, the Supplies Centre Valuation Report have been filed and approved by the SASAC Authority.

In assessing the fairness and reasonableness of the Supplies Centre Valuation Report, we have taken into the following factors:

(i) The qualification and scope of work of Shandong Zhengyuan

We have reviewed and enquired into the qualification and experience of the responsible persons of Shandong Zhengyuan in relation to the preparation of the valuation of 100% equity interests of Supplies Centre. We understand that it is a well-established firm in the provision of business entity valuation appraisal services. In addition, the responsible persons of Shandong Zhengyuan in preparing and signing off the Supplies Centre Valuation Report are Certified Public Valuers in the PRC with numerous experiences in performing business valuation.

Besides, Shandong Zhengyuan confirmed that it is an independent third party to the Company, Zhaojin Group and their respective associates. We have also reviewed the terms of Shandong Zhengyuan's engagement, in particular, the scope of work, and noted that it is appropriate to the opinion required to be given and there is no limitation on the scope of work which might adversely impact on the degree of assurance given by them in the Supplies Centre Valuation Report. Based on the above, we are of the view that the scope of work of Shandong Zhengyuan is appropriate and Shandong Zhengyuan is qualified to perform the valuation.

(ii) Valuation approach

We have reviewed the Supplies Centre Valuation Report and discussed with Shandong Zhengyuan regarding the assumption made and methodology adopted for the valuation of the Supplies Centre Valuation Report. We understand that Shandong Zhengyuan has considered three valuation methodologies, including the market approach, income approach and asset approach. We further understand that Shandong Zhengyuan did not adopt market approach as there is insufficient market information available in the market for the private entities in the PRC such as the Supplies Centre. As such, the income approach and asset approach were adopted for the valuation.

(iii) Application of the asset approach

The asset approach is a commonly utilised method in valuation, which considers the fundamental cost to reproduce the assets appraised in accordance with the current market prices of similar assets.

We have reviewed the financial statements of Supplies Centre and noted that the major assets and liabilities include trade receivables and machineries and equipment. According to the Supplies Centre Valuation Report, Shandong Zhengyuan considered the followings in the valuation of the major asset and liabilities of the Supplies Centre.

(a) Current assets – trade receivables

The book value of trade receivables of Supplies Centre as at 31 December 2018 was approximately RMB71,300,000. Based on the relevant accounting policy adopted by Supplies Centre, provision of impairment of approximately RMB4,784,000 were recorded as at 31 December 2018 in relation to such trade receivables.

As discussed with Shandong Zhengyuan¸ they have reviewed the repayment history and subsequent settlement of such trade receivables and considered, and we concur that there is no evidence that such trade receivables will not be settled. As such, Shandong Zhengyuan has adopted the book value of trade receivables of Supplies Centre as at 31 December 2018 as the appraised value, representing an increase of appraised value of approximately RMB4,784,000 as a result of the reverse of the impairment on the trade and other receivables. We have reviewed the subsequent settlement for the trade receivables with provision for impairment made, and we noted that approximately 98% of such balances have been subsequently settled up to the Latest Practicable Date. As such, we concur with Shandong Zhengyuan that, the reversal of such impairment is fair and reasonable.

(b) Non-current assets – machineries and equipment

The net book value of the machineries and equipment of Supplies Centre was approximately RMB634,000 as at 31 December 2018, which was recorded at cost less accumulated depreciation under the relevant accounting policy adopted by Supplies Centre.

As discussed with Shandong Zhengyuan, as the machineries and equipment of Supplies Centre (1) may not independent generate measureable income; and (2) there are no comparable transactions in the market, Shandong Zhengyuan has adopted the replacement cost of the machineries and equipment as the appraised value.

In assessing the replacement cost of the machineries and equipment, Shandong Zhengyuan has considered the cost for the acquisition of such machineries and equipment, and adjusted by factors including tax and expected remaining useful life. As further advised by Shandong Zhengyuan, given (1) the useful life adopted by Supplies Centre under its relevant accounting policy is shorter than that of the actual expected useful life of the machineries and equipment; netting off the effect of (2) the replacement cost of such machineries and equipment decreased as a result of advance in technology, the appraised value of the machineries and equipment increased by approximately RMB708,000. We have reviewed the calculation adopted by Shandong Zhengyuan and we consider the valuation methodology is properly applied.

Shandong Zhengyuan confirmed and we concur the above appraisal methods are common methodologies in establishing the valuation of the respective assets and liabilities.

Based on the above factors, as stated in the Supplies Centre Valuation Report, the valuation of 100% equity interest of the Supplies Centre as at 31 December 2018 based on the asset approach was approximately RMB48,643,000, which was higher than the book value of the Supplies Centre by approximately RMB4,392,000 or 9.9%.

(iv) Application of the income approach

Under the income approach, the appraisal value of 100% equity interest of the Supplies Centre represents the present worth of future economic benefits expected to be generated from the Supplies Centre. Shandong Zhengyuan has applied the discount cash flow method ("**DCF**") to discount the future free cash flow ("**FFCF**") of the Supplies Centre at a discount rate to reflect all business risk including intrinsic and extrinsic uncertainties in relation to the Supplies Centre, which is a common method to establish the valuation of an entity.

In our assessment of the income approach valuation, we have reviewed the following key quantitative assumptions in the Supplies Centre Valuation Report:

(a) Forecasted revenue

The revenue of the Supplies Centre mainly represented the revenue from the sales of steel, mining machineries, chemicals and scrap materials, where the revenue from the sales of steel and mining machineries represented over 90% of its total revenue for the three years ended 31 December 2018 and the forecasted period from 1 January 2019 to 31 December 2023. We noted that Shandong Zhengyuan has adopted the annual growth rate of (1) increasing from 0% to 2% for the sales of steel throughout the year 2019 to 2023; (2) decreasing from 4% to 3% for the sales of mining machineries throughout the year 2019 to 2023; (3) decreasing from 25% to 10% for the sales of chemicals throughout the year 2019 to 2023; and (4) 5% for the sales of scrap materials. We have also reviewed the historical financial statements of Supplies Centre and noted that the trend of the above annual growth rates are in line with the revenue trend during the three years ended 31 December 2018. Based on (1) a semi-annual report titled "Short Range Outlook" published by the World Steel Association, one of the largest associations for the iron and steel industry in the world with members representing around 85% of global steel production, on 14 October 2019, the demand for steel is forecasted to increase by 1.8% to 6.2% for 2019 and 2020; and (2) the China Mining Resources Report 2019 issued by the Ministry of Natural Resources of the PRC, the total investment in mining exploration recorded a growth rate of 3.5% and such growth rate is expected to remain stable in the near future, which would lead to the increase in demand for mining machineries. As such, we concur with Shandong Zhengyuan that the forecasted revenue adopted in the FFCF is fair and reasonable.

(b) Forecasted cost of sales

The cost of sales of Supplies Centre mainly represented the cost of steel, mining machineries, chemicals and scrap materials. We noted that Shandong Zhengyuan has adopted the unit price for each of steel, mining machineries, chemicals and scrap materials in the forecasted period based on the latest relevant historical average unit price for the year ended 31 December 2018. We have reviewed the historical financial statements of Supplies Centre and noted that the trend of the above average unit price are in line with the historical average unit price during the three years ended 31 December 2018. As such, we concur with Shandong Zhengyuan that the forecasted cost of sales adopted in the FFCF is fair and reasonable.

(c) Discount rate

In estimating the discount rate for the valuation of Supplies Centre, Shandong Zhengyuan has adopted the weighted average cost of capital (WACC) which is a commonly used model to compute the cost of capital as the discount rate. We understand from Shandong Zhengyuan that the discount rate of approximately 11.9286% was adopted, which was determined by the equation of "$E/EV \times r^e + D/EV \times r^d \times (1 - t)$", where

– "E" stands for total equity, "D" stands for total debt and "EV" stands for combined value of equity and debt.

– "r^e" stands for the cost of equity, which is calculated by (1) the risk free rate based on the yield of 3.48% of China government bonds with more than 5-year term; and (2) the beta of 6.45%, which represents the sensitivity of the expected excess asset returns on the expected excess market, based on, among other things, the returns of 16 comparable companies. We have reviewed that the list of the comparable companies and noted that these comparable companies are principally engaging in sales of mining machineries and chemicals listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange. As such, we concur with Shandong Zhengyuan that the comparables selected by Shandong Zhengyuan are a fair and representative sample.

– "r^d" stands for the cost of debt. The lending rate of 4.6782% was adopted which is based on the effective lending rate of the Group's latest borrowings. We have reviewed the calculation of the effective lending rate and noted that such effective lending rate is based on the Group's borrowings in 2018. As such, we consider the cost of debt adopted by Shandong Zhengyuan is fair and reasonable.

– "t" stands for the income tax rate which is 25%.

In the event the discount rate increases by 0.5%, the valuation of 100% equity interest of the Supplies Centre will decrease by approximately RMB3,270,000. In the event the discount rate decreases by 0.5%, the valuation of 100% equity interest of the Supplies Centre will increase by approximately RMB3,610,000.

We noted that Ernst & Young, the reporting accountants of the Company (the "**Reporting Accountants**"), has examined the calculations of the discounted future estimated cash flows on which the Supplies Centre Valuation Report were based and is of the view that so far as the arithmetical accuracy of the calculations of the profit forecasts is concerned, the profit forecasts has been properly compiled in all material respects in accordance with the assumptions adopted by the Directors.

We have reviewed the procedures undertaken by the Directors in preparing the profit forecasts underlying in the Supplies Centre Valuation Report. The Board has also confirmed that the profit forecasts underlying in Supplies Centre Valuation Report had been made after due and careful enquiry.

Details of the report from the Reporting Accountants and the report from the Board on the profit forecasts of Supplies Centre Valuation Report are set out in Appendix III and IV to the Announcement.

Based on the factors above, we are of the view that the key quantitative assumptions adopted by Shandong Zhengyuan in the valuation were fair and reasonable. Accordingly, we consider the calculation of FFCF applied by Shandong Zhengyuan is appropriate and the DCF methodology has been properly applied in the valuation.

As stated in the Supplies Centre Valuation Report, the valuation of 100% equity interest of the Supplies Centre as at 31 December 2018 based on the income approach was approximately RMB62,780,000.

(v) Conclusion on the adoption of valuation methodology

As (i) the Supplies Centre is not asset intensive; and (ii) the asset approach could not capture the customer relationship and network of the Supplies Centre, Shandong Zhengyuan has adopted the income approach for the conclusion of the valuation, which values the 100% equity interest of the Supplies Centre as at 31 December 2018 at RMB62,780,000.

During the course of discussion with Shandong Zhengyuan and our review on the Supplies Centre Valuation Report and having considered that (i) the independence, qualification and experience of Shandong Zhengyuan; (ii) the selection and application of the valuation methodology are reasonably prepared, we are of the view that (i) the methodology and assumptions which had been adopted in the Supplies Centre Valuation Report were arrived at after due and careful consideration; and (ii) the valuation was carried out on a fair and reasonable basis by Shandong Zhengyuan.

(C) Goldsoft Technology Valuation Report

We have reviewed the Goldsoft Technology Valuation Report prepared by Linyi Tianhengxin, an independent and qualified valuer and noted that the fair value of 100% equity interests of Goldsoft Technology was RMB66,730,100 as at 31 December 2018. As disclosed in the Letter from the Board, the Goldsoft Technology Valuation Report have been filed and approved by the SASAC Authority.

In assessing the fairness and reasonableness of the Goldsoft Technology Valuation Report, we have taken into the following factors:

(i) The qualification and scope of work of Linyi Tianhengxin

We have reviewed and enquired into the qualification and experience of the responsible persons of Linyi Tianhengxin in relation to the preparation of the valuation of 100% equity interests of Goldsoft Technology. We understand that it is a well-established firm in the provision of business entity valuation appraisal services. In addition, the responsible persons of Linyi Tianhengxin in preparing and signing off the Goldsoft Technology Valuation Report are Certified Public Valuers in the PRC with numerous experiences in performing business valuation.

Besides, Linyi Tianhengxin confirmed that it is an independent third party to the Company, Zhaojin Group and their respective associates. We have also reviewed the terms of Linyi Tianhengxin's engagement, in particular, the scope of work, and noted that it is appropriate to the opinion required to be given and there is no limitation on the scope of work which might adversely impact on the degree of assurance given by them in Goldsoft Technology Valuation Report. Based on the above, we are of the view that the scope of work of Linyi Tianhengxin is appropriate and Linyi Tianhengxin is qualified to perform the valuation.

(ii) Valuation approach

We have reviewed the Goldsoft Technology Valuation Report and discussed with Linyi Tianhengxin regarding the assumption made and methodology adopted for the valuation of Goldsoft Technology. We understand that Linyi Tianhengxin has considered three valuation methodologies, including the market approach, income approach and asset approach. We further understand that Linyi Tianhengxin did not adopt market approach as there is insufficient market information available in the market for the private entities in the PRC such as Goldsoft Technology. As such, the asset approach and income approach were adopted for the valuation.

(iii) Application of the asset approach

The asset approach is a commonly utilised method in valuation, which considers the fundamental cost to reproduce the assets appraised in accordance with the current market prices of similar assets.

We have reviewed the financial statements of Goldsoft Technology and noted that the major assets and liabilities include trade receivables, long-term equity investment and intangible assets. According to the Goldsoft Technology Valuation Report, Linyi Tianhengxin considered the followings in the valuation of the major asset and liabilities of Goldsoft Technology.

(a) Current assets – trade receivables

The book value of trade receivables receivables of Goldsoft Technology as at 31 December 2018 was approximately RMB17,199,000. Based on the relevant accounting policy adopted by Goldsoft Technology, provision of impairment of approximately RMB2,727,000 were recorded as at 31 December 2018 in relation to such trade receivables.

As discussed with Linyi Tianhengxin¸ they have reviewed the repayment history and subsequent settlement of such trade receivables and considered, and we concur that there is no evidence that such trade receivables will not be settled. As such, Linyi Tianhengxin has adopted the book value of trade receivables of Goldsoft Technology as at 31 December 2018 as the appraised value, representing an increase of appraised value of approximately RMB2,727,000 as a result of the reverse of the impairment on the trade receivables. We have reviewed the subsequent settlement for the trade receivables with provision for impairment made, and we noted such balances have been subsequently settled up to the Latest Practicable Date. As such, we concur with Linyi Tianhengxin that, the reversal of such impairment is fair and reasonable.

(b) Non-current assets – long-term equity investment

The long-term equity investment of Goldsoft Technology represents the equity interests in its subsidiaries and associates, which was recorded at the aggregate cost of approximately RMB9,691,000 as at 31 December 2018.

As discussed with Linyi Tianhengxin, they considered that the long-term equity investment recorded at cost may not capture the changes in equity value of such investment. Linyi Tianhengxin and we have reviewed the financial statements of the entities invested by Goldsoft Technology and Linyi Tianhengxin adopted the net asset value attributable to Goldsoft Technology, which amounted to approximately RMB9,349,000 as at 31 December 2018, as the appraised value. As such, the appraised value of long-term equity investment decreased by approximately RMB343,000.

(c) Non-current assets – Intangible assets

The intangible assets of Goldsoft Technology mainly represented the cost of the licenses of its software. The net book value of the software licenses was approximately RMB17,230,000 as at 31 December 2018, which was recorded at cost less accumulated amortization under the relevant accounting policy adopted by Goldsoft Technology.

In assessing the appraised value of the software licenses, Linyi Tianhengxin has considered the acquisition cost of such licenses adjusted by the expected remaining useful life of such software. As further advised by Linyi Tianhengxin, given the useful life adopted by Goldsoft Technology under its relevant accounting policy is shorter than that of the actual expected useful life of the software, the appraised value of the software licenses increased by approximately RMB1,290,000. We have reviewed the list of the software licenses held by Goldsoft Technology and understand that the major software licenses are used by Goldsoft Technology in its daily operation. We have also reviewed the relevant license certificates to assess the remaining useful life of such software, and we concur that the valuation methodology is properly applied by Linyi Tianhengxin.

Linyi Tianhengxin confirmed and we concur the above appraisal methods are common methodologies in establishing the valuation of the respective assets and liabilities.

As stated in the Goldsoft Technology Valuation Report, the valuation of 100% equity interest of the Goldsoft Technology as at 31 December 2018 based on the asset approach was approximately RMB61,154,400 which was higher than the book value of the Goldsoft Technology by approximately RMB4,388,400 or 7.7%.

(iv) Application of the income approach

Under the income approach, the appraisal value of 100% equity interest of the Goldsoft Technology represents the present worth of future economic benefits expected to be generated from the Goldsoft Technology. Linyi Tianhengxin has applied the DCF to discount the FFCF of Goldsoft Technology at a discount rate to reflect all business risk including intrinsic and extrinsic uncertainties in relation to the Goldsoft Technology, which is a common method to establish the valuation of an entity.

