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11 September 2024

*To The Independent Board Committee and
The Independent Shareholders of
Wanguo Gold Group Limited*

Dear Sir or Madam,

**DISCLOSABLE AND CONNECTED TRANSACTION
ACQUISITION OF 20.22% INTEREST IN THE TARGET COMPANY
AND
ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE**

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Sale and Purchase Agreement and transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 11 September 2024 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 9 August 2024 (after trading hours), the Company entered into the Sale and Purchase Agreement with the Vendors, pursuant to which, the Company has conditionally agreed to acquire and the Vendors have conditionally agreed to sell the Sale Shares, representing 20.22% of the issued share capital of the Target Company, at a consideration of approximately HK\$732.6 million (the “**Consideration**”), which will be settled by the allotment and issue of 90,227,200 Consideration Shares under the Specific Mandate by the Company to the Vendors at the price of HK\$8.12 per Consideration Share.

LISTING RULES IMPLICATION

Discloseable Transaction

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Acquisition exceed 5% but less than 25%, the Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements under the Listing Rules.

Connected Transaction

As at the date of the Sale and Purchase Agreement, one of the Vendors, Golden Crane, being a substantial shareholder of the Target Company which is a subsidiary of the Company, is interested in 16.17% of the issued share capital of the Target Company, and Golden Crane is therefore a connected person of the Company at the subsidiary level under Chapter 14A of the Listing Rules. The Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under the Listing Rules.

The EGM will be convened and held for the purpose of considering and, if thought fit, approving the Sale and Purchase Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate). No Director has a material interest in the Sale and Purchase Agreement and the transactions contemplated thereunder or is required to abstain from voting on the Board resolutions in relation to the aforesaid matters. Details regarding the EGM are set out in the Circular.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Tsang Wai Hung, Mr. Wong Chi Ming Ming and Mr. Wang Xin, has been established by the Company to advise the Independent Shareholders as to (i) whether the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are on normal commercial terms and in the ordinary and usual course of business of the Group; and (ii) whether the terms of the Acquisition are fair and reasonable and in the interests of the Company and the Shareholders as a whole. We, CMBC International Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in such regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, CMBC International Capital Limited did not have any relationships or interests with the Company, the Vendors or any other parties that could reasonably be regarded as relevant to the independence of CMBC International Capital Limited. In the last two years, CMBC International Capital Limited had not acted as independent financial adviser to the Company. We are not aware of any of the circumstances set out in Rule 13.84 of the Listing Rules, that would affect our independence to advise you on the Acquisition, existed as at the Latest Practicable Date.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information, statements supplied, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, management of the Group (the “**Management**”), as well as, our reference to the relevant public information. We have assumed that all the information provided, statements supplied, and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all material respects at the time they were provided and continue to be true up to the date of the EGM and all such statements of belief, opinions and intention of the Directors and the Management and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and/or the Management. We have also sought and received confirmation from the Company and the Directors that no material facts have been withheld or omitted from the information and statements provided as well as opinions and representations expressed to us.

We consider that we have reviewed the relevant information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, statement supplied, representations made or opinion expressed by the Directors and the Management, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company or any of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Background information of the Acquisition

On 9 August 2024 (after trading hours), the Company entered into the Sale and Purchase Agreement with the Vendors, pursuant to which, the Company has conditionally agreed to acquire and the Vendors has conditionally agreed to sell the Sale Shares, representing 20.22% share capital of the Target Company, at a consideration of approximately HK\$732.6 million, which will be settled by the allotment and issue of the 90,227,200 Consideration Shares by the Company to the Vendors at the price of HK\$8.12 per Consideration Share.

The Target Company (together with its subsidiaries, the “**Target Group**”) is a company incorporated in Western Australia which holds 90% equity interest of Australian Solomons Gold Pty Ltd (“**ASG**”), a company incorporated in Queensland, Australia, and is engaged in investment holding. ASG, together with its indirect wholly-owned subsidiary ASG Solomon Islands Ltd, own 100% equity interest of Gold Ridge Mining Limited (“**GRML**”), a company incorporated in Solomon Islands. GRML owns the mining license and the exploration license in respect of a gold ridge mine on Guadalcanal in the Solomon Islands (“**Gold Ridge Mine**”). The Target Company is a subsidiary of the Company. A detailed shareholding structure of the Target Group is set out in the sub-section headed “Information on the Target Company” below.

Golden Crane, being a substantial shareholder of the Target Company which is a subsidiary of the Company, is interested in 16.17% of the issued share capital of the Target Company, and therefore is a connected person of the Company at subsidiary level under Chapter 14A of the Listing Rules.

2. The Sale and Purchase Agreement

The principal terms of the Sale and Purchase Agreement are set out as below:

Parties:

- (i) The Company, as purchaser; and
- (ii) The Vendors

Subject matter to be acquired:

the Sale Shares, being 20.22% of the issued share capital of the Target Company, at a consideration of approximately HK\$732.6 million. The below table summarises the Sale Shares to be sold by the Vendors and Consideration Shares to be issued by the Company respectively:

Vendor	Number of Sale Shares	Consideration (HK\$ million)	Consideration Shares to be issued
Golden Crane	1,617	585.9	72,154,986
Prominence Investment	<u>405</u>	<u>146.7</u>	<u>18,072,214</u>
Total	<u>2,022</u>	<u>732.6</u>	<u>90,227,200</u>

Consideration:

Approximately HK\$732.6 million (being 20.22% of the consideration of approximately HK\$3,624.0 million for 100% interest of the Target Company agreed among the parties), which will be settled by the allotment and issue of the 90,227,200 Consideration Shares by the Company to the Vendors at the price of HK\$8.12 per Consideration Share.

The issue price of the Consideration Shares of HK\$8.12 each was determined after arm's length negotiations between the Company and the Vendors with reference to, among others, the closing prices of the Share as quoted on the Stock Exchange for all trading days in the period from April 2024 to July 2024.

Consideration Shares:

The 90,227,200 Consideration Shares represent approximately 10.9% of the issued share capital of the Company as at the Latest Practicable Date and approximately 9.8% of the issued share capital of the Company as enlarged by the Consideration Shares (assuming there will be no change in the total number of issued Shares of the Company between the Latest Practicable Date and the allotment and issue of the Consideration Shares).

