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Wanguo International Mining Group Limited

萬國國際礦業集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3939)

**DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO AMENDMENTS TO THE TERMS
OF THE ACQUISITION OF 51% EQUITY INTEREST
IN XIZANG CHANGDU COUNTY DADI MINING COMPANY LIMITED**

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



**國金證券(香港)有限公司
SINOLINK SECURITIES (HK) CO. LTD.**

Terms defined in the section headed “Definitions” of this circular have the same meanings when used in this cover page, unless the context otherwise requires.

A letter from the Board is set out on pages 3 to 20 of this circular. A letter from the Independent Board Committee is set out on pages 21 to 22 of this circular. A letter from Sinolink Securities (Hong Kong) Company Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 23 to 45 of this circular.

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DEFINITIONS

Capitalised terms used in this circular shall have the same meaning as defined in the Previous Circular, save as otherwise required in this circular or defined as follows:

“Amended Terms”	Terms and conditions agreed by the Company and each of the Vendors by negotiation and the Mediation
“Announcements”	the announcements of the Company dated 16 and 27 October and 27 November 2015, respectively, in respect of the Amended Terms, the appointment and change of name of the Independent Financial Adviser
“Company”	Wanguo International Mining Group Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the main board of the Stock Exchange
“Consideration”	the aggregate consideration of RMB239.7 million for the sale and purchase of 51% equity interest in Xizang Changdu under the Acquisition Agreements as disclosed in the Previous Circular
“Date of Mediation”	8 October 2015, being the date of the Mediation
“EGM”	the extraordinary general meeting of the Company to be held to consider and if thought fit, to approve the Acquisition Agreements under the Amended Terms and the transactions contemplated thereunder
“Sinolink Securities” or “Independent Financial Adviser”	Sinolink Securities (Hong Kong) Company Limited, a licensed corporation to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders regarding the Acquisition Agreement(s) under the Amended Terms and the transactions contemplated thereunder
“Independent Board Committee”	the independent committee of the Board comprising all independent non-executive Directors established to provide recommendation to the Independent Shareholders in relation to the Acquisition Agreements under the Amended Terms and the transactions contemplated thereunder
“Independent Shareholders”	the Shareholders other than the Vendors and its associates and those who have no material interest in the Acquisition Agreements under the Amended Terms

DEFINITIONS

“Latest Practicable Date”	27 November 2015, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Mediation”	the mediation conducted by the Changsha Arbitration Commission (長沙仲裁委員會) on 8 October 2015 among the Company and each of the Vendors
“Previous Circular”	the circular issued by the Company to the Shareholders dated 29 August 2014 in respect of acquisition of 51% equity interest in Xizang Changdu County Dadi Mining Company Limited
“Revised Consideration”	the aggregate consideration of RMB195.0 million for the sale and purchase of 51% equity interest in Xizang Changdu under the Acquisition Agreements under the Amended Terms

LETTER FROM THE BOARD



Wanguo International Mining Group Limited

萬國國際礦業集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3939)

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Independent non-executive Directors:

Mr. Shen Peng
Mr. Qi Yang
Dr. Lu Jianzhong
Mr. Li Hongchang

2 December 2015

To the Shareholders

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO AMENDMENTS TO THE TERMS
OF THE ACQUISITION OF 51% EQUITY INTEREST
IN XIZANG CHANGDU COUNTY DADI MINING COMPANY LIMITED**

INTRODUCTION

As disclosed in the Previous Circular, on 16 May 2014, the Company announced that Yifeng Wanguo and HK Taylor, both being wholly-owned subsidiaries of the Company, entered into two Acquisition Agreements with Vendors pursuant to which Yifeng Wanguo and HK Taylor have conditionally agreed to acquire and the Vendors have conditionally agreed to dispose of 51% equity interests in Xizang Changdu at a consideration of RMB239.7 million in aggregate.

LETTER FROM THE BOARD

As disclosed in the Announcements, the Vendors have not yet fulfilled the conditions precedent of the Acquisition Agreements, i.e. obtaining proper consents and approvals of the transfer in various local government bureaus, before 30 September 2014 (being the latest date of payment by the Company as disclosed in Previous Circular), details of which are set out in sub-paragraphs (b), (e) and (g) of the sub-section headed “Letter from the Board — Conditions precedent” in the Previous Circular, and reproduced below:

- “(b) All other necessary consent(s) from third parties (including governmental or official or regulatory authorities) and all other necessary consents and approvals required pursuant to any legal or regulatory requirement in respect of the transactions contemplated under the Acquisition Agreements having been obtained;
- (e) Appointment of new directors of Xizang Changdu pursuant to its new articles, and completion of registration with competent authorities of Ministry of Commerce and Administration For Industry and Commerce; and
- (g) Notification to the Company by the Vendors of the completion of assets realization account opening, including the account information, pursuant to the applicable laws.”

The Company and each of the Vendors upon negotiation and the Mediation on the aforesaid issues, conditionally agreed to amend the Acquisition Agreements including (i) reduction of the Consideration to be settled and amending dates of payment, and (ii) enforcement on the proper consents and approval of the transfer in various local government bureaus.