In our assessment of the income approach valuation, we have reviewed the following key quantitative assumptions in the Goldsoft Technology Valuation Report:

(a) Forecasted revenue

The revenue of Goldsoft Technology mainly represented the revenue from the sales of computer software and technical services fee for mining exploration and exploitation. We noted that Linyi Tianhengxin has adopted the annual growth rate of 12.9%. We have reviewed the historical financial statements of Goldsoft Technology and noted that the historical average revenue growth rate for the years from 2016 to 2018 was 12.9%. In addition, based on the China Mineral Resources Report 2019 issued by the Ministry of Natural Resources of the PRC, (1) the confirmed reserves of 37 types of mineral in the PRC has recorded growth; (2) the total investment in mining exploration recorded a growth rate of 3.5% and such growth rate is expected to remain stable in the near future; and (3) the mining technology, including the software adopted for the exploration of mineral resources and construction of various mining structure, has been significantly improved and it is the national policy to continue to improve such technology. As such, we concur with Linyi Tianhengxin that adoption of the historical growth rate of 12.9% for the forecasted revenue for the FFCF is fair and reasonable.

(b) Forecasted cost of sales

The cost of sales of Goldsoft Technology mainly represented the direct cost attributable to the development of the computer software and technical services fee. We noted that Linyi Tianhengxin has adopted a gross profit margin of approximately 27.3%, being the historical average gross profit margin for the years from 2014 to 2018. We have reviewed the historical financial statements of Goldsoft Technology and noted that the gross profit margin remained stable throughout the years from 2014 to 2018. As such, we are of the view that the adoption of the historical average gross profit margin is fair and reasonable.

(c) Discount rate

In estimating the discount rate for the valuation of Goldsoft Technology, Linyi Tianhengxin has adopted the weighted average cost of capital (WACC) which is a commonly used model to compute the cost of capital as the discount rate. We understand from Linyi Tianhengxin that the discount rate of approximately 12.7% was adopted, which was determined by the equation of "$E/EV \times r^{e} + D/EV \times r^{d} \times (1 - t)$", where

– "E" stands for total equity, "D" stands for total debt and "EV" stands for combined value of equity and debt.

– "r^e" stands for the cost of equity, which is calculated by (1) the risk free rate based on 5-year China government bond yield of 3.2265%; and (2) the beta of 9.73%, which represents the sensitivity of the expected excess asset returns on the expected excess market, based on, among other things, the China Securities Index 300. As discussed with Linyi Tianhengxin, the China Securities Index 300 are selected as comparables as there are no listed companies which are engaged in principal activities are similar to that of Goldsoft Technology. As the China Securities Index 300 represents the overall market trend of companies in the PRC, we are of the view that the comparables selected by Shandong Zhengyuan are a fair and representative samples.

– "r^d" stands for the cost of debt, which is based on the latest benchmark five-year lending rate of 4.9% proposed by People's Bank of China. We have reviewed the latest borrowings of the Company in the year 2018 and noted that the latest lending rate is ranged from 4.4805% to 5.150%. As the cost of debt adopted by Linyi Tianhengxin is within range of the lending rate of the borrowings conducted by the Company, we consider the cost of debt adopted by Linyi Tianhengxin is fair and reasonable.

– "t" stands for the income tax rate, which is 15% for the years ending 31 December 2020 as Goldsoft Technology enjoys preferential tax treatment for its income tax rate, and 25% for the years thereafter

In the event the discount rate increases by 0.5%, the valuation of 100% equity interest of Goldsoft Technology will decrease by approximately RMB2,701,000. In the event the discount rate decreases by 0.5% the valuation of 100% equity interest of Goldsoft Technology will increase by approximately RMB2,940,000.

We noted that the Reporting Accountant has examined the calculations of the discounted future estimated cash flows on which the Goldsoft Technology Valuation Report were based and is of the view that so far as the arithmetical accuracy of the calculations of the profit forecasts is concerned, the profit forecasts has been properly compiled in all material respects in accordance with the assumptions adopted by the Directors.

We have reviewed the procedures undertaken by the Directors in preparing the profit forecasts underlying in Goldsoft Technology Valuation Report. The Board has also confirmed that the profit forecasts underlying in Goldsoft Technology Valuation Report had been made after due and careful enquiry.

Details of the report from the Reporting Accountants and the report from the Board on the profit forecasts of Goldsoft Technology Valuation Report are set out in Appendix III and IV to the Announcement.

Based on the factors above, we are of the view that the key quantitative assumptions adopted by Linyi Tianhengxin in the valuation were fair and reasonable. Accordingly, we consider the calculation of FFCF applied by Linyi Tianhengxin is appropriate and the DCF methodology has been properly applied in the valuation.

As stated in the Goldsoft Technology Valuation Report, the valuation of 100% equity interest of Goldsoft Technology as at 31 December 2018 based on the income approach was approximately RMB66,730,100.

(v) Conclusion on the adoption of valuation methodology

As (i) Goldsoft Technology is not asset intensive; and (ii) the asset approach could not capture the customer relationship and network of Goldsolft Technology, Linyi Tianhengxin has adopted, and we concur, the income approach for the conclusion of the valuation, which values the 100% equity interest of Goldsoft Technology as at 31 December 2018 at RMB66,730,100.

During the course of discussion with Linyi Tianhengxin and our review on the Goldsoft Technology Valuation Report and having considered that (i) the independence, qualification and experience of Linyi Tianhengxin; (ii) the selection and application of the valuation methodology are reasonably prepared, we are of the view that (i) the methodology and assumptions which had been adopted in the Goldsoft Technology Valuation Report were arrived at after due and careful consideration; and (ii) the valuation was carried out on a fair and reasonable basis by Linyi Tianhengxin.

(D) Target Assets Valuation Report

We have reviewed the Target Assets Valuation Report prepared by Linyi Tianhengxin, an independent and qualified valuer and noted that the fair value of the Target Assets was RMB206,236,000 as at 31 December 2018. As disclosed in the Letter from the Board, the Target Assets Valuation Report have been filed and approved by the SASAC Authority.

In assessing the fairness and reasonableness of the Target Assets Valuation Report, we have taken into the following factors:

(i) The qualification and scope of work of Linyi Tianhengxin

We have reviewed and enquired into the qualification and experience of the responsible persons of Linyi Tianhengxin in relation to the preparation of the valuation of the Target Assets. We understand that it is a well-established firm in the provision of asset appraisal services. In addition, the responsible persons of Linyi Tianhengxin in preparing and signing off the Target Assets Valuation Report are Certified Public Valuers in the PRC with numerous experiences in performing business valuation.

Besides, Linyi Tianhengxin confirmed that it is an independent third party to the Company, Zhaojin Group and their respective associates. We have also reviewed the terms of Linyi Tianhengxin's engagement, in particular, the scope of work, and noted that it is appropriate to the opinion required to be given and there is no limitation on the scope of work which might adversely impact on the degree of assurance given by them in the Target Assets Valuation Report. Based on the above, we are of the view that the scope of work of Linyi Tianhengxin is appropriate and Linyi Tianhengxin is qualified to perform the valuation.

(ii) Valuation approach

We have reviewed the Target Assets Valuation Report and discussed with Linyi Tianhengxin regarding the assumption made and methodology adopted for the valuation of the Target Assets. We understand that the Linyi Tianhengxin has considered three valuation methodologies, including the market approach, income approach and asset approach. We further understand that Linyi Tianhengxin adopted the asset approach due to the following consideration:

(a) market approach was not adopted as there is insufficient market information available in the market for the asset that are comparable to the Target Assets;

(b) income approach was not adopted as (1) there are no sufficient operational track record for the Target Assets; (2) the profitability of the Target Assets rely on many factors including but not limited to the level of input of raw materials. As such, there may not be reliable forecasted information for the Target Assets to adopt for the income approach; and

(c) The asset approach is a commonly utilized method in valuation, which considers the fundamental cost to reproduce the assets appraised in accordance with the current market prices of similar assets.

As such, Linyi Tianhengxin did not adopt the income approach and market approach in conducting their valuation. Based on the factors above, we concur with the Linyi Tianhengxin that the asset approach was the most appropriate valuation methodology to conduct a fair and reasonable valuation.

(iii) Application of the asset approach

The asset approach is a commonly utilised method in valuation, which considers the fundamental cost to reproduce the assets appraised in accordance with the current market prices of similar assets.

According to the Target Assets Valuation Report, Linyi Tianhengxin considered the followings in the valuation of the Target Assets.

(a) Buildings

The net book value of the buildings of Target Assets was approximately RMB1,000,315,000 as at 31 December 2018, which was recorded at cost less accumulated depreciation under the relevant accounting policy.

In assessing the replacement cost of the buildings, Linyi Tianhengxin has adopted the analogy calculation approach which considered the replacement cost of design, construction wages, construction material cost, and finance cost for the construction of such buildings, and adjusted by factors affecting construction costs including but not limited to the differences in standards of structure, decoration and ancillary facilities of comparable buildings. As advised by Linyi Tianhengxin, given the replacement cost of such buildings increased as a result of the increase in latest wages and material cost as compared to the historical year of construction, the appraised value of the buildings increased by approximately RMB2,706,000. We have reviewed the calculation adopted by Linyi Tianhengxin and we consider the valuation methodology is properly applied.

(b) Machineries and equipment

The net book value of the machineries and equipment of the Target Assets was approximately RMB76,348,000 as at 31 December 2018, which was recorded at cost less accumulated depreciation.

In assessing the replacement cost of the major machineries and equipment, Linyi Tianhengxin has considered the cost for the acquisition and installation of such machineries and equipment including the finance cost, after adjusting the effect in differences in performance, technical parameters and functions of similar equipment. As further advised by Linyi Tianhengxin, despite the machineries and equipment are relatively new that the latest replacement cost is similar, their book value did not take into account the finance cost of replacing such large machineries and equipment. We have reviewed the Target Assets Valuation Report and understand Linyi Tianhengxin has adopted the benchmark loan interest of 4.35% to 4.90% published by the People's Bank of China in considering such finance cost. As such, the appraised value of the machineries and equipment increased by approximately RMB6,035,000. We have reviewed the latest borrowings of the Company in the year 2018 and noted that the latest lending rate is ranged from 4.4805% to 5.150%. As the interest rate for the calculation of the finance cost adopted by Linyi Tianhengxin, being the latest benchmark rate published by the People's Bank of China, is similar to the range of the lending rate of the borrowings conducted by the Company in 2018, we consider the cost of debt adopted by Linyi Tianhengxin is fair and reasonable. We have also reviewed the calculation adopted by Linyi Tianhengxin and we consider the valuation methodology is properly applied.

Linyi Tianhengxin confirmed and we concur the above appraisal methods are common methodologies in establishing the valuation of the respective assets and liabilities.

As stated in the Target Assets Valuation Report, the valuation of the Target Assets as at 31 December 2018 based on the asset approach was approximately RMB206,236,000 which was higher than the book value of the Target Assets by approximately RMB12,202,900 or 6.3%.

During the course of discussion with Linyi Tianhengxin and our review on the Target Assets Valuation Report and having considered that (i) the independence, qualification and experience of Linyi Tianhengxin; (ii) the selection and application of the valuation methodology are reasonably prepared, we are of the view that (i) the methodology and assumptions which had been adopted in the Target Assets Valuation Report were arrived at after due and careful consideration; and (ii) the valuation was carried out on a fair and reasonable basis by Linyi Tianhengxin.

Assessment on the fairness and reasonableness of the Issue Price

The Issue Price of RMB8.09 per Consideration Share is equivalent to HK$8.96 per Consideration Share at the exchange rate of HK$1:RMB0.9025, being the central parity rate of Hong Kong dollar against RMB in the inter-bank foreign exchange market on 26 September 2019 as announced by China Foreign Exchange Trading Centre.

The Issue Price represents the 90-day average closing price of HK$8.96 per H-Share as quoted on the Stock Exchange immediately preceding and excluding the Price Reference Date, and the Issue Price shall not be less than the audited net asset value attributable to the owner of the Company per Share as at 31 December 2018 of RMB4.13.

The Issue Price of RMB8.09 per Consideration Share represents:

(i) a discount of approximately 1.21% to the closing price of HK$9.07 per H-Share as quoted on the Stock Exchange on the Price Referencing Date;

(ii) a discount of approximately 6.47% to the average closing price of HK$9.58 per H-Share as quoted on the Stock Exchange in the last 5 consecutive trading days up to and excluding the Price Referencing Date;

(iii) a discount of approximately 4.98% to the average closing price of HK$9.43 per H-Share as quoted on the Stock Exchange in the last 10 consecutive trading days up to and excluding the Price Referencing Date;

(iv) a discount of approximately 6.60% to the average closing price of HK$9.59 per H-Share as quoted on the Stock Exchange in the last 20 consecutive trading days up to and excluding the Price Referencing Date; and

(v) a premium of approximately 95.63% over the audited net asset value attributable to the owner of the Company per Share of approximately RMB4.13 (based on the financial statements of the Company for the year ended 31 December 2018 prepared in accordance with the PRC accounting standards, equivalent to approximately HK$4.58 (based on the exchange rate of HK$1:RMB0.9025, which is determined on the basis of the central parity rate of Hong Kong dollar against RMB in the inter-bank foreign exchange market on the trading day immediately preceding the Price Referencing date as announced by China Foreign Exchange Trade Centre) as at 31 December 2018), based on the total number of issued Shares as at 31 December 2018.

In order to assess the fairness and reasonableness of the Issue Price, we have reviewed the daily closing prices of the H-Shares as quoted on the Stock Exchange during the last six months preceding the date of the Transfer Agreement and up to the Latest Practicable Date (the "**Review Period**"), for the purpose of illustrating the trend of the share price performance of the H-Shares. The chart below illustrates the daily closing price of the H-Shares versus the Issue Price of HK$8.96 during the Review Period.

Source: Website of the Stock Exchange

As shown in the above chart, we noted that there was a general upward trend of closing price of the H-Shares since August 2019. During the Review Period, the lowest closing price was HK$6.64 per share on 23 May 2019 and the highest closing price was HK$11.28 per Share on 13 August 2019, with an average closing price of approximately HK$8.57. The Issue Price of HK$8.96 representing a premium of approximately 4.6% to the average closing price of the H-Share for the Review Period.

Taking into account the (i) the Issue Price represents a premium of approximately 4.6% to the average closing price of the H-Share for the Review Period; (ii) the lack of marketability of the Domestic Shares as they are not listed on any stock exchange; and (iii) the Issue Price represented a premium of approximately 95.63% over the audited net asset value attributable to the owners of the Company per Share, we consider that the Issue Price is fair and reasonable so far as the Shareholders are concerned.

5. Other financing alternatives available to the Group

As discussed with the Management, we note that when formulating the terms of the Non-Public Issuance, the Directors have considered other various fund raising alternatives for the Group, including both debt financing and equity financing.

As disclosed in the interim report of the Company for the six months ended 30 June 2019, the balance of interest-bearing bank and other borrowings amounted to approximately RMB9,691.7 million, while the Company only maintained a balance of cash and cash equivalents was approximately RMB3,538.9 million as at 30 June 2019. As such, the Directors are of the view that additional bank borrowings will further increase interest burden and repayment obligations of the Group and potentially may be subject to assets pledge by the Group. The Non-Public Issuance may also strengthen the Company's capital structure while avoiding material cash outlay from the Group for the Acquisition.

In addition, the Directors are of the view that the issuance of new Domestic Shares has limited negative impact to the market price of the H-Shares as (i) Zhaojin Group is and will continue to be the controlling shareholder of the Company; and (ii) the Domestic Shares are not listed in any stock exchange.

Having considered the above, we concur with the Directors' view that the Non-Public Issuance is fair and reasonable as far as the Independent Shareholders are concerned and in the interest of the Company.

6. Potential dilution effect on the interests of the Shareholders

As depicted by the table under the section headed "Effect of the Acquisition on shareholding structure of the Company" in the Letter from the Board, upon Completion, the shareholding interests of the existing public Shareholders would be diluted by approximately 1.53%. Nonetheless, in view of (i) the reasons for and the possible benefits of the Acquisition as discussed out under the section under "Reasons and benefits for entering into the Transfer Agreement" above; and (ii) the terms of the Transfer Agreement being fair and reasonable, we are of the view that the aforementioned level of dilution to the shareholding interests of the existing public Shareholders is acceptable.

RECOMMENDATION

Having considered the abovementioned principal factors and reasons, we are of the view that (i) the Transfer Agreement was entered into on normal commercial terms and in the ordinary and usual course of business of the Group that are fair and reasonable so far as the Shareholders are concerned; and (ii) the Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders, and we also recommend the Independent Shareholders, to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the Transfer Agreement.

Yours faithfully,
For and on behalf of
Donvex Capital Limited
Doris Sy
Director

Ms. Doris Sy is a person licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO and is a responsible officer of Donvex Capital Limited who has over 17 years of experience in corporate finance industry.