Conditions

The Completion is conditional upon fulfilment or, where applicable, waiver of the following conditions:

- (i) the relevant transactions under the Sale and Purchase Agreement, including but not limited to, the issue of the Consideration Shares, having been approved by the Independent Shareholders of the Company at the EGM in accordance with the requirements of the Listing Rules;
- (ii) the approval for the listing of, and permission to deal in, the Consideration Shares by the Listing Committee of Stock Exchange having been obtained by the Company, and such approval not having been revoked or withdrawn prior to the date of Completion;

- (iii) the subscription of the Consideration Shares by the Vendors being completed simultaneously;
- (iv) each of the representations, warranties and/or undertakings contained in or referred to or as set out in the Sale and Purchase Agreement is true, accurate and not misleading in all respects; and
- (v) all necessary consents from any relevant governmental or regulatory authorities or other relevant third parties in connection with the Sale and Purchase Agreement and the transactions contemplated thereunder having been obtained.

If any of the conditions set out above has not been satisfied or waived by the Company (other than conditions (i), (ii) and (v) which may not be waived and save for conditions (iii) and (iv) which shall be satisfied up to Completion) on or before 31 October 2024 or such other date as the parties may agree, the Sale and Purchase Agreement will be terminated unless the parties otherwise agree.

Completion:

Completion shall take place on the date that is the fifth Business Day after the day on which the conditions precedent of the Sale and Purchase Agreement have been satisfied or waived or such other day as the parties may agree.

As at the Latest Practicable Date, (a) none of the conditions of the Sale and Purchase Agreement had been satisfied or waived (as the case may be); and (b) the Company had no intention to waive any conditions of the Sale and Purchase Agreement.

3. Information on the Group

The Group is principally engaged in the business of mining, ore processing and sale of concentrates products in the PRC and Solomon Islands. The Company, through its wholly-owned subsidiaries, owns the entire equity interest in Jiangxi Province Yifeng Wanguo Mining Company Limited which in turn owns an operating mine located in Jiangxi Province, the PRC (“**Xinzhuang Mine**”) in which the Group conducts underground mining. The Xinzhuang Mine has a substantial volume of non-ferrous polymetallic mineral resources. Products of Xinzhuang Mine primarily include copper concentrates, iron concentrates, zinc concentrates, sulfur concentrates, lead concentrates as well as by-products of gold and silver.

The Group has, on 13 July 2017, completed acquisition of 51% attributable interest of Xizang Changdu County Dadi Mining Company Limited, which owns the lead mine in Walege of Changdu Country, the PRC (“**Walege Mine**”) in which the Group may further exploit for open-pit and underground mining. The Walege Mine has a significant volume of mineral resources of lead and silver.

In addition, the Group has on 30 April 2020, completed acquisition of 77.78% interest of the Target Company, which then indirectly owns 90% interest of the Gold Ridge Mine in which the Group may further exploit for open-pit and underground mining. The Group commenced trial production of Gold Ridge Mine since November 2022. Products of Gold Ridge Mine include gold doré and gold concentrates.

Financial performance of the Group

Set out below are selected financial information of the Group for the three years ended 31 December 2021, 2022 and 2023 as extracted from the annual report of the Company for the years ended 31 December 2022 and 2023 (the “**2023 Annual Report**”) respectively:

	For the year ended 31 December		
	2021	2022	2023
	RMB'000	RMB'000	RMB'000
	(audited)	(audited)	(audited)
Revenue	2,014,395	681,418	1,315,217
Gross Profit	316,207	315,684	619,237
Profit for the year	181,640	169,718	390,939

	As at 31 December		
	2021	2022	2023
	<i>RMB'000</i> (audited)	<i>RMB'000</i> (audited)	<i>RMB'000</i> (audited)
Total assets	1,798,760	2,037,963	2,361,603
Total liabilities	471,349	588,364	601,137
Net assets	1,327,411	1,449,599	1,760,466

(i) Revenue and gross profit

As illustrated in the table above, the Group's revenue decreased from approximately RMB2,014.4 million for the year ended 31 December 2021 to approximately RMB681.4 million for the year ended 31 December 2022, representing a decrease of approximately RMB1,333.0 million or 66.2%. It was mainly due to the decrease in the sales of electrolytic copper as the Group has gradually terminated the trading of electrolytic copper that was of low profit margin. Therefore, despite there was a significant decrease in revenue from 2021 to 2022, the gross profit of the Group only slightly decreased by approximately 0.2% from approximately RMB316.2 million for the year ended 31 December 2021 to approximately RMB315.7 million for the year ended 31 December 2022.

Revenue of the Group amounted to approximately RMB1,315.2 million for the year ended 31 December 2023, representing an increase of approximately 93.0% as compared to that of approximately RMB681.4 million for the year ended 31 December 2022, which was primarily due to the increase in sales generated by the Group's Gold Ridge Mine. The gross profit of the Group increased by approximately 96.2% from approximately RMB315.7 million for the year ended 31 December 2022 to approximately RMB619.2 million for the year ended 31 December 2023 due to the same reason.

(ii) Profit for the year

The net profit of the Group for the year ended 31 December 2022 decreased by approximately RMB11.9 million or 6.6% to approximately RMB169.7 million from approximately RMB181.6 million for the year ended 31 December 2021, which was mainly due to the increase in administrative expenses and finance costs.

The net profit of the Group for the year ended 31 December 2023 amounted to approximately RMB390.9 million, illustrated a significant improvement as compared to the net profit of approximately RMB169.7 million for the year ended 31 December 2022. According to the 2023 Annual Report, the improved performance of the Group was primarily due to the profit contribution from the Group's Gold Ridge Mine, which 90% equity interest is held by the Target Group, as a result of the increase in sales of gold doré and gold concentrates.

(iii) Net assets

As at 31 December 2022, the net assets of the Group were approximately RMB1,449.6 million, representing an increase of approximately 9.2% as compared to that of approximately RMB1,327.4 million as at 31 December 2021. The increase in net assets as at 31 December 2022 were attributable to the profit made of approximately RMB169.7 million, which were partially offset by a dividend of approximately RMB83.6 million.

As at 31 December 2023, the net assets of the Group were approximately RMB1,760.5 million, representing an increase of approximately 21.4% as compared to that of approximately RMB1,449.6 million as at 31 December 2022. The increase in net assets as at 31 December 2023 were attributable to the profit made of approximately RMB390.9 million, which were partially offset by a dividend of approximately RMB82.8 million.

Market outlook on gold price and strategy of the Group

In 2023, Commodity Exchange (“COMEX”) gold futures recorded overall gains in the first and fourth quarters, with some pullback in the second and third quarters. Gold prices have broken its historical high and the overall trend for the year remained at a high level.

Specifically, in the first quarter of 2023, a sudden crisis in the European and American banking industry pushed up the price of gold, with COMEX gold futures briefly surging to US\$2,083.8 per ounce, marking the first historical high of the year.

In the second and third quarters of 2023, as market risk events were digested and US inflation data continued to decline, the gold price retreated from its high levels and came under pressure, with a cumulative decline of over 8% due to ongoing disturbances in interest rate expectations.