The principal assumptions, including commercial assumptions, upon which the Supplies Centre Valuation Report was based are as follows:

(1) PREREQUISITES

1. Transaction assumption: all assets to be appraised are assumed to be in the course of trading. The valuation was conducted in accordance with the trade terms of the assets in simulated markets;

2. Open market assumption: open market assumption is an assumption that, in respect of the assets that are in the market or proposed to be traded in the market, the purchasers and sellers are of equal standing and have opportunities and time to access sufficient market information in order to make rational judgment of the functions, purpose and transaction prices of the assets. The basis of the open market assumption is that assets may be traded openly in the market;

3. Going concern assumption: based on the actual conditions of the assets as at the valuation reference date, there will be no material change within the foreseeable period of use, assuming that the enterprise continues to operate and the assets continue to be used legally and effectively in accordance with their current purpose, manner, scale, frequency and environment; and

4. Continuous use of assets assumption: firstly, it is assumed that the appraised assets are in use (including the assets in ongoing use and the assets reserved for use), and secondly, it is inferred that the assets in use will continue to be used at the original location for the original purpose.

(2) BASIC ASSUMPTIONS

1. There will be no material change to the relevant prevailing laws, regulations and policies, and in the macroeconomic situation of the PRC; and there will be no material change in the political, economic and social environment of the regions in which the parties to this transaction are located; and there will be no unforeseeable circumstances or force majeure which cause material adverse changes; and

2. There will be no material change relating to the interest rate, exchange rate, tax bases, tax rate, and policy-based levies.

(3) SPECIFIC ASSUMPTIONS

1. The information provided by client and the assessed unit is true, legal and complete;

2. The operator of the assessed unit is responsible and the management of the assessed unit is capable of discharging their duties;

3. The assessed unit is in full compliance with all relevant laws and regulations;

4. The accounting policies to be adopted by the assessed unit in the future will be fundamentally consistent in material respects with the accounting policies adopted as at the date of the valuation report;

5. On the basis of the existing way of management and level of governance, the scope and manner of operation will be consistent with the current directions; and

6. There will be no other unforeseeable circumstances or force majeure which cause material adverse change to the enterprise.

(4) SPECIAL ASSUMPTIONS

1. The process through which the assessed unit acquired or obtained its assets is in compliance with the relevant laws and regulations of the PRC;

2. The assets of the Supplies Centre are not subject to any material defects, liabilities nor restrictions which affect their value;

3. There will be no material adverse factors affecting the value of the related assets of the Supplies Centre;

4. The Supplies Centre will have even cash inflow and even cash outflow subsequent to the valuation reference date, and interim discounting is adopted in respect of future cash flow;

5. Given that the Supplies Centre currently uses the business premises of Zhaojin Group at nil consideration, the impact arising from the leasing expenses of such business premises has been taken into account in deriving the forecast of the income method;

6. The impact on the Supplies Centre in relation to the transaction taxes for changes in property rights has not been taken into account; and

7. The possible relevant taxes arising from the appreciation or depreciation of valuation has not been taken into account.

The principal assumptions, including commercial assumptions, upon which the Goldsoft Technology Valuation Report was based are as follows:

(1) GENERAL ASSUMPTIONS

1. Transaction assumption: all assets to be appraised were assumed to be in the course of trading. The valuation was conducted in accordance with the trade terms of the assets in simulated markets;

2. Open market assumption: it is assumed that the assets to be appraised are traded in open market in order to realise their market value; and the market value of assets are determined by the market conditions subject to the constraints of market mechanism, rather than by individual transaction. Open market refers to the fully developed and sound market conditions, which is a competitive market with voluntary purchasers and sellers, and in which purchasers and sellers are of equal standing and have opportunities and time to access sufficient market information; and the transactions were conducted by the purchasers and the sellers in a voluntary and rational manner, which are not subject to any mandatory or unrestricted conditions;

3. Going concern assumption: a valuation assumption made on the overall assets of enterprise as the appraised target, namely the enterprise, as the business entity, continues to operate towards its business goals under its external environment. The business operator is responsible for and capable of taking up obligations; the enterprise operates in a lawful manner and makes appropriate profit to maintain the ability to operate as a going concern; and

4. Continuous use of assets assumption: continuous use of assets assumption is an assumption about the conditions of assets that are proposed to enter the market and the status of the assets under such market conditions. It is assumed that, firstly, the appraised assets are in use, and secondly, the assets in use will continue to be used. Under the continuous use assumption, neither the change of use of assets nor the best conditions of use has been taken into account, and the scope of use of the valuation conclusion is limited.

(2) SPECIFIC ASSUMPTIONS

1. There will be no material change to the relevant prevailing laws, regulations and policies, and in the macroeconomic situation of the PRC; and there will be no material change in the political, economic and social environment of the regions in which the parties to this transaction are located;

2. The operator of the enterprise is responsible and the management of enterprise is capable of discharging their duties;

3. Unless otherwise specified, enterprise is in full compliance with all relevant laws and regulations;

4. The accounting policies to be adopted by enterprise in the future will be fundamentally consistent in material respects with the accounting policies adopted as at the date of the valuation report;

5. On the basis of the existing way of management and level of governance, the scope and manner of operation will be consistent with the current directions;

6. The appraised assets are not subject to security, confiscation or other rights;

7. There will be no material change relating to the interest rate, exchange rate, tax bases, tax rate, and policy-based levies;

8. There will be no other unforeseeable circumstances or force majeure which cause material adverse change to the enterprise;

9. The valuation of assets is premised upon the actual amount of stock as at the valuation reference date, and the prevailing market price of the related assets is based upon the effective price in the PRC as at the valuation reference date;

10. The title certificates, financial accounting information and other information provided by the client and the assessed unit are true, complete and legal; and the scope of valuation is only based on the valuation application provided by the client and the assessed unit, without considering the contingent assets and contingent liabilities that may exist beyond the lists provided by the client and the assessed unit; and

11. The valuation does not take into account the impact of security, guarantee or other matters on the valuation conclusion.

The following is the full text of the reports from Ernst & Young, the auditor of the Company, which has been prepared for the purpose of incorporation in this circular, in relation to the profit forecast in connection with the valuation of the Supplies Centre and Goldsoft Technology, respectively.

The Board of Directors

Zhaojin Mining Industry Company Limited

No. 299 Jinhui Road
Zhaoyuan City
Shandong Province
PRC

REPORT FROM REPORTING ACCOUNTANTS ON THE DISCOUNTED CASH FLOW FORECAST IN CONNECTION WITH THE VALUATION OF EQUITY INTEREST IN ZHAOYUAN GOLD SUPPLIES CENTRE COMPANY LIMITED

We have been engaged to report on the arithmetical accuracy of the calculations of the discounted cash flow forecast (the "**Forecast**") on which the valuation dated 18 May 2019 prepared by Shandong Zhengyuan Hexin Assets Appraisal Limited in respect of Zhaoyuan Gold Supplies Centre Company Limited (the "**Target**") as at 31 December 2018 is based. The valuation is set out in the circular of Zhaojin Mining Industry Company Limited (the "**Company**") dated 30 October 2019 (the "**Circular**") in connection with the acquisition of the Target. The valuation based on the Forecast is regarded by The Stock Exchange of Hong Kong Limited as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Directors' responsibilities

The directors of the Company (the "**Directors**") are solely responsible for the Forecast. The Forecast has been prepared using a set of bases and assumptions (the "**Assumptions**"), the completeness, reasonableness and validity of which are the sole responsibility of the Directors. The Assumptions are set out in Appendix I of the Circular.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our 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 Accountants' responsibilities

Our responsibility is to express an opinion on the arithmetical accuracy of the calculations of the Forecast based on our work. The Forecast does not involve the adoption of accounting policies.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the arithmetical accuracy of the calculations are concerned, the Directors have properly compiled the Forecast in accordance with the Assumptions adopted by the Directors. Our work consisted primarily of checking the arithmetical accuracy of the calculations of the Forecast prepared based on the Assumptions made by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

We are not reporting on the appropriateness and validity of the Assumptions on which the Forecast are based and thus express no opinion whatsoever thereon. Our work does not constitute any valuation of the Target. The Assumptions used in the preparation of the Forecast include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Forecast and the variation may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

Opinion

Based on the foregoing, in our opinion, so far as the arithmetical accuracy of the calculations of the Forecast is concerned, the Forecast has been properly compiled in all material respects in accordance with the Assumptions adopted by the Directors.

Yours faithfully
Ernst & Young
Certified Public Accountants
Hong Kong

30 October 2019

The Board of Directors

Zhaojin Mining Industry Company Limited

No. 299 Jinhui Road
Zhaoyuan City
Shandong Province
PRC

REPORT FROM REPORTING ACCOUNTANTS ON THE DISCOUNTED CASH FLOW FORECAST IN CONNECTION WITH THE VALUATION OF EQUITY INTEREST IN SHANDONG GOLDSOFT TECHNOLOGY COMPANY LIMITED

We have been engaged to report on the arithmetical accuracy of the calculations of the discounted cash flow forecast (the "**Forecast**") on which the valuation dated 18 May 2019 prepared by Linyi Tianhengxin Assets Appraisal Limited in respect of Shandong Goldsoft Technology Company Limited (the "**Target**") as at 31 December 2018 is based. The valuation is set out in the circular of Zhaojin Mining Industry Company Limited (the "**Company**") dated 30 October 2019 (the "**Circular**") in connection with the acquisition of the Target. The valuation based on the Forecast is regarded by The Stock Exchange of Hong Kong Limited as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Directors' responsibilities

The directors of the Company (the "**Directors**") are solely responsible for the Forecast. The Forecast has been prepared using a set of bases and assumptions (the "**Assumptions**"), the completeness, reasonableness and validity of which are the sole responsibility of the Directors. The Assumptions are set out in Appendix II of the Circular.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our 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 Accountants' responsibilities

Our responsibility is to express an opinion on the arithmetical accuracy of the calculations of the Forecast based on our work. The Forecast does not involve the adoption of accounting policies.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the arithmetical accuracy of the calculations are concerned, the Directors have properly compiled the Forecast in accordance with the Assumptions adopted by the Directors. Our work consisted primarily of checking the arithmetical accuracy of the calculations of the Forecast prepared based on the Assumptions made by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

We are not reporting on the appropriateness and validity of the Assumptions on which the Forecast are based and thus express no opinion whatsoever thereon. Our work does not constitute any valuation of the Target. The Assumptions used in the preparation of the Forecast include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Forecast and the variation may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

Opinion

Based on the foregoing, in our opinion, so far as the arithmetical accuracy of the calculations of the Forecast is concerned, the Forecast has been properly compiled in all material respects in accordance with the Assumptions adopted by the Directors.

Yours faithfully
Ernst & Young
Certified Public Accountants
Hong Kong

30 October 2019

The Stock Exchange of Hong Kong Limited
8/F, Two Exchange Square
8 Connaught Place
Central, Hong Kong

Dear Sirs,

Connected Transaction in relation to the Acquisition of Equity Interests in the Target Companies and the Target Assets Involving the Non-Public Issuance of Consideration Shares

We refer to the circular of Zhaojin Mining Industry Company Limited* (招金礦業股份有限公司) (the "**Company**") dated 30 October 2019 (the "**Circular**") in relation to, among other matters, the acquisition of the Target Interests and the Target Assets pursuant to the terms and conditions of the Transfer Agreement. Unless the context otherwise requires, the capitalised terms used herein shall have the same meanings ascribed to them in the Circular.

We have reviewed and discussed the Supplies Centre Valuation Report and the Goldsoft Technology Valuation Report, which form the basis for determining the consideration for the acquisition of the 100% equity interest of the Supplies Centre and the 100% equity interest of Goldsoft Technology, respectively. We note that the methodology applied in deriving the valuation of the Supplies Centre and Goldsoft Technology is regarded as a profit forecast under Rule 14.61 of the Listing Rules. We have considered the reports from the auditor of the Company, Ernst & Young, as set out in Appendix III to the Circular, regarding the arithmetical accuracy of the calculations of the discounted cash flow forecast, upon which the Supplies Centre Valuation Report and the Goldsoft Technology Valuation Report are based.

On the basis of the above, pursuant to Rule 14.62(3) of the Listing Rules, we confirm that the profit forecast in relation to the valuation of the Supplies Centre and Goldsoft Technology as set out in the Supplies Centre Valuation Report and the Goldsoft Technology Valuation Report, respectively, has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of the Board of
Zhaojin Mining Industry Company Limited* (招金礦業股份有限公司)

Weng Zhanbin
Chairman and Executive Director

30 October 2019

* *For identification purpose only*

The following is the text of the Target Assets Valuation Report prepared by Linyi Tianhengxin, an independent professional valuer, in relation to the valuation of the Target Assets in connection with the Transfer Agreement.

The English version of this valuation report is for reference only. Should there be any inconsistency between the English version and the Chinese version, the Chinese version shall prevail.

ASSET VALUATION REPORT ON THE MARKET VALUE OF CERTAIN ASSETS IN RELATION TO THE PROPOSED ASSET TRANSFER BY SHANDONG ZHAOJIN GROUP COMPANY LIMITED

Lin Tianhengxin Valuation Report (2019) No. 2046

To Shandong Zhaojin Group Company Limited:

Linyi Tianhengxin Asset Valuation Company Limited was engaged by Shandong Zhaojin Group Company Limited (hereinafter referred to as "**Zhaojin Group**") to evaluate the market value of certain assets in relation to the proposed asset transfer by Zhaojin Group as at 31 December 2018 through necessary valuation procedures by adopting cost approach according to relevant laws, administrative regulations and asset valuation standards and based on the principles of independence, objectivity and impartiality. The asset valuation is hereby reported as follows:

I. THE CLIENT, APPRAISED ENTITY AND OTHER USERS OF THE ASSET VALUATION REPORT SPECIFIED IN THE ENGAGEMENT CONTRACT

The client and appraised entity of this valuation is Shandong Zhaojin Group Company Limited, and other users of the asset valuation report specified in the asset valuation engagement contract include other parties involved in this economic activity as well as users of the asset valuation report expressly prescribed by the laws and administrative regulations of the PRC, such as competent authorities.

(I) Overview of the client and appraised entity

1. Company profile

Company name: Shandong Zhaojin Group Company Limited

Unified social credit code: 91370685165236898M

Type of company: company with limited liability (sole proprietorship of a legal person invested or controlled by a non-natural person)

Place of domicile: North of Shengtai Road and East of Buhou East Road, Zhaoyuan, Yantai, Shandong Province

Legal representative: Weng Zhanbin

Registered capital: RMB1.2 billion

Date of establishment: 28 June 1992

Business duration: 28 June 1992 to 28 June 2052

Business scope: gold mine exploration (subject to the effective period of licenses); investment with self-owned capital; manufacturing and repair of mining equipment; planting and sale of economic seedlings; planting of fruit trees; purchase and sale of fruits; production and sale of plastic products, xanthate used for froth flotation, stone material, electrical mining equipment and power cable; purchase, sale and processing of gold and silver; import and export of goods and technologies; experimental development and promotion of technologies for mining, selection, cyanidation, smelting, engineering exploration and water treatment; promotion and consultation of new material, new techniques and energy saving technologies. (Business subject to approval under the law shall commence operation after the approval by relevant authorities)

2. *Establishment and corporate history*

Shandong Zhaojin Group Company Limited was established with the investment from the People's Government of Zhaoyuan City on 28 June 1992. Its registered address is North of Shengtai Road and East of Buhou East Road, Zhaoyuan, Shandong Province, and its registered capital is RMB2.2 billion.

(II) Other users of the asset valuation report specified in the asset valuation engagement contract

Other users of the asset valuation report specified in the asset valuation engagement contract include other parties involved in this economic activity as well as users of the asset valuation report expressly prescribed by the laws and administrative regulations of the PRC, such as competent authorities.

(III) Relationship between the client and appraised entity

The client and the appraised entity is the same entity.

II. PURPOSE OF VALUATION

The purpose of this valuation is to determine the market value of certain assets of Shandong Zhaojin Group Company Limited in the asset transfer to provide value reference for this economic activity.

This valuation only involves the engagement contract between the valuation institution and the client, and does not require written approval for economic activity from relevant authorities, resolutions or minutes of board meeting or other documents.

The executive document used to determine the purpose of this valuation is:

the asset valuation engagement contract entered into between Shandong Zhaojin Group Company Limited and Linyi Tianhengxin Asset Valuation Company Limited.

III. TARGET AND SCOPE OF VALUATION

The target and scope of valuation under the valuation engagement are consistent with those involved in the economic activity.

(I) Target of valuation

The target of valuation is the market value of certain assets of Shandong Zhaojin Group Company Limited.

(II) Scope of valuation

The scope of valuation covers certain assets of Shandong Zhaojin Group Company Limited as set out in the declaration form for asset valuation provided by Zhaojin Group.

The client and appraised entity have guarantee that there is no omission of assets that shall be included in the scope of valuation. The assets included in the scope of valuation are consistent with the scope determined at the time of engagement.

1. Locations and characteristics of major assets for valuation

The assets included in the scope of valuation include buildings (structures) and machinery equipment located in two places. Part of the assets is located in the factory area to the north of a road 700 meters to the west of the junction of Guoda Road and S608 in Zhaoyuan City, and the rest of the assets is located in Xiwudang Village, Zhaocheng Town, Luofengpian.

1) Buildings (structures)

Buildings (structures) are buildings and structures.

In particular:

There are a total of 8 buildings, which mainly include General Office Building, Workshop, Reception Office, Power Distribution Room and General Building 1, all of which were built in 2018 except for the building in Xiwudang Village, Zhaocheng Town, Luofengpian, which was built in April 2006.

There are a total of 7 structures, which mainly include circulation pool, walls, drainage and well, which were mainly built between 2013 and 2018.

2) Machinery equipments

Equipment assets mainly include machinery equipments.

There are a total of 84 units of machinery equipments, which mainly include power distribution system, water circulation system, high voltage power line and roll forging equipments, which were purchased between 2017 and 2018.

Under the management of equipment department, the equipments are regularly repaired, well maintained and in a good working condition to meet the needs for daily operation.

Based on the information provided by Zhaojin Group, the titles of the above equipments are owned by Zhaojin Group without title dispute.

Based on the information provided by Zhaojin Group, the above equipments were not pledged for guarantee and not involved in any economic disputes as at the valuation date.

2. Off-balance sheet assets reported by the enterprise

Nil.

3. Types, quantities, carrying amount and appraised value of the assets from the conclusions of reports issued by other institutions

The value of lands within the scope of this valuation is based on the land valuation reports issued by Yantai Fangyuan Land and Real Estate Valuation Company Limited engaged by Shandong Zhaojin Group Company Limited. The value of the land involved in the land valuation report Yan Fangyuan Land [2019] (Valuation) No. 015 (煙方圓土資[2019]（估）字第015號) is RMB20,456,700, and the land involved in the land valuation report Yan Fangyuan Land [2019] (Valuation) No. 021 (煙方圓土資[2019]（估）字第021號) is RMB375,600. The valuation date of these two reports is 31 December 2018, which is consistent with the valuation date of the asset valuation report. The value of lands is used as reference in the asset valuation report at the request of the client.

Users of this report are advised that the valuation institution does not provide any confirmation or guarantee in any form for the reference made at the request of the client.

4. Assets under operating lease and license reported by the enterprise

This valuation does not involve assets under operating lease and license reported by the enterprise.

IV. TYPE OF VALUE

The types of appraised value include market value and other value types. Value types other than market value generally include investment value, value in use, liquidation value, residual value, etc.

Based on factors such as valuation purpose, market conditions and characteristics of the valuation target and the relevance to valuation assumptions, market value is chosen for this valuation.

The market value is defined as the estimated price of the valuation target in a normal and arm's length transaction between a willing purchaser and a willing seller acting reasonably and without compulsion as at the valuation date.

V. VALUATION DATE

The valuation date of this project is 31 December 2018.

The valuation date is determined by the client based on the economic activity document and on the principles that the valuation date shall ensure the valuation conclusion will effectively serve the purpose of valuation, have no material impacts on the valuation conclusion, correctly reflect the latest positions of related assets, be as close as possible to the completion date of relevant economic activity and be the end of accounting period.

VI. VALUATION BASIS

The valuation basis adopted for the asset valuation mainly include basis of economic activity, basis of laws and regulation, basis of valuation standards, basis of ownership, and the pricing basis and other references used in the valuation, details of which are as follows:

(I) Basis of economic activity

The asset valuation engagement contract entered into between Shandong Zhaojin Group Company Limited and Linyi Tianhengxin Asset Valuation Company Limited;

(II) Basis of laws and regulations

1. Asset Valuation Law of the People's Republic of China (《中華人民共和國資產評估法》) (adopted at the 21st meeting of the Standing Committee of the 12th National People's Congress on 2 July 2016);

2. company Law of the People's Republic of China (《中華人民共和國公司法》) (amended at the 6th meeting of the Standing Committee of the 12th National People's Congress on 28 December 2013);

3. Law of the People's Republic of China on State-owned Assets of Enterprises (《中華人民共和國企業國有資產法》) (adopted at the 5th meeting of the Standing Committee of the 11th National People's Congress on 28 October 2008);

4. Administration Measures on the Valuation of State-owned Assets (Decree No. 91 of the State Council, 1991) (《國有資產評估管理辦法》(國務院第91號令，1991年));

5. Rules on Certain Issues concerning the Administration of State-owned Assets Valuation (Order No. 14 of the Ministry of Finance, 2001) (《國有資產評估管理若干問題的規定》(財政部14號令，2001年));

6. Interim Measures for the Supervision and Administration of State-owned Assets of Enterprises (Decree No. 378 of the State Council, 2003) (《企業國有資產監督管理暫行條例》(國務院令第378號，2003年));

7. Interim Measures on the Administration of Valuation of State-owned Assets of Enterprises (Decree No. 12 of the SASAC of the State Council, 2005) (《企業國有資產評估管理暫行辦法》(國務院國資委第12號令，2005年));

8. Notice on Strengthening the Administration of Valuation of State-owned Assets of Enterprises (SASAC of the State Council Chan Quan [2006] No. 274) (《關於加強企業國有資產評估管理工作有關問題的通知》(國務院國資委產權[2006]274號));

9. Notice on Matters related to Audit of Valuation Report of State-owned Assets (SASAC of the State Council Guo Zi Chan Quan [2009] No. 941) (《關於企業國有資產評估報告審核工作有關事項的通知》(國務院國資委國資產權[2009]941號));

10. Guidelines for the Filing of the Appraisal Projects of State-owned Assets of Enterprises (SASAC of the State Council Guo Zi Fa Chan Quan [2013] No. 64) (《企業國有資產評估項目備案工作指引》(國務院國資委國資發產權[2013]64號));

11. Measures for the Supervision and Administration of State-owned Assets Transaction of Enterprises (Decree No. 32 of the SASAC and Ministry of Finance of the State Council, 2016) (《企業國有資產交易監督管理辦法》(國務院國資委、財政部第32號令，2016年));

12. Enterprise Income Tax Law of the People's Republic of China (adopted at the 5th meeting of the 10th National People's Congress on 16 March 2007) (《中華人民共和國企業所得稅法》(2007年3月16日第十屆全國人民代表大會第五次會議通過));

13. Rules on the Implementation of the Provisional Regulations on Value-added Tax of the People's Republic of China (Decree No. 50 of the Ministry of Finance and State Administration of Taxation, 2008) (《中華人民共和國增值稅暫行條例實施細則》(財政部、國家稅務總局令第50號，2008年));

14. Notice on Carrying out Pilot Operation of Change from Business Tax to Value-added Tax (Ministry of Finance and State Administration of Taxation Cai Shui [2016] No. 36) (《關於全面推開營業稅改征增值稅試點的通知》(財政部、國家稅務總局財稅[2016]36號));

15. Financial Supervision and Management Measures of Assets Evaluation Industry (《資產評估行業財政監督管理辦法》) (Decree No. 86 of the Ministry of Finance, 2017) (財政部令第86號，2017年);

16. Other relevant laws, regulations and notices.

(III) Basis of valuation standards

A. Asset valuation standards:

1. Basic Standards on Assets Valuation (Ministry of Finance Cai Zi [2017] No. 43); (《資產評估基本準則》(財政部財資[2017]43號));

2. Code of Professional Ethics for Asset Valuation (Zhong Ping Xie [2017] No. 30) (《資產評估職業道德準則》(中評協[2017]30號));

3. Practice guidelines for Asset Valuation – Asset Valuation Procedures (Zhong Ping Xie [2017] No. 31) (《資產評估執業準則－資產評估程序》(中評協[2017]31號));

4. Practice guidelines for Asset Valuation – Asset Valuation Reports (Zhong Ping Xie [2017] No. 32) (《資產評估執業準則－資產評估報告》(中評協[2017]32號));

5. Practice guidelines for Asset Valuation – Asset Valuation Engagement Contracts (Zhong Ping Xie [2017] No. 33) (《資產評估執業準則－資產評估委托合同》(中評協[2017]33號));

6. Practice Guidelines for Asset Valuation – Asset Valuation File (Zhong Ping Xie [2017] No. 34) (《資產評估執業準則－資產評估檔案》(中評協[2017]34號));

7. Practice Guidelines for Asset Valuation – Enterprise Values (Zhong Ping Xie [2017] No. 36) (《資產評估執業準則－企業價值》(中評協[2017]36號));

8. Practice Guidelines for Asset Valuation – Real Estate (Zhong Ping Xie [2017] No. 38) (《資產評估執業準則－不動產》(中評協[2017]38號));

9. Practice Guidelines for Asset Valuation – Machinery Equipment (Zhong Ping Xie [2017] No. 39) (《資產評估執業準則－機器設備》(中評協[2017]39號));

10. Guidance on Valuation Report of State-owned Assets of Enterprises (Zhong Ping Xie [2017] No. 42) (《企業國有資產評估報告指南》(中評協[2017]42號));

11. Guidelines for Business Quality Control of Asset Valuation Institutions (Zhong Ping Xie [2017] No. 46) (《資產評估機構業務質量控制指南》(中評協[2017]46號));

12. Guiding Opinions on Types of Values for Asset Valuation (Zhong Ping Xie [2017] No. 47) (《資產評估價值類型指導意見》(中評協[2017]47號));

13. Guiding Opinions on Legal Ownership of the Subjects of Valuation (Zhong Ping Xie [2017] No. 48) (《資產target of valuation法律ownership指導意見》(中評協[2017]48號));

B. Relevant codes:

1. National Standards of the People's Republic of China – Code for Appraisal of Real Estate (GB/T50291-2015) (中華人民共和國國家標準《房地產估價規範》(GB/T50291-2015));

2. National Standards of the People's Republic of China – Technical Code for Appraisal of Used Vehicles (GB/T30323-2013) (中華人民共和國國家標準《二手車鑒定評估技術規範》(GB/T30323-2013));

(IV) Basis of ownership

1. State-own Land Use Certificate;

2. Construction Land Planning Permit, Construction Planning Permit, Real Estate Ownership Certificate, Building Ownership Certificate;

3. Contracts and invoices for purchase of major equipments and relevant agreements and contracts;

4. Undertaking and statement related to the ownership of appraised entity;

5. Other proof of ownership;

6. Other documents, reports, economic contracts, agreement and proof (evidence) of payment related to the acquisition and use of assets.

(V) Pricing basis

1. Declaration Form for Asset Valuation provided by the appraised entity;

2. Accounting vouchers and invoices provided by the appraised entity;

3. Contracts and agreements for production and sale of major products provided by the appraised entity;

4. Benchmark interest rates for deposits and loans and foreign exchange rates as at the valuation date;

5. Budgets and final accounts of construction of buildings (including construction in progress) and construction contracts;

6. Consumption Quota for Construction Projects of Shandong Province and Consumption Quota for Installation Projects of Shandong Province (Lu Jian Biao Zi [2016] No. 39);

7. Building Maintenance Grading Criteria (Cheng Zhu An (1984) No. 678);

8. Rules on Management of Design Fee for Engineering Exploration (Ji Jia Ge [2002] No. 10);

9. Rules on Management of Service Fee for Construction Supervision and related Services (Fa Gai Jia Ge [2007] No. 670);

10. Interim Measures on Management of Tendering Agent Service Fee (Ji Jia Ge [2002] No. 1980);

11. Notice on Adjustment to Social Insurance Rate (Lu Biao Ding Zi [2016] No. 33);

12. Information on Prices of Construction Material in Yantai for the Fourth Quarter of 2018;

13. Manual of Common Data and Parameters for Asset Valuation;

14. Quotation Manual for Mechanical and Electrical Products (2018);

15. Other information provided by the client and appraised entity;

16. Statistics, technical standards and price information published by relevant national authorities and relevant industrial policies, industry information, parameter information and quotation information collected by the valuation institution.

(VI) Other references

1. Manual of Latest Common Data and Parameters for Asset Valuation (2016 Edition by China Machine Press);

2. Building Maintenance Grading Criteria (Trial) (Cheng Zhu Zi (1984) No. 678);

3. Regulation on Useful Life of Buildings (Structures) with Different Structures and Usages (Jian Zong [1992] No. 349);

4. Other references.

VII. VALUATION METHOD

(I) Valuation method and reason for adoption

In accordance with Practice Guidelines for Asset Valuation – Enterprise Values, asset valuation institutions engaged in the valuation of enterprise's value shall select one or more appropriate asset valuation methods by analyzing the applicability of the three basic approaches of asset valuation, namely, income approach, market approach and cost approach based on relevant conditions such as the valuation purpose, subject of valuation, valuation type and information collection.

1. Market approach refers to the valuation method that determines the value of appraised assets by comparing and analyzing the recent transaction prices of the same or similar assets in the market. The premises for application of the market approach include:

   (1) There is a fully developed and active market to obtain the market price of assets of the same or similar type as that of the appraised assets;

   (2) reference and its indicators and parameters comparable to the appraised assets are collectable.

2. The income approach refers to the valuation method that determines the value of appraised assets by adding up the present value of the expected future income of appraised assets as at the valuation date using a particular discounting rate. The premises for application include:

   The appraised assets can be used continuously in a long period of time to generate certain income in the future; and the future income of appraised assets and the risks exposed to the owner of appraised assets can be measure in currency.

3. The cost approach refers to the valuation method that determines the value of assets by assessing the reconstruction or replacement cost of appraised assets less relevant depreciation.

The market approach is not applicable due to the lack of transactions similar to the appraised assets group in terms of use, function, maintenance conditions and operation intensity. The appraised assets group may generate income independently, but future income cannot be predicted accurately, therefore income approach is not adopted. As such, cost approach is adopted for valuation.

(II) Cost approach

Each type of asset is evaluated as follows:

1. Building (structure) assets

Replacement cost approach is adopted for valuation of building (structure) assets (excluding the value of land use rights), that is, on the assumption of continuous use at the current place, the appraised value is calculated based on the replacement cost (determined based on the current market value for reconstruction of such asset) and newness rate (determined by on-site inspection and comprehensive technical analysis). The formula is as follows:

Appraised value = replacement value × newness rate

Replacement value = construction and installation cost + Upfront and other expenses + finance cost

(1) Replacement cost

1) Determination of construction and replacement cost

Appropriate methods for determining the construction cost shall be chosen based on types of assets.

A. Final account adjustment approach

Final account adjustment approach is adopted to determine the construction and installation cost of large and high value buildings (structures) with final account information. Under this approach, buildings within the valuation scope are classified based on structural types, and one or two representative buildings in each structural type are chosen to evaluate the workload of major construction based on the drawings, final account report and final account information upon completion and the construction acceptance report, then such workload is used to determine the construction cost based on the current budget, and adjustment is made for the difference between other workload and construction cost and current budget to calculate the direct expense per unit as at the valuation date, and then current unit cost is applied to calculate the construction and installation cost.

B. Analogy calculation approach

Analogy calculation approach is adopted for buildings (structures) without final account information. Under this approach, comparison is made between other buildings (structures) of the same structural type and such type of buildings (structures) to make adjustment for factors affecting the construction and installation cost due to the differences between the subject and comparable buildings (structures) in terms of professional standards of structure, decoration and ancillary facilities, thereby determining the construction and installation cost of other buildings (structures) of the same type.

C. Cost per square meter approach

Cost per square meter approach is adopted to determine the construction and installation cost of buildings (structures) with small value and simple structure.

2) Determination of upfront and other expenses

Upfront and other expenses include the policy-based levies required by local governments and upfront and other expenses other than construction cost incurred for construction projects by construction entities. Policy-based levies refer to the fees charged by local governments for management of infrastructures, and are generally charged to the construction entities based on a percentage of final construction cost or floor areas of construction projects. Upfront and other expenses of construction entities refer to the expenses incurred by construction entities other than construction cost.

In the area where the government charges urban infrastructure facilities fee, urban infrastructure facilities fee is charged for buildings with building ownership certificates but not those without building ownership certificates. The appraised buildings have not obtained the building ownership certificates.

3) Determination of finance cost

Finance cost is determined based on the loan interest rate for reasonable construction duration of buildings (structure) as at the valuation date and the sum of construction and installation cost (tax inclusive) and upfront and other expenses (tax inclusive), and assuming that the funds are used evenly during the construction period. Reasonable construction duration is based on the National Standard Fixed Duration for Construction and Installation Projects.

Finance cost = (construction and installation cost (tax inclusive) + (Upfront and other expenses (tax inclusive)) × normal construction duration × loan interest rate for normal construction duration × 1/2

Loan interest rate is based on the benchmark rate for loans offered by financial institutions as at 31 December 2018, the valuation date:

Item	**Annual interest rate** *(%)*
I. Short-term loan	
Within one year (including one year)	4.35
II. Medium to long-term loan	
One to five years (including five years)	4.75
Over five years	4.90

4) Determination of replacement cost:

Replacement cost = construction and installation cost + upfront and other expenses + finance cost

(2) Determination of newness rate

The integrated newness rate of buildings (structures) is determined based on the structural characteristics, year of completion, maintenance conditions, functional depreciation and other relevant factors.