However, in the fourth quarter of 2023, geopolitical tensions resurged, leading to a significant surge in gold prices and another historical high. On 4 December 2023, the gold price reached US\$2,152.3 per ounce, setting a new record once again.

The Target Group has largely benefited from the surge in gold prices since late 2022. The Gold Ridge Mine has a substantial volume of gold mineral resources and commenced trial production since the end of November 2022. Flotation production has been steadily ramping up towards its design capacity during this trial production phase. Plant modification and upgrade continued to improve the metallurgy process. Construction of the tailings dry stack facility is progressing well, with the first phase completed and operational in 2023, and the second phase is expected to be completed in 2024. Installation of additional crushing, grinding and Knelson gravity circuits is expected to be completed by October 2024.

With the continuous construction of various facilities, it is expected that the production capacity of the Gold Ridge Mine and revenue contribution by it would further increase in the near future.

4. Information on the Target Company

The Target Company is a company incorporated in Western Australia which holds 90% equity interest of ASG, a company incorporated in Queensland, Australia, and is engaged in investment holding. The Target Company is a subsidiary of the Company. As at the Latest Practicable Date, Great Time International Development Limited holds 2% shares in the Target Company and Goldridge Community Investment Limited holds 10% shares in ASG. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, each of Great Time International Development Limited and Goldridge Community Investment Limited and their respective ultimate beneficial owners is an Independent Third Party.

ASG, incorporated in Queensland, Australia, is an investment holding company which together with its indirect wholly-owned subsidiary, ASG Solomon Islands Ltd, own 100% equity interest of GRML, a company incorporated in Solomon Islands. GRML owns the mining license and the exploration license in respect of Gold Ridge Project on Guadalcanal in the Solomon Islands. The Gold Ridge Project is a gold resource project located at lower northern slopes of Mount Chaunapaho in the central ranges of Guadalcanal Island. The Gold Ridge Mine deposits are concentrations of low-sulphidation intrusion related epithermal gold mineralisation. It consists of five known mineralised deposits of Valehaichichi, Charivunga, Namachamata, Kupers and Dawsons. The Group has commenced the trial production since the end of November 2022. Products of the Gold Ridge Project include gold doré and gold concentrates.

As at the date of the Sale and Purchase Agreement and up to the Latest Practicable Date, 20.22% of the entire issued share capital in the Target Company was owned by the Vendors. Upon Completion, the Company will hold 98% equity interest of the Target Company.

Financial performance of the Target Group

Set out below are selected financial information of the Target Group for the two years ended 31 December 2022 and 2023 as extracted from its respective accounts:

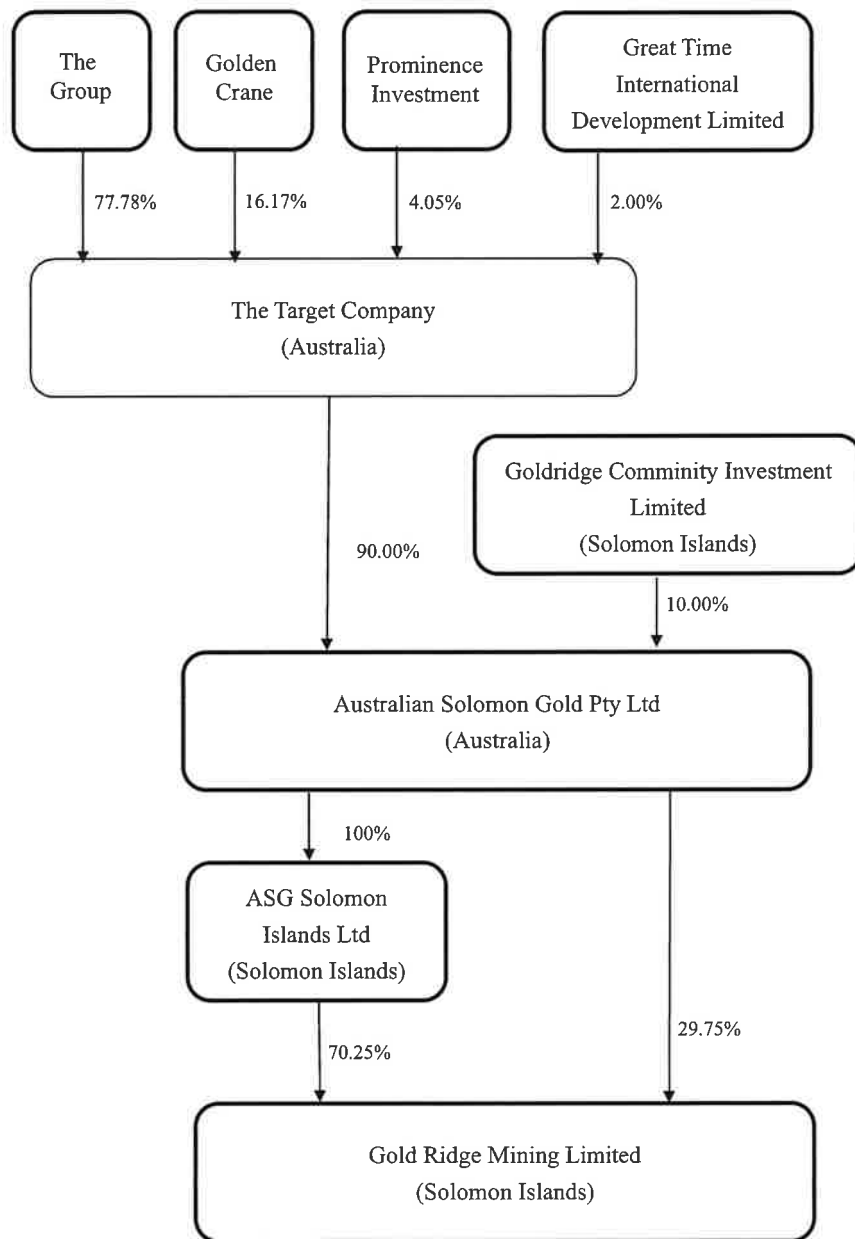
	For the year ended	
	31 December	
	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)
Revenue	47,959	658,316
Net (loss)/profit before and after taxation and extraordinary items	(35,609)	186,144

The Target Group had audited net assets of approximately RMB498.9 million (equivalent to approximately HK\$548.8 million) as at 31 December 2023.