Integrated newness rate = newness rate under useful life approach × 40% + newness rate under scoring approach × 60%

In particular:

Newness rate under useful life approach	=	remaining useful life/(remaining useful life + used life) × 100%
Newness rate under scoring approach	=	∑ newness rate under scoring approach of each part × weight of each part × 100%

Newness rate under useful life approach: Remaining useful life is determined based on the construction characteristics of different buildings, result of on-site inspection, previous renovation and modification of buildings and maintenance conditions with reference to the standard useful life set out in the Regulation on Useful Life of Buildings (Structures) with Different Structures and Usages (Jian Zong [1992] No. 349). Used life is calculated based on the year and month of completion of the buildings.

Newness rate under scoring approach: Through on-site inspection of the building in respect of construction quality, main body of the building, structural maintenance, utility and repair and taking into account the relevant construction information and using environment, the integrity of structure, decoration and equipment of the building are rated based on the Building Maintenance Grading Criteria (Trial) (Cheng Zhu Zi [1984] No. 678), then each part is weighted to calculate the newness rate through comprehensive analysis.

The determination of integrated newness rate is based on the assumption that the building can be used continuously for its designed purpose, and the major factors for consideration are the stability and integrity of fundamental and main structures. The conditions of decoration and ancillary facilities will be considered only if the fundamental and main structures can be used continuously, which are used as the basis of adjustment and supplemental factors for determining the newness rate of main structures.

(3) Determination of appraised value

Appraised value	=	Replacement value × Integrated newness rate

2. Valuation of equipment assets

The equipment fixed assets for valuation are machinery equipments.

(1) Valuation of machinery equipments

1) Replacement cost

Replacement cost of machinery equipments include necessary and reasonable direct and indirect cost incurred for purchase or construction of equipments and finance cost incurred for financing. The formula is as follows:

Replacement cost = equipment purchase price + transportation and miscellaneous fees + installation and commissioning fees + foundation cost + other fees + finance cost

① Equipment purchase price

The purchase price of made-in-China equipment is determined based on quotation from manufacturers or trading firms as at the valuation date, the Quotation Manual for Mechanical and Electrical Products and the recent contract prices of similar equipment. In particular, purchase price of equipment still in circulation on the market is determined directly by reasonable prevailing market price; for equipment that is obsolete, discontinued or not in circulation in the market, the purchase price of the equipment to be appraised is analyzed and determined after taking comprehensive consideration of the differences in performance, technical parameters and useful functions relative to similar equipment. For a small number of equipment the purchase prices of which are not available, the price index method is used.

② Transportation and miscellaneous fees

Transportation and miscellaneous fees represent the transportation fees, loading and unloading fees and other relevant miscellaneous fees during transportation of equipment. For made-in-China equipment, transportation and miscellaneous fees are fees for transportation from the place of manufacturer or distributor to the equipment installation site. For imported equipment, transportation and miscellaneous fees represent domestic transportation and miscellaneous fees, which are fees for transportation from the custom to the equipment installation site.

③ Equipment foundation cost

Equipment foundation cost is charged based on the characteristics of equipment, industry standard unit price, purchase price and rate of foundation cost with reference to the Budget Estimate Preparation Approach and Indicators for Machinery Construction Projects. If foundation is not required or has been constructed along with the factory, equipment foundation cost is not taken into account for the calculation of equipment replacement cost.

④ Installation and commissioning fees

The installation and commissioning fees of equipment are determined based on the characteristics, weight, ease of installation and industry standard unit price. If the installation and commissioning fees are included in the quotation from the vendor, it will not be charged again. If the installation and commissioning fees are not included in the quotation, it shall be reasonably determined based on budget and final account information, excluding the unreasonable fees caused by abnormal factors. If budget and final account information is not available, the installation and commission fees shall be based on purchase price and relevant rate with reference to the installation and commission fees of similar equipment with the same functions. No installation and commission fees will be charged for small equipment that does not require installation. The formula is as follows:

Installation and commissioning fees = equipment purchase price × rate of installation and commissioning fees

⑤ Upfront and other expenses

Upfront and other expenses include construction entity management fee, survey and design fee, construction supervision fee, tender and bidding management fee, feasibility study fee, environmental assessment fee and joint trial run fee. It shall be calculated based on other standard rates of construction in the place where the equipment is located as well as the characteristics of equipment. The expense base is the sum of equipment purchase price, transportation and miscellaneous fees, foundation cost and installation and commissioning fees, and the rate of expense is determined based on market price. The formula is as follows:

Upfront and other expenses = expense base × rate of expense

⑥ Finance cost

Finance cost is determined based on the benchmark interest rate of loan from financial institutions for reasonable construction duration published by the People's Bank of China, and the sum of equipment purchase price, transportation and miscellaneous fees, foundation cost, installation fee and upfront and other expenses, assuming that the funds are used evenly during the construction period.

In this valuation, the financial cost of large and medium size equipment with reasonable construction duration of over six months is calculated as follows:

Finance cost = (equipment purchase price + transportation and miscellaneous fees + foundation cost + installation and commissioning fess+upfront and other expenses) × loan interest rate × construction duration × 1/2

Compound interest is calculated for equipment with construction duration of over one year:

Finance cost = (equipment purchase price + transportation and miscellaneous fees + foundation cost+installation and commissioning fess+upfront and other expenses) × [(1 + loan interest rate) construction duration × 1/2 – 1]

2) Integrated newness rate

Integrated newness rate = newness rate under useful life approach * 40% + on-site newness rate * 60%

(A) Newness rate under useful life approach

Newness rate under useful life approach is determined based on the economic useful life or remaining useful life and used life of equipment.

Newness rate under useful life approach = (economic useful life – used life)/economic useful life × 100%

The following formula is used for equipment with used life exceeding economic useful life:

Newness rate under useful life approach = remaining useful life/(used life + remaining useful life) × 100%

(B) On-site newness rate

On-site newness rate is determined based on the newness rate under useful life approach and the on-site inspection adjustment coefficient, which is determined mainly by reviewing information related to maintenance, repair, technical modification and detection and making inquiries with the technical management personnel, on-site operators and maintenance and repair personnel of the equipment to understand the design, manufacturing, daily operation, maintenance, repair, overhaul and modification of the equipment, and taking into account the effects from factors such as current functionality, operation condition and technological advancement.

3) Appraised value

Appraised value of machinery equipment = replacement cost × integrated newness rate

VIII. IMPLEMENTATION PROCESS AND DETAILS OF VALUATION PROCEDURES

This valuation includes preparatory works, on-site inspection, collection and processing of valuation information, assessment and estimation, meta-analysis and report writing, and the major processes of valuation are as follows:

(I) Engagement stage

1. The valuation institution got preliminary information on the economic activity and appraised assets, and confirmed the parties involved in the valuation engagement, scope of use of the asset valuation report, valuation purpose, valuation date, target and scope of valuation, value type and other basic matters of valuation engagement.

2. After comprehensive analysis of professional competence and independence and evaluation of risks of the engagement, the valued determined to accept the engagement and signed the asset valuation engagement contract.

3. The valuation institution prepared the declaration form for asset valuation and list of required information.

4. The valuation institution learnt about the valuation assumptions and limitations that may affect the valuation engagement and valuation conclusion, formulated valuation plans and proposals based on the characteristics of appraised assets and the schedule requirement, and formed the valuation team.

(II) Stage of on-site inspection and collection and processing of valuation information

1. Assisting relevant personnel of appraised entity to complete relevant forms and prepare relevant information

The valuation institution assisted relevant financial and asset management personnel of the appraised entity to complete the Detailed Statement of Valuation, Form of Asset Inspection and List of Required Information provided by the valuation institution according to the instruction thereon based on the result of asset mapping. The valuation institution also collected the ownership certificates of the valuation target and the assets involved as well as the documents that reflect the functionality, condition and economic and technical indicators.

2. Performing preliminary review on the detailed statements of valuation provided by the appraised entity

The valuation institution learnt about the details of appraised assets within the scope of valuation by reviewing relevant information. The valuation institution then reviewed the detailed statements of valuation to make sure everything is complete and all asset items are specified, and check if anything is missing from the detailed statements of valuation based on experiences and the relevant information available.

3. On-site inspection stage

On-site inspection of the target of valuation and its involved assets was conducted based on the evaluation of business circumstances. The valuation institution acquired the basic information required for business evaluation, understood the current conditions of the target of valuation and its involved assets, and paid attention to the legal ownership of the target of valuation and its involved assets. During the stage of on-site inspection, the valuation institution verified various assets with measures such as queries, interviews, checking, supervision, exploration, etc.

(1) Verification of the authenticity of the target of valuation

According to the reported breakdown of assets provided by the enterprises, the valuation institution carried out verification of various assets with the principle of importance on item by item or sampling basis, to ensure the assets being true and accurate. The valuation institution confirmed the authenticity of assets by checking the relevant invoices of asset acquisition contracts, financial account records, certificates of ownership, etc.

(2) Verification of relevant documentations, evidences and information regarding asset ownership

The valuation institution carried out verification on the relevant documentations, evidences and information regarding the involved asset ownership acquired through on-site inspection and data collection. Based on the type, source, way of collection of information and their effect on the valuation conclusion, the valuation institution selected the appropriate form or actual verification procedures and methods to carry out verification. The methods of verification adopted by the valuation institution during the process included observation, enquiry, desktop review, checking of records or documentations, on-site inspection, queries and correspondence, analysis, calculations, review, etc.

(3) Investigation of the actual asset conditions

The valuation institution adopted the principle of combining key and general points, conducted interviews with relevant management and operation staffs mainly through browsing the records of maintenance and operation of relevant assets. The valuation institution also optimized the important asset investigation tables through methods such as conducting on-site inspection of asset conditions with the cooperation of corporate asset management staffs.

(4) Investigation of components of asset value and business development conditions

The valuation institution investigated the rationality and compliance of components of asset value of the corporations based their asset features. Based on the business features of the corporations, the valuation institution carried out investigation on the history and business conditions of their business through investigations and interviews.

4. Collection and processing of valuation information

The valuation institution collected valuation information based on the specific conditions of the evaluated business. The collected valuation information include internal information acquired from relevant parties such as client, property holder, etc.; external information acquired through other channels such as government departments, various professional institutions and markets. Meanwhile, the valuation institution conducted essential analysis, classification and organization on the collected valuation information, and formed the basis of estimation evaluation and preparation of asset valuation report.

(III) Stages of assessment and estimation

1. The valuation institution analyzed the applicability of three basic asset valuation methods, namely market analyzing approach, income approach and cost approach and their derived approaches and selected the appropriate valuation method based on the situations of data collection and other operation conditions after confirming the basic matters of asset valuation engagement.

2. The valuation institution carried out market research and quotation, collected relevant data for evaluation such as price information.

3. The valuation institution selected corresponding formulas and parameters for analysis, calculation and judgment according to the adopted valuation method, and formed the preliminary valuation results.

(IV) Stage of conclusion and submission of asset valuation report

1. The valuation institution analyzed the valuation results, conducted comprehensive analysis, comparison, judgment, adjustment, modification and improvement of the preliminary valuation results, formed valuation conclusion, and prepared the preliminary asset valuation report.

2. The valuation institution communicated with the client and relevant parties regarding the relevant contents of the asset valuation report after level-by-level internal review.

3. The asset valuation institution issued the final asset valuation report and submitted the asset valuation report based on the requirements of the asset valuation engagement contract.

4. The valuation institution organized the working documents according to the requirements of the law, administrative regulations and asset valuation standards, and formed the asset valuation file together with the asset valuation report and other materials.

IX. ASSUMPTIONS OF VALUATION

This asset valuation report and the valuation conclusion are based on the following assumptions of valuation:

(I) General assumptions

1. transaction assumption: It is assumed that all appraised assets are in the process of transaction, and the valuation is conducted within the markets simulated based on the transaction conditions of the appraised assets and other factors.

2. Open market assumption: It is assumed that the appraised assets are traded in open market to realize their market value. The market value of assets is subject to the market mechanism and determined by the market conditions, instead of being determined by individual transactions. The aforementioned open market refers to a competitive market with willing buyers and sellers under fully developed and perfect market conditions. In this market, the buyers and sellers share an equal standing. Both parties have the chance and time to obtain sufficient market information. The transactions between the buyers and sellers are conducted on a voluntary and rational basis without forced or unlimited conditions.

3. Corporation going concern assumption: the valuation assumption is made on the basis that the overall assets of corporations are treated as the target of valuation. In other words, the corporations are the operation entities that will continue to operate going forward under the current external environment and according to the operation goals. The operators of the corporations are responsible for and capable of the responsibilities. The corporations operate legally and are able to obtain appropriate profit to maintain their ability of continual operation.

4. Continual asset usage assumption: continual usage assumption is a type of assumption about the conditions for the assets to enter into the market and the asset conditions under such market conditions. First, it is assumed that the evaluated assets are being used. Second, it is assumed that the assets being used will continue to be used. Under the continual usage assumption, changes in asset usage or the best usage conditions are not considered. The range of use of their valuation conclusion is limited.

(II) Special assumptions

1. The current laws, regulations and policies of the PRC and the macroeconomic situation of the PRC do not change significantly. The political, economical and social environment of the regions domiciled by the parties of this transaction do not change significantly;

2. It is assumed that the operator of the corporation is responsible and the management of the corporation are capable of performing their duties;

3. Unless otherwise stated, it is assumed that the corporation fully complies with all relevant laws and regulations;

4. It is assumed that the accounting policies that the corporation will adopt in the future and the accounting policies adopted when preparing this report are basically the same in material aspects;

5. It is assumed that the scope and method of business operation of the corporation stay consistent with the current direction on the basis of the current management method and management level of the corporation;

6. This valuation assumes that the appraised assets are not involved with third-party rights such as pledge or seal;

7. Interest rates, exchange rates, tax base and tax rates, policy-based fees and levies and other factors do not undergo significant changes;

8. There is no other factors of force majeure and unforeseen factors that cause material and adverse impact on the corporation;

9. All assets involved in this valuation are determined based on actual amount on the valuation date. The current market prices of such assets are based on the domestic effective price on the valuation date;

10. This valuation assumes that the ownership evidence, financial accounting information and other information related to this valuation provided by the client and the appraised entity are true, complete and legal. The scope of valuation is only based on the valuation application forms provided by the client and the appraised entity. The contingent assets and contingent liabilities that might exist outside of the lists provided by the client and the appraised entity are not considered;

11. The impact on the valuation conclusion caused by other contingencies such as pledge and guarantee are not considered in this valuation;

The conclusion of this valuation is made base on the aforementioned valuation assumptions. If the aforementioned valuation assumptions change, the conclusion of this valuation will become invalid.

X. CONCLUSION OF VALUATION

Through implementation of necessary valuation procedures under cost approach according to the requirements of the PRC laws, administrative regulations and asset valuation standards related to asset valuation and under the independent, objective and fair principles, it is evaluated that, on 31 December 2018, the valuation date, the total carrying amount of the part of assets that Shandong Zhaojin Group Company Limited intended to transfer was RMB194,033,100, of which fixed assets amounted to RMB176,663,600, intangible assets amounted to RMB17,369,500, while the total valuation amount was RMB206,236,000, of which fixed assets amounted to RMB185,403,700, intangible assets amounted to RMB20,832,300, representing an appreciation of RMB12,202,900 or 6.29%. For details, please see the Detailed Statement of Valuation.

The valuation conclusion shown in this asset valuation report is valid for one year starting from 31 December 2018, the valuation date, and ending on 30 December 2019. Use of the valuation conclusion shown in this asset valuation report after one year is invalid.

XI. SPECIAL MATTERS

The following shows the related matters discovered in the valuation process that might affect the valuation conclusion but not within the level of expertise and capability of the asset valuation institution to carry out assessment and estimation:

1. Reference from the conclusions of reports issued by other institutions

The value of lands within the scope of this valuation is based on the land valuation reports issued by Yantai Fangyuan Land and Real Estate Valuation Company Limited engaged by Shandong Zhaojin Group Company Limited. The value of the land involved in the land valuation report Yan Fangyuan Land [2019] (Valuation) No. 015 (煙方圓土資[2019]（估）字第015號) is RMB20,456,700, and the land involved in the land valuation report Yan Fangyuan Land [2019] (Valuation) No. 021 (煙方圓土資[2019]（估）字第021號) is RMB375,600. The valuation date of these two reports is 31 December 2018, which is consistent with the valuation date of the asset valuation report. The value of lands is used as reference in the asset valuation report at the request of the client.

Users of this report are advised that the valuation institution does not provide any confirmation or guarantee in any form for the reference made at the request of the client.

2. Incomprehensive or defective ownership information

The scope of valuation includes two places. Part of the assets is located in the factory area to the north of a road 700 meters to the west of the junction of Guoda Road and S608 in Zhaoyuan City. The buildings erected on the premise have not obtained the real estate ownership certificate, and the land has obtained the real estate ownership certificate: ownership certificate number: Lu (2017) Zhaoyuan Real Estate Ownership No. 0001721 (魯(2017)招遠市不動產權第0001721號). The other part of the assets is located in Xiwudang Village, Zhaocheng Town, Zhaoyuan City. The buildings erected on the premise have obtained the building ownership certificate: building ownership number: Zhao Fang Quan Zheng Luo Feng Zi No. 2612000223 (招房權證羅峰字第2612000223號), and the land has obtained the land use right certificate: land use right certificate number: Zhao Guo Yong (2005) No. 0314 (招國用(2005)第0314號).

3. Restriction on valuation procedures

As of the issue date of this asset valuation report, there is no other cases of restriction on valuation procedures.

4. Incompletion of other major valuation information

As of the issue date of this asset valuation report, there is no cases of incompletion of other major valuation information.

5. Pending legal and economic matters at the valuation date

According to the information provided by the appraised entity, it is not aware of any pending legal and economic matters at the valuation date.

6. Guarantee, lease and their contingent liabilities and contingent assets

The effects of matters such as charge, pledge, guarantee and lease on the valuation conclusion are not considered in this valuation.

7. Matters occurred between the valuation date and asset valuation report date that might affect the valuation conclusion

After the valuation date, if the amount of assets and pricing standard change, affecting the valuation conclusion, this valuation conclusion cannot be used directly without adjustment or re-evaluation. The asset valuation institution is not responsible for any changes in assets, liabilities and market conditions after the valuation date. It also has no obligation to amend the asset valuation report for the events or conditions occurred after the valuation date.

During the period between the valuation date and the issue date of the asset valuation report, it is not aware of any other material subsequent events that would affect the valuation assumptions and valuation conclusion and require adjustment to the valuation conclusion.

8. Other matters that have a material impact on the valuation conclusion

① The scope of valuation includes two places. Part of the assets is located in the factory area to the north of a road 700 meters to the west of the junction of Guoda Road and S608 in Zhaoyuan City. The buildings erected on the premise have not obtained the real estate ownership certificate, and the land has obtained the real estate ownership certificate: ownership certificate number: Lu (2017) Zhaoyuan Real Estate Ownership No. 0001721 (魯(2017)招遠市不動產權第0001721號); right holder: Shandong Zhaojin Group Company Limited; location: south of Longqing Road, north of Guoda Road, Zhaoyuan City; nature of right: transfer; usage: industrial land; area of land parcel: 56,666.67 m^2; period of use: 27 August 2013 to 26 August 2063. The other part of the assets is located in Xiwudang Village, Zhaocheng Town, Zhaoyuan City. The buildings erected on the premise have obtained the building ownership certificate: building ownership number: Zhao Fang Quan Zheng Luo Feng Zi No. 2612000223 (招房權證羅峰字第2612000223號), and the land has obtained the land use right certificate: land use right certificate number: Zhao Guo Yong (2005) No. 0314 (招國 用(2005)第0314號); right holder: Shandong Zhaojin Group Company Limited; usage: industrial land; nature of right: transfer; area of land parcel: 5,008.1 m^2; expiry date of land use right: 1 October 2023.

② The value of lands within the scope of this valuation is based on the land valuation reports issued by Yantai Fangyuan Land and Real Estate Valuation Company Limited engaged by Shandong Zhaojin Group Company Limited. The value of the land involved in the land valuation report Yan Fangyuan Land [2019] (Valuation) No. 015 (煙方圓土資[2019](估)字第015號) is RMB20,456,700, and the land involved in the land valuation report Yan Fangyuan Land [2019] (Valuation) No. 021 (煙方圓土資[2019](估)字第021號) is RMB375,600. The valuation date of these two reports is 31 December 2018, which is consistent with the valuation date of the asset valuation report. The value of lands is used as reference in the asset valuation report at the request of the client. Users of this report are advised that the valuation institution does not provide any confirmation or guarantee in any form for the reference made at the request of the client.

③ The buildings (structures) involved in the valuation of the factory area to the north of a road 700 meters to the west of the junction of Guoda Road and S608 in Zhaoyuan City were completed in early 2018 and have not completed the completion settlement as of the valuation date. The completion time of the appraised buildings (structures) was confirmed based on the expected time to reach a usable state provided by the client.

④ The buildings (structures) involved in the valuation of the factory area to the north of a road 700 meters to the west of the junction of Guoda Road and S608 in Zhaoyuan City have not completed the completion settlement as of the valuation date. As such, the carrying amount of the buildings (structures) involved in the valuation is based on relevant contract provided by the client and the unaudited settlement information provided by the construction entity. If the amount changes after auditing, corresponding adjustment shall be made to its carrying amount, and the users of the report are advised that the valuation institution will not provide confirmation or guarantee in any form in this regard.

⑤ The effect of premium or discount caused by controlling rights, minority shareholdings and other factors on the target of valuation is not considered in this valuation.

⑥ This valuation only involves the engagement contract between the valuation institution and the client, and does not require written approval for economic activity from relevant authorities, resolutions or minutes of board meeting or other documents.

⑦ The asset valuation institution engaged in asset valuation business shall be responsible for the rationality of the valuation conclusion. The valuation conclusion is made based on the aforementioned principles, basis, assumptions, methods and procedures, and is subject to the existence of the above principles, basis and assumptions;

⑧ During the process of valuation, the asset valuation institution paid attention to the legal ownership of the target of valuation, and provided essential description of the legal ownership of the target of valuation and its sources of evidence in the report. Nevertheless, the asset valuation institution did not provide guarantee of the legal ownership of the target of valuation;

⑨ The valuation result reflects the prevailing fair market price of the target of valuation under the purpose of this valuation based on the open market principle and going concern assumption without considering the effect on evaluated price from the increase or decrease in price paid by special transaction parties as well as the effect of changes in national macroeconomic policies and the force of nature and other events of force majeure on the asset price. In the event of changes of the aforementioned conditions and the principles of going concern and changes in subject of ownership rights and other conditions adopted in the valuation, the valuation results will normally become invalid;

⑩ The above valuation conclusion was issued by this valuation institution, and is subject to the practice level and ability of the valuers of this valuation institution.

The user of the asset valuation report should be cautious of the effect of the above special matters on the valuation conclusion.

XII. LIMITATION ON USE OF THE ASSET VALUATION REPORT

1. The valuation report can only be used for the purpose and usage stated in the valuation report;

2. Extraction, reference or disclosure to public media of all or part of the valuation report requires the review of relevant content by the valuation institution, unless otherwise required by laws and regulations and agreed by the related parties;

3. No institution or individual shall use the asset valuation report except the client, other users of the asset valuation report specified in the asset valuation engagement contract and users of the asset valuation report prescribed by the laws and administrative regulations of the PRC.

4. The asset valuation report users shall correctly understand the valuation conclusion. The valuation conclusion is not equal to the realizable value of the target of valuation. The valuation conclusion shall not be treated as the guarantee of the realizable price of the target of valuation.

5. According to the relevant requirements of the PRC, the valuation conclusion is valid for one year starting from 31 December 2018, the asset valuation date, and ending on 30 December 2019;

6. Linyi Tianhengxin Asset Valuation Company Limited is responsible for the interpretation of all or part of the content of this report.

XIII. ASSET VALUATION REPORT DATE

The date of this asset valuation report is 20 May 2019. The valuation report date is usually the date that the final professional opinion of the asset valuer is formed.

Below is a summary of the Zhaojin Geology Exploration Valuation Report.

I. PURPOSE OF VALUATION

The purpose of this valuation is to express a professional opinion on the market value of the total shareholders' equity of Zhaojin Geology Exploration as at the valuation reference date and to provide value reference for this economic activity of the proposed equity transfer by Zhaojin Group.

II. TARGET AND SCOPE OF VALUATION

The target of valuation is the value of the total shareholders' equity of Zhaojin Geology Exploration. The scope of valuation covers all the audited assets and liabilities of Zhaojin Geology Exploration as of the valuation reference date, being 31 December 2018.

III. TYPE OF VALUE

Market value is chosen for this valuation. The market value is defined as the estimated price of the valuation target in a normal and arm's length transaction between a willing purchaser and a willing seller acting reasonably and without compulsion as at the valuation reference date.

IV. VALUATION REFERENCE DATE

The valuation reference date of this project is 31 December 2018.

V. VALUATION METHOD

According to relevant laws, regulations, asset evaluation criteria, asset evaluation principles, the actual conditions of the appraised target, relevant market transaction information and prevailing market price standards and with reference to the historical cost records of assets, the evaluation is based on the asset-based approach on the premise of the continued operation of the enterprise, the continued use of the assets and an open market.

VI. CONCLUSION OF VALUATION AND VALIDITY

1. Conclusion of Valuation

After on-site investigation, market inquiry, confirmation and estimation procedures, the market value of the total shareholders' equity of Zhaojin Geology Exploration as at 31 December 2018 is appraised to be RMB88,076,700 (EIGHTY-EIGHT MILLION SEVENTY-SIX THOUSAND AND SEVEN HUNDRED).

Summary of valuation results of Zhaojin Geology Exploration

Unit: RMB0'000

	Items	**Book value**	**Appraisal value**	**Increase/ decrease**	**Appreciation ratio %**
		A	*B*	*C = B – A*	*D = C/A × 100%*
1	Current assets	12,138.37	12,762.68	624.31	5.14
2	Non-current assets	2,837.09	3,984.73	1,147.64	40.45
3	Including: long-term equity investment	350.00	473.70	123.70	35. 34
4	Fixed assets	1,997.44	2,735.88	738.44	36.97
5	Construction in progress	114.09	114.09		
6	Intangible assets	375.56	661. 48	285.92	76. 13
7	Total assets	14,975.46	16,747.83	1,772.37	11.84
8	Current liabilities	8,210.33	7,940.16	-270.17	-3.29
9	Total liabilities	8,210.33	7,940.16	-270.17	-3.29
10	Net assets (owners' equity)	6,765.13	8,807.67	2,042.54	30.19

2. Validity of the Valuation Conclusion

In the case of no major changes in macro-economy, industry environment, the appraised unit and price standards of major assets, the validity period of the valuation conclusion is usually one year, starting from the valuation reference date, being 31 December 2018 to 30 December 2019. However, in the case of major changes in macro-economy, industry environment, the appraised unit and price standards of major assets which have had a material effect on the asset valuation conclusion, the client should engage valuation institution to conduct re-valuation in a timely manner.

VII. SPECIAL MATTERS

1. The laboratory building among the appraised building has a construction area of 907.48 square meters, and appraised value of RMB1,474,198.00, which is used by Zhaoyuan Jindi Experimental Center Co., Ltd. (招遠市金地實驗中心有限公司), a wholly-owned subsidiary at nil consideration.

2. The GT1500 raise boring machine (item 1 on the machinery and equipment breakdown), 150 rig (item 1 on the machinery and equipment breakdown) among the appraised equipment and the AT2000 rig among the construction in progress were leased to Shandong Zhaojin Jintai Engineering Co., Ltd. (山東招金金泰工程有限公司), at a rental of RMB420,000, RMB210,000 and RMB420,000, respectively and with the rental term starting from 12 March 2018 to 11 March 2023.

3. For the land use right involved in the equity transfer, the client has separately engaged Yantai Fangyuan Land and Real Estate Valuation Company Limited (煙台方圓土地房地產評估有限公司). The valuation purpose set out in the land valuation report is line with the asset valuation, the valuation reference date is 31 December 2018, the valuation scope covers a parcel of land with an area of 15,523 square meters and the appraised value is RMB6,504,100. The valuation conclusion regarding the total shareholders' equity in this economic activity includes land use right, which summarized one of the land use right in the land valuation report Yan Fangyuan Land Zi [2019] (Valuation) No. 016 (煙方圓土資[2019](估)字第016號) (record number: 3721119DB0020), with an area of 15,523 square meters and the appraised value of RMB6,504,100.

4. According to the Cooperation Framework Agreement and Supplemental Agreement to the Cooperation Framework Agreement entered into between Zhaojin Geology Exploration and a company incorporated in Madagascar in August 2017, the counterparty invested the two mining rights of the Madagascar gold mine and one earning right of a exploration right as non-monetary equity for joint operation and Zhaojin Geology Exploration invested all the exploration funds of the above three mining rights as equity for joint exploration of the mine. Zhaojin Geology Exploration Company Limited is responsible for the preliminary 2 square meters' exploration and the exploration funds.

   As of 31 December 2018, Zhaojin Geology Exploration Company Limited had completed the preliminary exploration, of which exploration expense of RMB5,079,745.37 was incurred in the construction process and the valuation was determined based on the verified book value.

5. Relevant taxes and fees arising from the increase or decrease of the appraisal value are not included in the evaluation. Relevant taxes and fees for the appraised target involved shall be collected by the tax authorities in accordance with the provisions of the national tax law and shall be borne by the taxpayers stipulated in the tax law when the appraisal purpose is realized. The specific tax amount has not been adjusted in the asset valuation report. When the evaluation purpose is realized, all taxes and fees shall be subject to the figures approved by the competent tax authorities. If the amount approved by the competent tax authority is inconsistent with the book record, the valuation conclusion shall be adjusted accordingly.

VIII. FURTHER INFORMATION

1. Shandong Zhengyuan has considered three valuation methodologies, including the market approach, income approach and asset approach. Shandong Zhengyuan did not adopt the market approach or income approach and adopted the asset approach due to the following consideration:

   (a) market approach was not adopted as there is insufficient market information available in the market for the private entities in the PRC such as Zhaojin Geology Exploration;

   (b) income approach was not adopted as the revenue and cost for the exploration businesses of Zhaojin Geology Exploration is project based with seasonal income and expenses. As such, there may not be reliable forecasted information for Shandong Zhengyuan to adopt for the income approach; and

   (c) The asset approach is a commonly utilized method in valuation, which considers the fundamental cost to reproduce the assets appraised in accordance with the current market prices of similar assets.

2. The asset approach is a commonly utilised method in valuation, which considers the fundamental cost to reproduce the assets appraised in accordance with the current market prices of similar assets. Shandong Zhengyuan considered the followings in the valuation of the major asset and liabilities of Zhaojin Geology Exploration.

   (a) Current assets – trade and other receivables

   The book value of trade receivables and other receivables of Zhaojin Geology Exploration as at 31 December 2018 was approximately RMB59,473,000 and RMB1,671,000 respectively. Based on the relevant accounting policy adopted by Zhaojin Geology Exploration, provision of impairment of approximately RMB5,991,000 and RMB204,000 were recorded as at 31 December 2018 in relation to such trade and other receivables.

Shandong Zhengyuan have reviewed the repayment history and subsequent settlement of such trade receivables and considered that there is no evidence that such trade and other receivables will not be settled. As such, Shandong Zhengyuan has adopted the book value of trade and other receivables of Zhaoijn Geology Exploration as at 31 December 2018 as the appraised value, representing an increase of appraised value of approximately RMB6,195,000 as a result of the reverse of the impairment on the trade and other receivables. Shandong Zhengyuan further advised that, the trade receivables of Zhaojin Geology Exploration mainly represented exploration fee receivable from its customers which were project-based and the settlement cycle were usually longer.

(b) Non-current assets – long-term equity investment

The long-term equity investment of Zhaojin Geology Exploration represents the equity interests in its subsidiaries and associates, which was recorded at the aggregate cost of approximately RMB3,500,000 as at 31 December 2018.

Shandong Zhengyuany considered that the long-term equity investment recorded at cost may not capture the changes in equity value of such investment. Shandong Zhengyuan adopted the net asset value attributable to Zhaojin Geology Exploration, which amounted to approximately RMB4,737,000 as at 31 December 2018, as the appraised value. As such, the appraised value of long-term equity investment increased by approximately RMB1,237,000.

(c) Non-current assets – buildings

The net book value of the buildings of Zhaojin Geology Exploration was approximately RMB6,668,000 as at 31 December 2018, which was recorded at cost less accumulated depreciation under the relevant accounting policy adopted by Zhaojin Geology Exploration.

As the buildings of Zhaojin Geology Exploration (1) are not operating independently and may not generate income by itself; and (2) there are no comparable transactions in the market, Shandong Zhengyuan has adopted the replacement cost of the buildings as the appraised value.

In assessing the replacement cost of the buildings, Shandong Zhengyuan has considered the cost of design, material and finance for the construction of such building, and adjusted by factors including tax and expected remaining useful life. Shandong Zhengyuan advised that given (1) the replacement cost of such buildings increased as a result of the increase in latest wages and material cost as compared to the historical year of construction; and (2) the useful life adopted by Zhaojin Geology Exploration under its relevant accounting policy is shorter than that of the actual expected useful life of the buildings, the appraised value of the buildings increased by approximately RMB3,983,000.

(d) Non-current assets – machineries and equipment

The net book value of the machineries and equipment of Zhaojin Geology Exploration was approximately RMB13,306,000 as at 31 December 2018, which was recorded at cost less accumulated depreciation under the relevant accounting policy adopted by Zhaojin Geology Exploration.

As the machineries and equipment of Zhaojin Geology Exploration (1) may not independent generate measureable income; and (2) there are no comparable transactions in the market, Shandong Zhengyuan has adopted the replacement cost of the machineries and equipment as the appraised value.