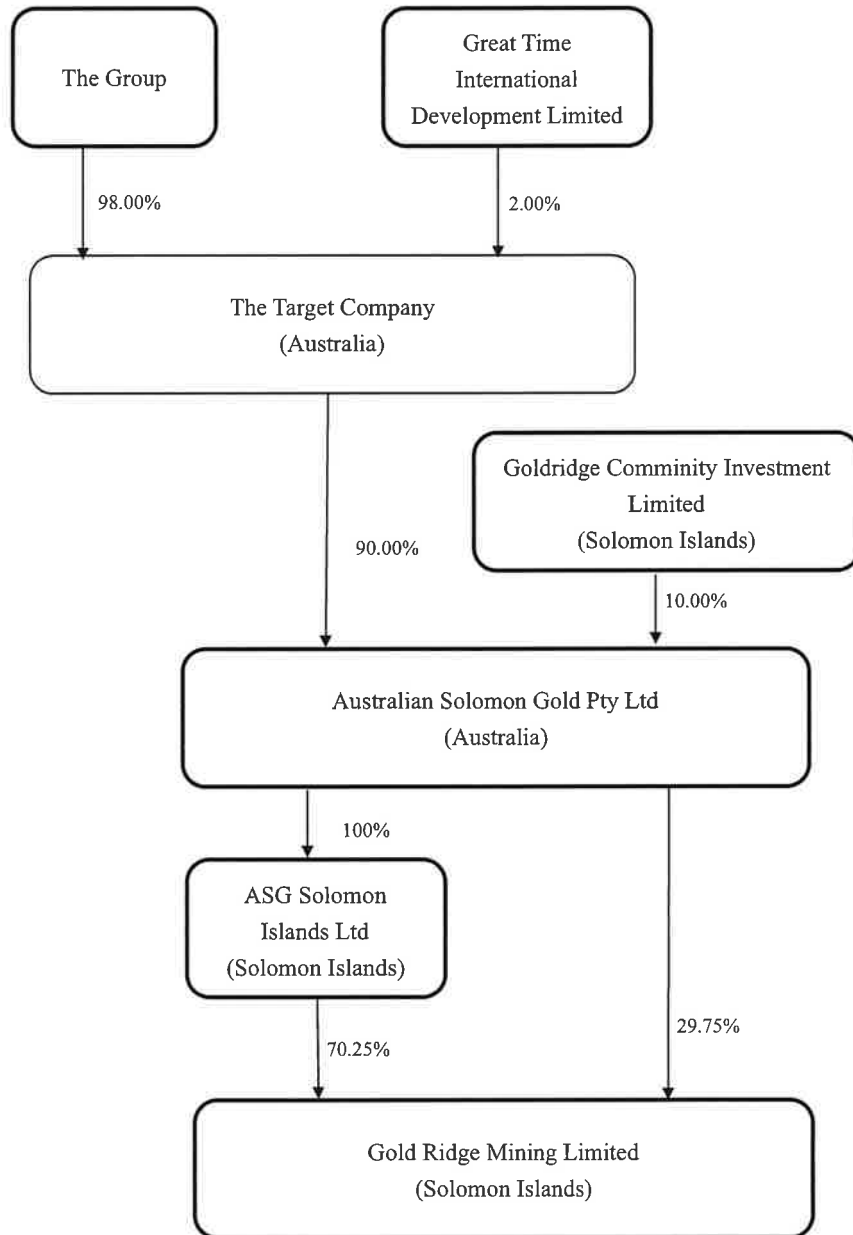
There was a significant increase in revenue of the Target Group and it recorded a net profit for the year ended 31 December 2023 as compared to the net loss for the year ended 31 December 2022. This was primarily because the trial production of Gold Ridge Mine was only commenced since the end of November 2022, therefore, only a comparatively small amount of sales of products were recognised for approximately one month ended 31 December 2022, which was yet to cover fixed costs incurred for the production, leading to a net loss position in 2022. With the increase in scale of production and sales of products, the financial performance of the Target Group improved significantly in 2023. For the year ended 31 December 2023, the Group mined 1,466,571 tonnes of ores in the Gold Ridge Mine (2022: 197,439 tonnes), of which it sold 1,142.90 kilogram of gold doré and 23,639 tonnes of gold concentrates. The gold resources held by the Gold Ridge Mine as of 31 December 2023 amounted to approximately 3,309,000 ounces.

Set out below are the simplified shareholding structures of the Target Group as at the date of the Sale and Purchase Agreement and upon Completion:

As at the date of the Sale and Purchase Agreement



Upon Completion



5. Reasons for and benefits of the Acquisition

As discussed in the Letter from the Board in the Circular and based on our understanding from the Management, the Acquisition is considered to be in line with the Group's development strategy taken into account:

- (i) the Target Company is currently a subsidiary of the Group which allows the Group to own approximately 70.0% (i.e. 77.78% x 90%) attributable interest of GRML indirectly. The Group will increase its attributable interest of GRML to approximately 88.2% upon Completion;
- (ii) one of the business strategies of the Group is to expand its mineral resources and ore reserves through acquisition of new mines ;
- (iii) as compared to other commodities, gold has been a stable performer in recent years, which is expected to enhance the stability of the Group's income in the future under impact of economy fluctuation ; and
- (iv) the Group developed the Gold Ridge Mine which has been in trial production since the end of November 2022. Sales of gold doré and gold concentrates have already accounted for more than 50% of the Group's revenue for the year ended 31 December 2023. As the exploration programs continue to progress and production process continue to improve at the Gold Ridge Mine, the Group expects gold mining and processing will become the major revenue and profit contributor of the Group in the near future.

Based on our discussion with the Management and our review of the 2023 Annual Report, in particular, the financial performance of the Group has improved significantly since the production works of Gold Ridge Mine commenced in late November 2022 and there is still approximately 3,309,000 ounces of gold resources held by the Gold Ridge Mine as at 31 December 2023, we concur with the view of the Management that the Acquisition is in line with the Group's principal business and its long-term development strategy.

6. Basis of consideration

We have discussed with and understand from the Management that the Company has considered, among others, (i) the average price-to-earnings ratio (“**PE Ratio**”) of the Company in the period from April 2024 to July 2024 of approximately 17.7 times; and (ii) the profit of the Target Group amounted to RMB186.1 million (equivalent to approximately HK\$204.8 million) for the year ended 31 December 2023 as disclosed in the 2023 Annual Report, in determining the Consideration.

As discussed with the Management, we understand that the Company has been engaged in open-pit and underground mining activities since the acquisition of the Target Group in 2020. The trial production of the Gold Ridge Mine has only been commenced since November 2022, with the flotation production has been ramping up steadily towards its design capacity during the trial production phase. Prior to that, the Company made substantial investments, including plant modification and continuous upgrade to improve the metallurgy process, in order to bring the Gold Ridge Mine into commercial production.