In assessing the replacement cost of the machineries and equipment, Shandong Zhengyuan has considered the cost of the acquisition of such machineries and equipment, and adjusted by factors including tax and expected remaining useful life. Shandong Zhengyuan advised that given (1) the replacement cost of such machineries and equipment decreased as a result of advance in technology; netting off the effect of (2) the useful life adopted by Zhaojin Geology Exploration under its relevant accounting policy is shorter than that of the actual expected useful life of the machineries and equipment, the appraised value of the machineries and equipment increased by approximately RMB3,399,000.

(e) Non-current assets – land use rights

The land use rights of Zhaojin Geology Exploration represented a parcel of land situated in Zhaoyuan, Shandong, in the PRC with a size of 15,523 square meters. The net book value of the land use rights was approximately RMB2,859,000 as at 31 December 2018, which was recorded at cost less accumulated amortisation under the relevant accounting policy adopted by Zhaojin Geology Exploration. In the valuation of the land use rights, Shandong Zhengyuan used both market approach and cost approach in the valuation of the land use rights.

Regarding the market approach, Shandong Zhengyuan used the market value of comparable lands of similar location and similar permitted use to arrive a fair value of the land use rights.

For the cost approach, Shandong Zhengyuan used (1) the acquisition cost; and (2) the cost of developing the land to arrive a fair value of the land use rights. Shandong Zhengyuan adopted the average appraised value under the market approach and cost approach and considered the appraised value of the land use rights of Zhaojin Geology Exploration was approximately RMB6,504,000 as at 31 December 2018, representing an increase of approximately RMB2,859,000 as compared to the book value.

(f) Current liabilities – accrued salary expenses

The net book value of the accrued salary expenses of Zhaojin Geology Exploration was approximately RMB7,383,639 as at 31 December 2018, which included provision for employee education expenses of approximately RMB2,702,000. Shandong Zhengyuan is of the view employee education expenses shall be capitalised as reserve under the relevant requirement issued by the Ministry of Finance of the PRC. As such, the appraised value for the current liabilities of Zhaojin Geology Exploration decreased by approximately RMB2,702,000.

Based on the above factors, as stated in the Zhaojin Geology Exploration Valuation Report, the valuation of 100% equity interest of Zhaojin Geology Exploration as at 31 December 2018 based on the asset approach was approximately RMB88,076,700, which was higher than the book value of the Zhaojin Geology Exploration by approximately RMB20,425,400 or 30.2%.

Below is a summary of the Supplies Centre Valuation Report.

I. PURPOSE OF VALUATION

The purpose of this valuation is to express a professional opinion on the market value of the total shareholders' equity of Supplies Centre as at the valuation reference date and to provide value reference for this economic activity of the proposed equity transfer by Zhaojin Group.

II. TARGET AND SCOPE OF VALUATION

The target of valuation is the value of the total shareholders' equity of Supplies Centre The scope of valuation covers all the audited assets and liabilities of Supplies Centre as of the valuation reference date, being 31 December 2018.

III. TYPE OF VALUE

Market value is chosen for this valuation. The market value is defined as the estimated price of the valuation target in a normal and arm's length transaction between a willing purchaser and a willing seller acting reasonably and without compulsion as at the valuation reference date.

IV. VALUATION REFERENCE DATE

The valuation reference date of this project is 31 December 2018.

V. VALUATION METHOD

According to relevant laws, regulations, asset evaluation criteria, asset evaluation principles, the actual conditions of the appraised target, relevant market transaction information and prevailing market price standards and with reference to the historical cost records of assets, the evaluation is based on the asset-based approach and income approach – discounted cash flow approach on the premise of the continued operation of the enterprise, the continued use of the assets and an open market.

VI. CONCLUSION OF VALUATION AND VALIDITY

1. Conclusion of Valuation

After on-site investigation, market inquiry, confirmation and estimation procedures, the valuation result by income approach is adopted as the final valuation conclusion of the market value of the total shareholders' equity of Supplies Centre as at the valuation reference date, being 31 December 2018, i.e. RMB62,780,000 (SIXTY-TWO MILLION SEVEN HUNDRED AND EIGHTY THOUSAND). Detailed valuation conclusion is set out below:

Summary of valuation results of Supplies Centre

As of 31 December 2018

Unit: RMB0'000

	Items	**Book value**	**Appraisal value**	**Increase/ decrease**	**Appreciation ratio %**
		A	*B*	*C = B – A*	*D = C/A × 100%*
1	Current assets	8,615.13			
2	Non-current assets	202.46			
3	Fixed assets	82.86			
4	Deferred income tax assets	119.60			
5	Total assets	8,817.59			
6	Current liabilities	4,392.49			
7	Total liabilities	4,392.49			
8	Total shareholders' equity (owners' equity)	4,425.10	6,278. 00	1,852.90	41.87

2. Validity of the Valuation Conclusion

In the case of no major changes in macro-economy, industry environment, the appraised unit and price standards of major assets, the validity period of the valuation conclusion is usually one year, starting from the valuation reference date, being 31 December 2018 to 30 December 2019. However, in the case of major changes in macro-economy, industry environment, the appraised unit and price standards of major assets which have had a material effect on the asset valuation conclusion, the client should engage valuation institution to conduct re-valuation in a timely manner.

VII. SPECIAL MATTERS

1. The operating premise of Supplies Centre is provided by Zhaojin Group free of charge and comprises the land use right of a parcel of state-owned land located in No.98 Jincheng Road, Zhaoyuan City with an area of 5,008.1 square meters and a property with an area of 1,334.31 square meters. The valuation of the total shareholders' equity by income approach has taken into account the influence of the future rental expenses of such operating premise.

2. Relevant taxes and fees arising from the increase or decrease of the appraisal value are not included in the evaluation. Relevant taxes and fees for the appraised target involved shall be collected by the tax authorities in accordance with the provisions of the national tax law and shall be borne by the taxpayers stipulated in the tax law when the appraisal purpose is realized. The specific tax amount has not been adjusted in the asset valuation report. When the evaluation purpose is realized, all taxes and fees shall be subject to the figures approved by the competent tax authorities. If the amount approved by the competent tax authority is inconsistent with the book record, the valuation conclusion shall be adjusted accordingly.

VIII. FURTHER INFORMATION

1. Shandong Zhengyuan has considered three valuation methodologies, including the market approach, income approach and asset approach. Shandong Zhengyuan did not adopt market approach as there is insufficient market information available in the market for the private entities in the PRC such as the Supplies Centre. As such, the income approach and asset approach were adopted for the valuation.

2. The asset approach is a commonly utilised method in valuation, which considers the fundamental cost to reproduce the assets appraised in accordance with the current market prices of similar assets. Shandong Zhengyuan considered the followings in the valuation of the major asset and liabilities of the Supplies Centre.

   (a) Current assets – trade receivables

   The book value of trade receivables of Supplies Centre as at 31 December 2018 was approximately RMB71,300,000. Based on the relevant accounting policy adopted by Supplies Centre, provision of impairment of approximately RMB4,784,000 were recorded as at 31 December 2018 in relation to such trade receivables.

   Shandong Zhengyuan have reviewed the repayment history and subsequent settlement of such trade receivables and considered that there is no evidence that such trade receivables will not be settled. As such, Shandong Zhengyuan has adopted the book value of trade receivables of Supplies Centre as at 31 December 2018 as the appraised value, representing an increase of appraised value of approximately RMB4,784,000 as a result of the reverse of the impairment on the trade and other receivables.

(b) Non-current assets – machineries and equipment

The net book value of the machineries and equipment of Supplies Centre was approximately RMB634,000 as at 31 December 2018, which was recorded at cost less accumulated depreciation under the relevant accounting policy adopted by Supplies Centre.

As the machineries and equipment of Supplies Centre (1) may not independent generate measureable income; and (2) there are no comparable transactions in the market, Shandong Zhengyuan has adopted the replacement cost of the machineries and equipment as the appraised value.

In assessing the replacement cost of the machineries and equipment, Shandong Zhengyuan has considered the cost for the acquisition of such machineries and equipment, and adjusted by factors including tax and expected remaining useful life. Shandong Zhengyuan advised that given (1) the useful life adopted by Supplies Centre under its relevant accounting policy is shorter than that of the actual expected useful life of the machineries and equipment; netting off the effect of (2) the replacement cost of such machineries and equipment decreased as a result of advance in technology, the appraised value of the machineries and equipment increased by approximately RMB708,000.

Based on the above factors, as stated in the Supplies Centre Valuation Report, the valuation of 100% equity interest of the Supplies Centre as at 31 December 2018 based on the asset approach was approximately RMB48,643,000, which was higher than the book value of the Supplies Centre by approximately RMB4,392,000 or 9.9%.

3. Under the income approach, the appraisal value of 100% equity interest of the Supplies Centre represents the present worth of future economic benefits expected to be generated from the Supplies Centre. Shandong Zhengyuan has applied the discount cash flow method ("**DCF**") to discount the future free cash flow ("**FFCF**") of the Supplies Centre at a discount rate to reflect all business risk including intrinsic and extrinsic uncertainties in relation to the Supplies Centre, which is a common method to establish the valuation of an entity. The following are key quantitative assumptions in the Supplies Centre Valuation Report:

(a) Forecasted revenue

The revenue of the Supplies Centre mainly represented the revenue from the sales of steel, mining machineries, chemicals and scrap materials, where the revenue from the sales of steel and mining machineries represented over 90% of its total revenue for the three years ended 31 December 2018 and the forecasted period from 1 January 2019 to 31 December 2023. Shandong Zhengyuan has adopted the annual growth rate of (1) increasing from 0% to 2% for the sales of steel throughout the year 2019 to 2023; (2) decreasing from 4% to 3% for the sales of mining machineries throughout the year 2019 to 2023; (3) decreasing from 25% to 10% for the sales of chemicals throughout the year 2019 to 2023; and (4) 5% for the sales of scrap materials.

(b) Forecasted cost of sales

The cost of sales of Supplies Centre mainly represented the cost of steel, mining machineries, chemicals and scrap materials. Shandong Zhengyuan has adopted the unit price for each of steel, mining machineries, chemicals and scrap materials in the forecasted period based on the latest relevant historical average unit price for the year ended 31 December 2018.

(c) Discount rate

In estimating the discount rate for the valuation of Supplies Centre, Shandong Zhengyuan has adopted the weighted average cost of capital (WACC) which is a commonly used model to compute the cost of capital as the discount rate. Shandong Zhengyuan adopted the discount rate of approximately 11.9286%, which was determined by the equation of "$E/EV \times r^e + D/EV \times r^d \times (1 - t)$", where

– "E" stands for total equity, "D" stands for total debt and "EV" stands for combined value of equity and debt.

– "r^e" stands for the cost of equity, which is calculated by (1) the risk free rate based on the yield of 3.48% of China government bonds with more than 5-year term; and (2) the beta of 6.45%, which represents the sensitivity of the expected excess asset returns on the expected excess market, based on, among other things, the returns of 16 comparable companies.

– "r^d" stands for the cost of debt. The lending rate of 4.6782% was adopted which is based on the effective lending rate of the Group's latest borrowings.

– "t" stands for the income tax rate which is 25%.

In the event the discount rate increases by 0.5%, the valuation of 100% equity interest of the Supplies Centre will decrease by approximately RMB3,270,000. In the event the discount rate decreases by 0.5%, the valuation of 100% equity interest of the Supplies Centre will increase by approximately RMB3,610,000.

As stated in the Supplies Centre Valuation Report, the valuation of 100% equity interest of the Supplies Centre as at 31 December 2018 based on the income approach was approximately RMB62,780,000.

As (i) the Supplies Centre is not asset intensive; and (ii) the asset approach could not capture the customer relationship and network of the Supplies Centre, Shandong Zhengyuan has adopted the income approach for the conclusion of the valuation, which values the 100% equity interest of the Supplies Centre as at 31 December 2018 at RMB62,780,000.

Below is a summary of the Goldsoft Technology Valuation Report.

I. PURPOSE OF VALUATION

The purpose of this valuation is to determine the value of the total shareholders' equity of Goldsoft Technology in the proposed equity transfer by Zhaojin Group to provide value reference for this economic activity.

II. TARGET OF VALUATION

The target of valuation is the value of the total shareholders' equity of Goldsoft Technology as at the valuation reference date.

III. SCOPE OF VALUATION

The scope of valuation covers all the assets and liabilities as set out in the audited balance sheet of Goldsoft Technology as at the valuation reference date and off-balance sheet assets declared by Goldsoft Technology, which are subject to the list of assets and liabilities provided by Goldsoft Technology.

IV. TYPE OF VALUE

Market value is chosen for this valuation.

V. VALUATION REFERENCE DATE

31 December 2018

VI. BASIC VALUATION METHODS

Basic methods adopted in the valuation are asset-based approach and income approach.

VII. CONCLUSION OF VALUATION AND VALIDITY

On the premise of continuous operation, the valuation result by income approach is taken as the final valuation conclusion. The appraisal value of total shareholders' equity of Goldsoft Technology is RMB66,730,100 (SIXTY-SIX MILLION SEVEN HUNDRED AND THIRTY THOUSAND AND ONE HUNDRED), which is RMB9,964,000 higher than the book value of RMB56,766,100, with an appreciation ratio of 17.55%.

The valuation conclusion shown in this asset valuation report is valid for one year starting from 31 December 2018, the valuation reference date, and ending on 30 December 2019.

VIII. SPECIAL MATTERS THAT HAVE AN EFFECT ON THE VALUATION CONCLUSION

1. The simple warehouse, the building to be appraised, is a temporary building built in Chenglicun, Luo Feng Sub-district Office, Zhaoyuan City, which has not gone through any formalities of approval and registration of property rights.

2. The holder of the registration certificate of the new A78601 Buick commercial vehicle among the vehicles to be appraised is Yang Baoyu, which is inconsistent with the name of the appraised unit. Goldsoft Technology has issued an ownership statement, stating that the vehicle belongs to Goldsoft Technology and there is no dispute over ownership.

3. The current production and operation premises of the appraised unit are obtained by lease and as the lessee, it entered into the Office Building Lease Contract with Zhaojin Group to lease its office building located at No.299 Luofeng Road, Zhaoyuan City, with a construction area of 2,654.74 square meters and a lease term of one year. From 1 September 2018 to 31 August 2019, the annual rent is RMB10,000.00, which shall be paid in one lump sum. Through analysis of the surrounding lease market, the contract rent is obviously lower as Goldsoft Technology leases the office building from its parent company.

4. According to the Notice of the Ministry of Finance and the State Administration of Taxation on Certain Issues Concerning the Implementation of Value-added Tax Reform Nationwide (Cai Shui [2008] No.170)(《財政部國家稅務總局關於全國實施增值稅轉型改革若干問題的通知》(財稅[2008]第170號))and the Notice on the Deduction of Input Tax on Fixed Assets (Cai Shui [2009] No.113)(《關於固定資產進項稅額抵扣問題的通知》(財稅[2009]113號文件)), except for the equipment that are not allowed to be deducted from value-added tax in the document, value-added input tax is not included in the replacement cost of qualified equipment.

5. Relevant taxes and fees arising from the increase or decrease of the appraisal value are not included in the evaluation. Relevant taxes and fees for the appraised target and the assets involved shall be collected by the tax authorities in accordance with the provisions of the national tax law and shall be borne by the taxpayers stipulated in the tax law when the appraisal purpose is realized. The specific tax amount has not been adjusted in the asset valuation report. When the evaluation purpose is realized, all taxes and fees shall be subject to the figures approved by the competent tax authorities.

IX. FURTHER INFORMATION

1. Linyi Tianhengxin has considered three valuation methodologies, including the market approach, income approach and asset approach. Linyi Tianhengxin did not adopt market approach as there is insufficient market information available in the market for the private entities in the PRC such as Goldsoft Technology. As such, the asset approach and income approach were adopted for the valuation.

2. The asset approach is a commonly utilised method in valuation, which considers the fundamental cost to reproduce the assets appraised in accordance with the current market prices of similar assets. Linyi Tianhengxin considered the followings in the valuation of the major asset and liabilities of Goldsoft Technology.

(a) Current assets – trade receivables

The book value of trade receivables receivables of Goldsoft Technology as at 31 December 2018 was approximately RMB17,199,000. Based on the relevant accounting policy adopted by Goldsoft Technology, provision of impairment of approximately RMB2,727,000 were recorded as at 31 December 2018 in relation to such trade receivables.

Linyi Tianhengxin reviewed the repayment history and subsequent settlement of such trade receivables and considered that there is no evidence that such trade receivables will not be settled. As such, Linyi Tianhengxin has adopted the book value of trade receivables of Goldsoft Technology as at 31 December 2018 as the appraised value, representing an increase of appraised value of approximately RMB2,727,000 as a result of the reverse of the impairment on the trade receivables.

(b) Non-current assets – long-term equity investment

The long-term equity investment of Goldsoft Technology represents the equity interests in its subsidiaries and associates, which was recorded at the aggregate cost of approximately RMB9,691,000 as at 31 December 2018.