We have further discussed with the Management to understand that, despite there was only a short track record, the Directors consider the profitability of the Target Group is promising with a potential growth after taking into account the factors below:

- (i) the substantial investment in the mining capacity and stability of the Gold Ridge Mine, as well as rounds of trial production prior to the commencement of the commercial production. The first phase of Gold Ridge Mine has been completed with stable gold mining and processing capability in 2023;
- (ii) the Group would continue to invest in second phase of the Gold Ridge Mine, which is expected to be completed in 2024. Therefore, the exploration programs will continue to progress and the production process will continue to improve at the Gold Ridge Mine;
- (iii) while the Target Group was loss making in 2022, it has already contributed significantly to the Company’s revenue and profit in 2023. The Company’s profit attributable to the owners of the Company in 2023 has increased by approximately RMB154.9 million, or 85.6%, as compared to that in 2022. The growth was primarily attributable to the production of Gold Ridge Mine. In addition, for the six months ended 30 June 2024, the profit attributable to owners of the Company further increased by approximately RMB107.2 million as compared to that in the same period in 2023. For the six months ended 30 June 2024, the volume of ore processed at the Gold Ridge Mine has increased by approximately 416,000 tonnes, representing approximately an increase of 57.7% as compared to that in the same period last year; and

- (iv) the Target Group has not experienced any material disruption to the production since the commencement of commercial production and the Directors do not aware of any factors that would potentially impact the mining and processing capacity of the Target Group.

All of the above information has further demonstrated the Target Group's profitability and sustainability. The Directors believe that the Target Group will contribute continuous, stable and efficient performance growth to the Group.

Taking into account of the above, we concur with the view of the Management that, despite the short track record, the operation of Gold Ridge Mine is sustainable and profitable. In addition, we have also assessed the historical Share price and market capitalisation of the Company during the Review Period (please refer to section headed "Principal Factors and Reasons Considered – Evaluation of the Consideration Shares" in this letter for details). It is noted that the Share price and market capitalisation of the Company shown an increasing trend after the Company published positive profit alert announcements anticipating increases in the Group's profit attributable to the owners of the Company resulting from the increased revenue and profit contribution of the Gold Ridge Mine for the six months ended 30 June 2023 and year ended 31 December 2023, respectively, on 26 July 2023 and 29 February 2024. In addition, price of the Shares also demonstrated an upward trend after the publication of positive profit alert dated 8 August 2024. We are of the view that the increase in Share price was correlated to the profitability of the Company and has reflected the valuation of the Target Group as it is the primary contributor to the growth of the Group's profit. While there may be other multiples such as price-to-book ratio (the "**PB Ratio**") and price-to-sales ratio (the "**PS Ratio**") that are commonly used for valuation purpose, we are of the view that using PE Ratio to determine the consideration of the Acquisition is fair and reasonable after considering:

- (i) the price movement of the Shares as discussed in section headed "Principal Factors and Reasons Considered – Evaluation of the Consideration Shares";
- (ii) the PE Ratio is based on a company's earnings, which are a more direct indicator of a company's profitability and ability to generate returns for shareholders. Earnings take into account a company's revenue, costs, and expenses, providing a more comprehensive view of a company's financial performance;
- (iii) use of PB Ratio may not properly reflect the value of the Target Group as the mining assets were generally recognised at cost and may not properly reflect the value of the Target Group; and
- (iv) the PS Ratio is generally applicable to unprofitable companies which is not the case of the Target Group.

As at the date of entering into the Sale and Purchase Agreement, the Company had already owned 77.78% of the equity interests of the Target Company and indirect interests of approximately 70.0% of the Gold Ridge Mine. The Target Company is a subsidiary of the Group of which the Directors believe that the Group acts as a crucial role to the setting up of this mining project and the sales of gold doré and gold concentrates produced from the Gold Ridge Mine. The segment revenue and profit contributed by the Target Group accounted for approximately 50.1% and 48.8%, respectively, of the Group's total revenue and segment profit for the year ended 31 December 2023. Given the significance of the Group's interests in the Target Group and its contribution to the Group's financial performance and position, the Directors believe that the market capitalisation (or valuation) of the Group as a listed company has also reflected the value of the Target Group. It is therefore considered that the average PE Ratio of the Company is a reasonable proxy for comparative purpose and determining the Consideration. Reference is made to the PE Ratio of the Company of approximately 17.7 times based on the market capitalisation of the Shares of approximately HK\$6,528.6 million (being computed based on the average closing price of each Share in the period from April to July 2024) and the Group's profit attributable to Shareholders of approximately RMB335.4 million (equivalent to approximately HK\$368.9 million) as disclosed in the 2023 Annual Report. For the year ended 31 December 2023, the net profit of the Target Group was approximately RMB186.1 million (equivalent to approximately HK\$204.8 million). With reference to the average PE Ratio of the Company mentioned above and the net profit of the Target Group for the year ended 31 December 2023, the 100% equity value of the Target Group was agreed at HK\$3,624.0 million after arm's length negotiation, and the Consideration for 20.22% equity interest of the Target Company was approximately HK\$732.6 million.

We have also assessed the PE Ratio of the Company by researching PE Ratio of the listed companies who are principally engaged in gold mining business on the Main Board of the Stock Exchange with market capitalisation below HK\$10 billion and profit making in 2023. We set out the above selection criteria for the market comparable companies which we considered to be a fair and representative sample as such selection has refined the market comparable companies to directly compare with the Company in terms of business nature and company size. In particular, (i) the market capitalisation of the Company was within HK\$10 billion as at the date of Sale and Purchase Agreement; and (ii) more than 50% of revenue of the Company was derived from the gold mining business for the six months ended 30 June 2024 and the year ended 31 December 2023. Furthermore, market comparable companies that were non-profit making in 2023 were excluded from the below analysis as they do not provide any available PE Ratio for comparison with the PE Ratio of the Company. The PE Ratio analysis is as below:

	Company name	Stock code	PE Ratio
1	Tongguan Gold Group Ltd.	340	36.0
2	Dragon Mining Ltd.	1712	9.6
3	Persistence Resources Group Ltd.	2489	13.9
4	Lingbao Gold Group Co. Ltd.	3330	9.7
		Maximum	36.0
		Minimum	9.6
		Average	17.3
	The Company ^(Note)		17.7

Source: Stock Exchange as at the date of the Sale and Purchase Agreement

Note: The PE Ratio of the Company of approximately 17.7 times is the average PE Ratio of the Company from April 2024 to July 2024, which being used as part of the basis for determining the Consideration.

Based on the above analysis, we consider the Company's PE Ratio is within the range of market comparable companies and comparable to the average PE Ratio of similar companies in the industry. We are of the view that making reference to the Company's PE Ratio when determining the Consideration is fair and reasonable.