Linyi Tianhengxin considered that the long-term equity investment recorded at cost may not capture the changes in equity value of such investment. Linyi Tianhengxin have reviewed the financial statements of the entities invested by Goldsoft Technology and Linyi Tianhengxin adopted the net asset value attributable to Goldsoft Technology, which amounted to approximately RMB9,349,000 as at 31 December 2018, as the appraised value. As such, the appraised value of long-term equity investment decreased by approximately RMB343,000.

(c) Non-current assets – Intangible assets

The intangible assets of Goldsoft Technology mainly represented the cost of the licenses of its software. The net book value of the software licenses was approximately RMB17,230,000 as at 31 December 2018, which was recorded at cost less accumulated amortization under the relevant accounting policy adopted by Goldsoft Technology.

In assessing the appraised value of the software licenses, Linyi Tianhengxin has considered the acquisition cost of such licenses adjusted by the expected remaining useful life of such software. Linyi Tianhengxin advised that given the useful life adopted by Goldsoft Technology under its relevant accounting policy is shorter than that of the actual expected useful life of the software, the appraised value of the software licenses increased by approximately RMB1,290,000.

As stated in the Goldsoft Technology Valuation Report, the valuation of 100% equity interest of the Goldsoft Technology as at 31 December 2018 based on the asset approach was approximately RMB61,154,400 which was higher than the book value of the Goldsoft Technology by approximately RMB4,388,400 or 7.7%.

3. Under the income approach, the appraisal value of 100% equity interest of the Goldsoft Technology represents the present worth of future economic benefits expected to be generated from the Goldsoft Technology. Linyi Tianhengxin has applied the DCF to discount the FFCF of Goldsoft Technology at a discount rate to reflect all business risk including intrinsic and extrinsic uncertainties in relation to the Goldsoft Technology, which is a common method to establish the valuation of an entity. The following are key quantitative assumptions in the Goldsoft Technology Valuation Report:

(a) Forecasted revenue

The revenue of Goldsoft Technology mainly represented the revenue from the sales of computer software and technical services fee for mining exploration and exploitation. Linyi Tianhengxin has adopted the annual growth rate of 12.9%.

(b) Forecasted cost of sales

The cost of sales of Goldsoft Technology mainly represented the direct cost attributable to the development of the computer software and technical services fee. Linyi Tianhengxin has adopted a gross profit margin of approximately 27.3%, being the historical average gross profit margin for the years from 2014 to 2018.

(c) Discount rate

In estimating the discount rate for the valuation of Goldsoft Technology, Linyi Tianhengxin has adopted the weighted average cost of capital (WACC) which is a commonly used model to compute the cost of capital as the discount rate. Linyi Tianhengxin adopted the discount rate of approximately 12.7%, which was determined by the equation of "$E/EV \times r^e + D/EV \times r^d \times (1 - t)$", where

– "E" stands for total equity, "D" stands for total debt and "EV" stands for combined value of equity and debt.

– "r^e" stands for the cost of equity, which is calculated by (1) the risk free rate based on 5-year China government bond yield of 3.2265%; and (2) the beta of 9.73%, which represents the sensitivity of the expected excess asset returns on the expected excess market, based on, among other things, the China Securities Index 300.

– "r^d" stands for the cost of debt, which is based on the latest benchmark five-year lending rate of 4.9% proposed by People's Bank of China.

– "t" stands for the income tax rate, which is 15% for the years ending 31 December 2020 as Goldsoft Technology enjoys preferential tax treatment for its income tax rate, and 25% for the years thereafter.

In the event the discount rate increases by 0.5%, the valuation of 100% equity interest of Goldsoft Technology will decrease by approximately RMB2,701,000. In the event the discount rate decreases by 0.5% the valuation of 100% equity interest of Goldsoft Technology will increase by approximately RMB2,940,000.

As stated in the Goldsoft Technology Valuation Report, the valuation of 100% equity interest of Goldsoft Technology as at 31 December 2018 based on the income approach was approximately RMB66,730,100.

As (i) Goldsoft Technology is not asset intensive; and (ii) the asset approach could not capture the customer relationship and network of Goldsolft Technology, Linyi Tianhengxin has adopted the income approach for the conclusion of the valuation, which values the 100% equity interest of Goldsoft Technology as at 31 December 2018 at RMB66,730,100.

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this circular, received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer and consultant, in connection with its valuation as at 31 July 2019 of the property interests to be acquired by the Company.

Jones Lang LaSalle Corporate Appraisal and
Advisory Limited
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979 King's Road, Hong Kong
tel +852 2846 5000 fax +852 2169 6001
Company Licence No.: C-030171

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JLL
仲量聯行

The Board of Directors
Zhaojin Mining Industry Company Limited
No. 299 Jinhui Road
Zhaoyuan City
Shandong Province
The People's Republic of China

30 October 2019

Dear Sirs,

Pursuant to a Transfer Agreement entered into Zhaojin Mining Industry Company Limited (the "**Company**") and Shandong Zhaojin Group Company Limited ("**Zhaojin Group**", the controlling shareholder of the Company), the Company conditionally agreed to acquire, and Zhaojin Group conditionally agreed to sell 100% equity interest in Shandong Zhaojin Geology Exploration Company Limited, 100% equity interest in Zhaoyuan Gold Supplies Centre Company Limited and 67.37% equity interest of Shandong Goldsoft Technology Company Limited (the "**Target Interests**") and the land use rights of two parcels of land, together with the buildings, fixtures, machinery and equipment thereon (the "**Target Assets**").

Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("**JLL**" or "**we**") is instructed by the Company to provide valuation service on the properties of the Target Assets in which Zhaojin Group has interests in the People's Republic of China (the "**PRC**") for disclosure purpose. We confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion on the market values of the property interests as at 31 July 2019 (the "**valuation date**").

Our valuation is carried out on a market value basis. Market value is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

Due to the nature of the buildings and structures of properties and the particular location in which they are situated, there are unlikely to be relevant market comparable sales readily available, the relevant property interests have been valued by the cost approach with reference to their depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement of the improvements, less deduction for physical deterioration and all relevant forms of obsolescence and optimization. In arriving at the value of the land portion, reference has been made to the sales evidence as available in the locality. The depreciated replacement cost of the property interests is subject to adequate potential profitability of the concerned business. In our valuation, it applies to the whole of the complex or development as a unique interest, and no piecemeal transaction of the complex or development is assumed.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by the Stock Exchange of Hong Kong Limited; the RICS Valuation – Global Standards 2017 published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Company and Zhaojin Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, and all other relevant matters.

We have been shown copies of various title documents including a State-owned Land Use Rights Certificate, a Real Estate Title Certificate, a Building Ownership Certificate and other official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests. We have relied considerably on the advice given by the Company's PRC legal advisers – King & Wood Mallesons LLP, concerning the validity of the property interests in the PRC.

We have no reason to doubt the truth and accuracy of the information provided to us by the Company and Zhaojin Group. We have also sought confirmation from the Company and Zhaojin Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

The site inspection was carried out from 19 August 2019 to 21 August 2019 by Mr. Elvin Zhang, who graduates with property development courses and has 5 years' experience in property valuation in the PRC and Ms. Silvia Ma who has 2 years' experience in property valuation in the PRC.

All monetary figures stated in this report are in Renminbi (**RMB**).

Our valuation is summarized below and the valuation certificates are attached.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited
Eddie T.W. Yiu
MRICS MHKIS RPS (GP)
Senior Director

Note:

Eddie T.W. Yiu is a Chartered Surveyor who has 25 years' experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region.

SUMMARY OF VALUES

Property interests to be acquired by the Company in the PRC

No.	Property	Market value in existing state as at 31 July 2019 *RMB*
1.	A parcel of land, 4 buildings and various structures located at No. 286 Guoda Road Zhaoyuan City Shandong Province The PRC	39,780,000*
2	A parcel of land and 3 buildings located at No. 98 Jincheng Road Xiwudang Village Zhaocheng Town Zhaoyuan City Shandong Province The PRC	2,692,000
	Grand total:	**42,472,000**

Note:

* We have attributed no commercial value to 4 buildings of property no. 1 with a total gross floor area of approximately 28,760.00 sq.m. which have not obtained any proper title certificate. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the buildings (excluding land element) as at the valuation date would be RMB92,936,000.

VALUATION CERTIFICATE

Property interests to be acquired by the Company in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 July 2019 *RMB*
1.	A parcel of land, 4 buildings and various structures located at No. 286 Guoda Road Zhaoyuan City Shandong Province The PRC	The property comprises a parcel of land with a site area of approximately 56,666.67 sq.m., and 4 buildings and various structures erected thereon which were completed in various stages between 2013 and 2018. The buildings have a total gross floor area of approximately 28,760.00 sq.m. and they are an office building, a production workshop, a reception room and a distribution room. The structures mainly include a well drilling, a pool, a drainage canal, boundary fences and roads. The land use rights of the property have been granted for a term expiring on 26 August 2063 for industrial use.	The property was occupied by Zhaojin Group for production and ancillary purposes as at the valuation date.	39,780,000

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract – Zhao Yuan 01-2013-0052 dated 27 June 2013, the land use rights of a parcel of land with a site area of approximately 56,666.67 sq.m. were contracted to be granted to Shandong Zhaojin Group Company Limited (the "**Zhaojin Group**") for a term of 50 years for industrial use. The land premium was RMB17,000,000. As advised by Zhaojin Group, the land premium has been fully paid.

2. Pursuant to a Real Estate Title Certificate – Lu (2017) Zhao Yuan Shi Bu Dong Chan Quan Di No. 0001721, the land use rights of a parcel of land with a site area of approximately 56,666.67 sq.m. have been granted to Zhaojin Group for a term of 50 years expiring on 26 August 2063 for industrial use.

3. Pursuant to 2 Construction Work Planning Permits – Jian Zi Di Nos. 370685201700030 and 370685201700044 in favour of Zhaojin Group, 4 buildings with a total planned gross floor area of approximately 28,760.00 sq.m. have been approved for construction.

4. Pursuant to a Construction Work Commencement Permit – No. 370685201711230301 in favour of Zhaojin Group, permission by the relevant local authority was given to commence the construction work of a building of the property with a gross floor area of approximately 23,646.00 sq.m.

5. For the 4 buildings of the property, we have not been provided with any title certificate.

6. In the valuation of this property, we have attributed no commercial value to the 4 buildings with a total gross floor area of approximately 28,760.00 sq.m. which have not obtained any proper title certificate. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the buildings (excluding the land element) as at the valuation date would be RMB92,936,000.

7. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal adviser, which contains, inter alia, the following:

   a. Zhaojin Group holds the land use rights of the land parcel and the buildings and structures of the property legally, and owns the complete ownership or use rights in the Target Assets; and

   b. there are no mortgages, pledges or other rights restrictions against the Target Assets.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 July 2019 *RMB*
2.	A parcel of land and 3 buildings located at No. 98 Jincheng Road Xiwudang Village Zhaocheng Town Zhaoyuan City Shandong Province The PRC	The property comprises a parcel of land with a site area of approximately 5,008.10 sq.m., and 3 buildings erected thereon which were completed in 2006. The buildings have a total gross floor area of approximately 1,334.31 sq.m. and they are 2 office buildings and a production workshop. The land use rights of the property have been granted for a term expiring on 1 October 2023 for industrial use.	The property was occupied by Zhaojin Group for production and ancillary purposes as at the valuation date.	2,692,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate – Zhao Guo Yong 2005 Di No. 0314, the land use rights of a parcel of land with a site area of approximately 5,008.10 sq.m. have been granted to Shandong Zhaojin Group Company Limited (the "**Zhaojin Group**") for a term expiring on 1 October 2023 for industrial use.

2. Pursuant to a Building Ownership Certificate – Zhao Fang Quan Zheng Luo Feng Zi Di No. 2612000223, 3 buildings with a total gross floor area of approximately 1,334.31 sq.m. are owned by Zhaojin Group.

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal adviser, which contains, inter alia, the following:

   a. Zhaojin Group holds the land use rights of the land parcel, the buildings and structures of the property legally, and owns the complete ownership or use rights in the Target Assets; and

   b. there are no mortgages, pledges or other rights restrictions against the Target Assets.

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. INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at the Latest Practicable Date, 80 million Domestic Shares were registered under the name of Zhaojin Mining Industry Company Limited First Employee Shares Subscription Plan. Such 80 million Domestic Shares correspond to the 80 million employee shares subscription plan portions ("**ESSP Portions**") subscribed by eligible participants of the first employee shares subscription plan of the Company ("**ESSP**"). Among the 80 million ESSP Portions subscribed, 10,815,000 ESSP Portions have been subscribed by connected participants (i.e. participants of the ESSP who are connected persons to the Company). For further details, please refer to the announcement of the Company dated 29 December 2015, the circular of the Company dated 29 July 2016 and the announcement of the Company dated 31 March 2017 on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.zhaojin.com.cn.

The table below set forth the ESSP Portions subscribed by Directors, supervisors and chief executive of the Company:

Name	Position	ESSP Portions Subscribed	Corresponding number of Domestic Shares	Approximate percentage of interest in the registered capital of Company	Approximate percentage of interest in the total number of Domestic Shares
Weng Zhanbin	Chairman and Executive Director	1,200,000	1,200,000	0.04%	0.06%
Dong Xin	Executive Director and President	300,000	300,000	0.009%	0.01%
Wang Ligang	Executive Director	1,000,000	1,000,000	0.03%	0.05%
Zhao Hua	Supervisor	200,000	200,000	0.006%	0.009%

As at the Latest Practicable Date, save as disclosed above, none of the Directors, supervisors or chief executive of the Company had any interests or short positions 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) 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 any interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, to the best knowledge of the Directors, supervisors and chief executive of the Company, Mr. Weng Zhanbin (the Chairman and an executive Director) and Mr. Liu Yongsheng (a non-executive Director) are the directors of Zhaojin Group, which had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Save as disclosed above and to the best knowledge of the Directors, supervisors and chief executive of the Company, as at the Latest Practicable Date, none of the Directors, supervisors of the Company is a director or employee of a company which has any direct or indirect interest or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into or had proposed to enter into any service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

4. INTEREST IN ASSETS AND CONTRACTS

No contract or arrangement in which any of the Directors is materially interested and which is significant in relation to the business of the Group subsisted as at the Latest Practicable Date.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2018 (being the date to which the latest published audited consolidated financial statements of the Group 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.

5. COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors and their respective associates were considered to have interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or the Group.

6. EXPERTS AND CONSENTS

The followings are the qualifications of the experts who have given advice or opinions contained in this circular:

Name	Qualifications
Donvex Capital Limited	a licensed corporation under the SFO, to carry on Type 6 (advising on corporate finance) regulated activity under the SFO
Ernst & Young	Certified Public Accountants
Shandong Zhengyuan Hexin Assets Appraisal Limited* (山東正源和信資產評估有限公司)	Independent professional valuer
Linyi Tianhengxin Assets Appraisal Limited* (臨沂天恒信資產評估有限公司)	Independent professional valuer

Each of the above-mentioned experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its statement, letter or report and all references to its name in the form and context in which they respectively appear.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, each of the above-mentioned experts is a third party independent from the Group and its connected persons. As at the Latest Practicable Date, each of the above-mentioned experts (i) does not have any shareholding, directly or indirectly, in any member of the Group, or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and (ii) does not have any direct or indirect interest in any assets which had been since 31 December 2018 (the date to which the latest published audited accounts of the Group were made up), acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

Unless otherwise stated, the letter and recommendation from the experts are given as of the date of this circular for incorporation herein.

7. 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 2018, being the date to which the latest published audited consolidated financial statements of the Group were made up.

8. GENERAL

(a) The registered address, head office and principal place of business of the Company is No. 299 Jinhui Road, Zhaoyuan City, Shandong Province, the PRC.

(b) The principal place of business in Hong Kong of the Company is 31st Floor, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong.

(c) The branch share registrar and transfer office for H Shares is Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(d) The company secretary of the Company is Ms. Ng Ka Man, who is an associate member of both the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom.

(e) The qualified accountant of the Company is Mr. Nelson Ving Lung Ma, who is an associate member of the Hong Kong Institute of Certified Public Accountants.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours from 9:00 a.m. to 5:30 p.m. (save for Saturdays, Sundays and public holidays) at the principal place of business of the Company in Hong Kong at 31st Floor, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong from the date of this circular up to and including the date of the EGM and the Class Meetings. Copy of the following documents will also be available for inspection on the website of the Company at http://www.zhaojin.com.cn/ from the date of this circular up to and including the date of the EGM and the Class Meetings:

(a) the Transfer Agreement;

(b) the letter from the Board as set out in the section headed "Letter from the Board" in this circular;

(c) the letter from the Independent Board Committee to the Independent Shareholders as set out in the sections headed "Letter from the Independent Board Committee" in this circular;

(d) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders as set out in the section headed "Letter from the Independent Financial Adviser"; and

(e) this circular.