7. Evaluation of the Consideration Shares

The Consideration of approximately HK\$732.6 million is expected to be satisfied by 90,227,200 Consideration Shares at the issue price of HK\$8.12 each, which was determined after arm's length negotiations between the Company and the Vendors with reference to, among others, the average closing prices of HK\$7.88 per Share as quoted on the Stock Exchange for the 82 trading days in the period from April 2024 to July 2024.

(i) Share price performance

In assessing the fairness and reasonableness of the issue price of the Consideration Shares, we have considered the historical movement of the Share closing price. We have reviewed the daily closing prices of the Shares from 10 August 2023, up to and including 9 August 2024, being the date of the Announcement, and up to and including the Latest Practicable Date (the “Review Period”). We consider that a period of twelve months prior to the date of the Sale and Purchase Agreement is adequate to illustrate the recent price movements of the Shares for conducting a reasonable comparison between the closing price of the Shares and the Issue Price. Set out below are the daily closing Share prices quoted on the Stock Exchange in the Review Period:



Source: Stock Exchange

During the Review Period, the lowest closing price of the Shares as quoted on the Stock Exchange were HK\$2.77 per Share recorded on 16 August 2023. The average daily closing price of the Shares during the Review Period was approximately HK\$5.58 per Share. The Share price was an uptrend in general during the Review Period and reached a high of HK\$10.06 on 12 April 2024. On 26 July 2023 and 29 February 2024, the Company issued positive profit alert announcements anticipating increases in the Group’s profit attributable to the owners of the Company resulting from the increased revenue and profit contribution of the Gold Ridge Mine for the six months ended 30 June 2023 and year ended 31 December 2023, respectively.

The closing prices of the Shares dropped from its peak of HK\$10.06 on 12 April 2024 to HK\$8.24 on the Latest Practicable Date. Having made enquiry with the Company, the Management confirmed that they are not aware of any reason which could lead to the aforesaid movements of the closing prices of the Shares during the Review Period.

The Issue Price, being HK\$8.12 per Share, is within the range of the lowest and highest closing prices of Shares during the Review Period and represents a premium of approximately 8.0% to the closing price of HK\$7.52 Share as at the date of the Sale and Purchase Agreement.

(ii) Liquidity analysis

In order to understand the market demand for the Shares and whether the Company has a readily available market for the issuance of new Shares to raise fund in the amount of approximately HK\$732.6 million for settlement of the Consideration, we have studied the historic trading liquidity of the Shares. The following table sets out the average daily trading volume of the Shares, as well as the percentage of the average daily trading volume of the Shares to the total number of issued Shares and total number of issued Shares held in public hand for each of the periods/months during the Review Period:

Month/Period	Average daily number of Shares traded	% to the total issued Shares	% to the issued Shares in public hands
2023			
August (10 to 31 August 2023)	662,625	0.08%	0.3%
September	430,526	0.05%	0.2%
October	287,500	0.03%	0.1%
November	304,909	0.04%	0.1%
December	476,526	0.06%	0.2%
2024			
January	571,441	0.07%	0.2%
February	361,632	0.04%	0.2%
March	1,399,150	0.17%	0.6%
April	2,501,962	0.30%	1.1%
May	2,053,452	0.25%	0.9%
June	882,621	0.11%	0.4%
July	1,119,518	0.14%	0.5%
August	1,042,010	0.13%	0.4%
September (1 September 2024 to Latest Practicable Date)	1,167,950	0.14%	0.5%

Source: Stock Exchange

Given the percentages of the average daily number of Shares traded to both the total issued Shares and the issued Shares in public hands shown above, the Directors have confirmed that there were no significant unusual movements in respect of the number of Shares traded during the Review Period, save and except for the increase in average trading volume from March to May 2024. The Directors believe that the increase in average trading volume from March to May 2024 was probably attributable to (i) the positive profit alert announcement issued on 29 February 2024; (ii) the annual result announcement for the year ended 31 December 2023 issued on 18 March 2024 of which the profit for year attributable to owners of the Company has increased significantly from RMB180.5 million in 2022 to RMB335.4 million in 2023; (iii) the announcement for payment of 2023 financial dividend issued on 15 April 2024; and (iv) the Annual Report 2023 issued on 26 April 2024.

Further to our discussion with the Management, despite the trading volume of the Shares increased from March 2024 to May 2024 due to the reasons discussed above, the liquidity of the Shares remained low and it may not be sustainable. In addition, the average daily number of Shares traded in the same period was approximately 1.4 million Shares to 2.5 million Shares only, which was relatively small as compared to the number of Consideration Shares to be issued. We concur with the Management's view that the liquidity of the Shares is relatively low, and it is unlikely that the Company is able to raise fund with similar size to the Consideration by issue of new Shares. In addition, the bank balances and cash amounted to approximately RMB171.9 million as at 31 December 2023, which was far below the Consideration of approximately HK\$732.6 million, and it would be unfavorable to the Group in utilising all its available cash resource in settling the Consideration as it would affect the Group's other daily working capital needs. Taking into account of the above, we are of the view that the issue of the Consideration Shares is an appropriate method currently available to the Group for the settlement of the Consideration.

(iii) Evaluation analysis

The Issue Price of HK\$8.12 each represents:

- (a) a premium of 8.0% over the closing Share price of HK\$7.52 as quoted on the Stock Exchange on 9 August 2024 (being the date of the Sale and Purchase Agreement);
- (b) a premium over or a discount to each of the average of the closing Share prices quoted on the Stock Exchange specified as follows:

Premium/ (Discount)		Closing Share price
%		(HK\$)
12.6%	7.214	As an average for the last five consecutive trading days immediately preceding the date of the Sale and Purchase Agreement (“ 5-Day Average ”)
12.0%	7.247	As an average for the last ten consecutive trading days immediately preceding the date of the Sale and Purchase Agreement (“ 10-Day Average ”)
8.9%	7.455	As an average for the last 30 consecutive trading days immediately preceding the date of the Sale and Purchase Agreement (“ 30-Day Average ”)
(1.5%)	8.24	As at the Latest Practicable Date

- (c) a premium of approximately 334.8% over the net asset value attributable to the Shareholders of HK\$1.87 per Share as at 31 December 2023.

Furthermore, we have looked at all the transactions announced on the Main Board of the Stock Exchange in the period from 9 August 2023 to 8 August 2024 (both dates inclusive), being one year period prior to the date of the Sale and Purchase Agreement (“Comparable Period”) ^(Note 1) which involved the allotment and issue of consideration shares:

Date of announcement	Company name	Stock code	Issue price (HK\$)	Premium/(Discount) of the issue price over/to the average closing price over the last			
				Closing price per share on the date of the Sale and Purchase Agreement (%)	5 trading days prior to the date of the Sale and Purchase Agreement (%)	10 trading days prior to the date of the Sale and Purchase Agreement (%)	30 trading days prior to the date of the Sale and Purchase Agreement (%)
23/8/2023	Asia Resources Holdings Limited	899	0.23	—	2.4	8.3	62.1
27/8/2023	Xpeng Inc.	9868	64.03	(1.6)	1.3	0.2	(4.2)
4/9/2023	Anchorstone Holdings Limited	1592	0.085	66.7	42.1	41.7	30.4
8/9/2023	Infinites Technology International (Cayman) Holding Limited	1961	1.4	—	(3.6)	(2.6)	(4.9)
14/9/2023	MOS House Group Limited	1653	0.34	(4.2)	(3.4)	(4.4)	(7.7)
19/9/2023	Alibaba Pictures Group Limited	1060	0.52	(5.5)	(0.4)	—	0.4
14/10/2023	Tongguan Gold Group Limited	340	0.8	81.8	85.2	80.6	68.4
16/10/2023	Gome Finance Technology Co., Ltd.	628	0.08	—	(2.7)	(1.0)	(10.1)
31/10/2023	Vongroup Limited	318	0.242	(13.6)	(14.8)	(15.5)	(16.6)
13/11/2023	Saenergy Group Limited	2459	3.6	(17.2)	(16.7)	(18.0)	(19.1)
21/12/2023	China HK Power Smart Energy Group Limited	931	0.43	(1.1)	(1.1)	(2.5)	(4.3)
29/12/2023	Huili Resources (Group) Limited	1303	0.4	37.9	31.1	32.7	28.7
21/2/2024	V.S. International Group Limited	1002	0.28	191.7	196.6	192.9	229.2
29/2/2024	Pak Tak International Limited	2668	0.336	(4.0)	3.1	(0.7)	5.0
22/3/2024	Unity Enterprise Holdings Limited	2195	0.126	(16.0)	(19.2)	(20.2)	(22.9)
9/4/2024	XD Inc.	2400	14.2	—	(0.4)	(7.3)	(5.5)
24/5/2024	Hans Energy Company Limited	554	0.7961	124.3	103.6	131.4	214.5
21/6/2024	Eagle Nice (International) Holdings Limited	2368	4.65	2.2	(0.4)	(1.3)	(2.7)
25/6/2024	Huili Resources (Group) Limited	1303	0.48	(12.7)	(17.2)	(11.5)	(1.4)
26/6/2024	Future World Holdings Limited ^(Note 2)	572	0.7	—	4.2	5.7	1.9
27/6/2024	Newborn Town Inc.	9911	4.5	3.2	1.1	4.9	13.2
5/7/2024	China Health Group Limited	673	0.8	(14.9)	(16.0)	(16.2)	(16.3)
9/7/2024	SY Holdings Group Limited	6069	4.7	0.6	3.2	4.6	7.1
22/7/2024	China Anchu Energy Storage Group Limited	2399	0.5	66.7	64.5	61.0	63.4
24/7/2024	Ruicheng (China) Media Group Limited	1640	0.6	(17.8)	(19.8)	(19.2)	(15.4)
26/7/2024	China Qjdian Guofeng Holdings Limited	1280	0.4	(19.2)	(20.0)	(20.0)	(33.1)
31/7/2024	Capital Realm Financial Holdings Group Limited	204	0.47	(9.6)	(0.2)	(2.0)	(7.1)
			Maximum	191.7	196.6	192.9	229.2
			Minimum	(19.2)	(20.0)	(20.2)	(33.1)
			Average	16.2	14.9	15.6	20.5
			Median	—	(0.4)	(1.0)	(2.7)
9/8/2024	The Company	3939	8.12	8.0	12.6	12.0	8.9

Source: Stock Exchange

Notes:

- (1) We are of the view that Comparable Period are sufficiently recent and relevant in the context of the Acquisition and therefore are appropriate, sufficient, fair and representative for the purposes of our review. In connection with the selection of samples, our criteria are (a) the samples must be companies listed on the Main Board of the Stock Exchange; (b) announced transactions during the last one year period prior to the date of the Sale and Purchase Agreement; and (c) involved the allotment and issue of consideration shares. Though the companies selected may not be necessarily comparable in terms of profile with the Company, we are of the view that such samples can provide an indication as to where the issue price of the Consideration Shares stood in the recent market transactions, which are fair, sufficient and representative from the perspective that they have covered exhaustively those transactions satisfying the selection criteria without any sample being excluded from the selection process; and
- (2) On 26 June 2024, Future World Holdings Limited announced two transactions which involved issue of consideration shares. Since the issue price of the consideration shares of both transactions are the same (i.e. HK\$0.7), we considered the two transactions as one in the above analysis to avoid distortion to the result.

The recent market transactions which involved the allotment and issue of consideration shares provide an indication as to where the Issue Price of the Consideration Shares stood in terms of premiums or discounts implied by such issue price against the closing Share price as at the date of the Sale and Purchase Agreement and the average closing Share prices for various periods.

The increase in Share price was probably due to the improved financial performance as reported by the Group. The issue price of the Consideration Shares of HK\$8.12 each represents premium of approximately 8.0%, 12.6%, 12.0%, and 8.9% to the closing Share price as at the date of the Sale and Purchase Agreement, the 5-Day Average, the 10-Day Average and the 30-Day Average, where they are all no higher than the corresponding averages of the premiums implied by the recent market transactions respectively, which are considered acceptable given that all of such four (4) premiums fall within the corresponding ranges of premiums and discounts implied by the recent market transactions as illustrated in this sub-section. Therefore, we are satisfied that the issue price of the Consideration Shares is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

8. Specific Mandate and Dilution of Shareholding

Set out below are the shareholding structures of the Company as at the date of the Announcement and the Latest Practicable Date as well as after Completion:

	As at the Latest Practicable Date		Immediately after Completion and the allotment and issue of the Consideration Shares in full	
	No. of Shares	Approximate %	No. of Shares	Approximate %
Victor Soar Investments Limited	281,400,000	33.99	281,400,000	30.65
Achieve Ample Investments Limited	138,600,000	16.74	138,600,000	15.09
Shandong Humon Mining Development Limited	172,814,000	20.87	172,814,000	18.82
Golden Crane	-	-	72,181,760	7.86
Prominence Investment	-	-	18,045,440	1.97
Public Shareholders	<u>235,186,000</u>	<u>28.40</u>	<u>235,186,000</u>	<u>25.61</u>
Total	<u>828,000,000</u>	<u>100.00</u>	<u>918,227,200</u>	<u>100.00</u>

The Consideration of approximately HK\$732.6 million will be fully satisfied by the issue of 90,227,200 Consideration Shares to the Vendors, which represents approximately 10.9% of the existing issued Shares and 9.8% of the issued Shares as enlarged by such Consideration Shares, therefore the shareholding of the Independent Shareholders will be diluted by approximately 9.8% accordingly.

We consider that such dilution is acceptable and the Specific Mandate is fair and reasonable and in the interests of the Company and the Shareholders as a whole on the grounds that (i) the issue price of the Consideration Shares of HK\$8.12 each is fair and reasonable as discussed in section headed “Principal Factors and Reasons Considered – Evaluation of the Consideration Shares” in this letter; (ii) the issue of the Consideration Shares is construed as a means to finance the Acquisition without involving any cash outlay to the Group (other than insignificant professional fees and other expenses in this connection); and (iii) the Acquisition is in the interests of the Company and the Shareholders as a whole from the financial perspective as discussed in section headed “Principal Factors and Reasons Considered – Financial Effects of the Acquisition on the Group” in this letter.

In addition, the earnings per Share prior to the Acquisition was approximately RMB40.5 cents for the year ended 31 December 2023, which was computed based on the profit for the year attributable to owners of the Company of approximately RMB335.4 million divided by the total issued share capital of the Company of 828,000,000 Shares as at 31 December 2023. Assuming the Acquisition has been completed on 31 December 2023, the pro forma profit for the year attributable to owners of the Company would be approximately RMB369.3 million, with 918,227,200 enlarged Shares issued. The earnings per Share would therefore be approximately RMB40.2 cents. There was no material dilution of the earnings per Share upon completion of the Acquisition.

9. Financial effects of the Acquisition on the Group

Upon the Completion, the Group will increase its equity interest holding on the Target Company from 77.78% to 98.0% and the indirect equity interest in GRML would increase from approximately 70.0% to approximately 88.2%. The Directors anticipate that the professional fees and other expenses incurred by the Group in connection with the Acquisition would be insignificant. Set out below are the financial effects of the Acquisition on the Group:

(i) Net asset value

Currently, the assets and liabilities of the Target Company are consolidated into the Company's statement of financial position with non-controlling interests recognised for the portion attributable to the Vendors. Upon completion of the Acquisition, the Group would buy out all the equity interest of the Vendors in the Target Company with only 2% non-controlling interests held by Great Time International Development Limited. As the Consideration will be settled by Consideration Shares, the equity of the Group is expected to increase as a result of the enlarged capital base following the issue of Consideration Shares. Accordingly, the Group's net asset value attributable to the Shareholders is expected to increase after Completion.

(ii) Revenue and earnings

The revenue of the Target Group was consolidated into the Group's statement of profit and loss, which is not expected to change after Completion. As the exploration programs continue to progress and production process continue to improve at the Gold Ridge Mine, the Group expects the business of gold mining and processing of the Target Group will become the major revenue and profit contributor of the Group in the near future.

The earnings of the Target Group have been consolidated into the Company's statement of profit and loss with non-controlling interests recognised for the portion attributable to the Vendors. Upon completion of the Acquisition, the Group would buy out all the equity interests of the Vendors in the Target Company with only 2% non-controlling interests held by Great Time International Development Limited, the Group's profit attributable to the Shareholders is therefore expected to increase after Completion.

(iii) Cash flow

The Consideration will be fully satisfied by the issue of the Consideration Shares to the Vendors. Therefore, it is expected that there will be no cash outlay to the Group (other than some insignificant professional fees and other expenses in this connection).

Taking into account the expected increases in the Group's net asset value and potential increases in earnings, we consider that the Acquisition is in the interests of the Company and the Shareholders as a whole from the financial perspective.

DISCUSSION AND ANALYSIS

Having taken into consideration of the above principal factors and reasons, including:

- (i) the Target Company is currently one of the major subsidiaries of the Company, where the revenue derived from the Gold Ridge Mine represented approximately 50.1% of the Group's total revenue for the year ended 31 December 2023. With the contribution from the Target Group since it commenced production in the end of November 2022, the net profit of the Group increased from approximately RMB169.7 million for the year ended 31 December 2022 to approximately RMB390.9 million for the year ended 31 December 2023. Based on the discussion with the Management, it is expected that the profitability of the Target Group will further improve going forward after the second phase of expansion on the Gold Ridge Mine and the increase in production capacity, which will contribute continuous, stable and efficient performance growth to the Group. We are of the view that the Target Group should have a comparatively higher PE Ratio than the Group as the Target Group's profitability and growth rate is expected to be higher than the Group as a whole as the performance of the other business segment of the Group (i.e. Xinzhuang Mine) remained stable over the past three years without a significant growth rate. In this regard, we are of the view that using the PE Ratio of the Shares in determining the Consideration is fair and reasonable;
- (ii) the Consideration of approximately HK\$732.6 million for the Acquisition was determined after arm's length negotiations between the parties with reference to, among others, (a) the average PE Ratio of the Company in the period from April to July 2024 of approximately 17.7 times; and (b) the profit of the Target Group in the amount of approximately RMB186.1 million (equivalent to approximately HK\$204.8 million) as disclosed in the 2023 Annual Report; and

- (iii) the dilution of shareholding as a result of the issue of the Consideration Shares is acceptable and the Specific Mandate is fair and reasonable and in the interests of the Company and the Shareholders as a whole on the grounds that (a) the issue price of the Consideration Shares of HK\$8.12 each is fair and reasonable as discussed in section headed “Principal Factors and Reasons Considered – Evaluation of the Consideration Shares” in this letter; and (b) the issue of the Consideration Shares is construed as a means to finance the Acquisition without involving any cash outlay to the Group (other than some insignificant professional fees and other expenses in this connection),

we are of the view that the terms of the Acquisition are fair and reasonable and in the interest of the Company as a whole.

OPINION AND RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that :

- (a) the Acquisition, which is not in the ordinary and usual course of business of the Group, is on normal commercial terms; and
- (b) the terms of the Acquisition and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Board Committee to advise, and we ourselves advise, the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of

CMBC International Capital Limited



Holim Mak

Executive Director

Investment Banking Division



Stan Sze

Director

Investment Banking Division

Mr. Holim Mak (“Mr. Mak”) and Mr. Stan Sze (“Mr. Sze”) are licensed persons registered with the Securities and Futures Commission to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong). Mr. Mak is a responsible officer of CMBC International Capital Limited and has over 15 years of experience in finance and investment banking industries. Mr. Sze is a responsible officer of CMBC International Capital Limited and has over 10 years of experience in the accounting and investment banking industries.