The details of the consents and approvals from various local government bureaus to be obtained are as follows:

- a) Approval of the transfer of mining right of Xizang Changdu from the Land Resources Bureau of Xizang Autonomous Region (西藏自治區國土廳)
- b) Approval of the transfer in respect of the revised consideration from the Ministry of Commerce of Xizang Autonomous Region (西藏自治區商務廳)
- c) Registration with the Development and Reform Commission of Xizang Autonomous Region (西藏自治區發展和改革委員會)
- d) Obtaining a revised business licence from the Industry and Commerce for the completion of the change of 51% equity interest

As disclosed in the Previous Circular, upon Completion, Xizang Changdu will become an indirect subsidiary of the Company with equity interest of 51%. Xizang Changdu is mainly engaged in exploration of lead ore resources and owns the Walege lead-mine of Xizang Changdu exploration right (certificate number T54120080802013385) issued by the Land Resources Bureau of Xizang Autonomous Region, the PRC.

LETTER FROM THE BOARD

As the relevant percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Acquisition under the Amended Terms exceed 5% but are less than 25%, the Acquisition under the Amended Terms constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules. In addition, given that Mr. Wen Baolin, one of the Vendors, is a non-executive Director, the Acquisition under the Amended Terms also constitutes a connected transaction (as defined in the Listing Rules) for the Company. The Acquisition under the Amended Terms is therefore subject to the approval by the Independent Shareholders. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Mr. Liu Dingbo and Mr. Yang Zhi are third parties independent of the Company and not connected persons of the Company.

The purpose of this circular is to provide you with further information regarding, among other things, (i) details of the Amended Terms; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders; (iii) the letter of advice from Sinolink Securities to the Independent Board Committee and the Independent Shareholders; and (iv) other information as required under the Listing Rules.

Just like the previous arrangements under the Acquisition Agreements as disclosed in the Previous Circular, the Acquisition under the Amended Terms is separated into two agreements with HK Taylor and Yifeng Wanguo respectively after taking into account the following consideration:

HK Taylor is a company incorporated in Hong Kong that can enjoy various funding methods (e.g. placements, convertible bonds etc) by the Company. It is convenient for the Company to provide finance without any restrictions. Yifeng Wanguo is the Group's operating entity. It generates stable income and owns substantial assets of the Group. As a result, Yifeng Wanguo can easily get bank loan(s) from the domestic PRC local banker. The Group can enjoy both onshore and offshore finances by separating the agreements with two purchasers.

Acquisition Agreement (1) under the Amended Terms shown in Mediation report

Date: 8 October 2015

Parties:

Vendors: Mr. Liu Dingbo, Mr. Yang Zhi and Mr. Wen Baolin own the equity interests in Xizang Changdu of 30.3460%, 55.0079% and 14.6461% respectively.

Purchaser: Yifeng Wanguo

Assets involved: Mr. Liu Dingbo, Mr. Yang Zhi and Mr. Wen Baolin agreed to transfer the equity interests in Xizang Changdu in the percentage of 8.8929%, 4.0809% and 3.0262% respectively to Yifeng Wanguo

LETTER FROM THE BOARD

Details of the amended terms to the Acquisition Agreement (1) dated 16 May 2014 are set out below:

- A. The consideration for the acquisition of 16% equity interest in Xizang Changdu be reduced from RMB75.2 million to RMB61.2 million.
- B. Yifeng Wanguo shall pay to the Vendors RMB30 million on 20 October 2015 and RMB10 million on or before 10 January 2016. These monies are refundable if the Vendors fail to complete the conditions as stipulated in paragraph C below. As at the Latest Practicable Date, Yifeng Wanguo had paid such RMB30 million to the Vendors.
- C. Upon receipt of the part payment of the considerations as stipulated in paragraph B above, the Vendors and/or Yifeng Wanguo shall complete the following:
1. The Vendors shall procure the submission of the application of the transfer of mining right of Xizang Changdu with the Land Resources Bureau of Xizang Autonomous Region, and obtain its approval of transfer;
 2. The Vendors shall procure the approval of the transfer in respect of consideration in Xizang Changdu in the Ministry of Commerce of Xizang Autonomous Region, and obtain new approval if any prior approval has expired;
 3. The Vendors shall procure the registration with the Development and Reform Commission of Xizang Autonomous Region pursuant to the relevant laws and regulations;
 4. The Vendors shall ensure the validity of all the licenses of Xizang Changdu before the transfer; and
 5. The Vendors and the Company shall procure the review of the balances and the transactions of Xizang Changdu.

As at the Latest Practicable Date, the Vendors had submitted application of the transfer of mining right of Xizang Changdu with the Land Resources Bureau of Xizang Autonomous Region and provided information to the Ministry of Commerce of Xizang Autonomous Region for approval purpose.

The expected timing of fulfilment of all of the above conditions is within the first quarter of 2016.

- D. Upon completion of conditions as stipulated in paragraph C above, Yifeng Wanguo shall pay the remaining balance of RMB21.2 million to the Vendors within five (5) Business Days. The Vendors shall complete the following within sixty (60) days after receiving the aforesaid balance:
1. Complete the changes of business license of Xizang Changdu in respect of change of 16% equity interest to Yifeng Wanguo from Industry and Commerce;

LETTER FROM THE BOARD

2. Ensure no tax exposure in respect of transactions in construction work done between 2006 and 2013 by providing missed invoices, technical and relevant supporting;
 3. Ensure no tax exposure in respect of detailed survey done and expenses incurred before 2014 by providing missed invoices; and
 4. Complete of assets realization account opening.
- E. Yifeng Wanguo should pay the consideration in accordance with the conditions stipulated in paragraph B and paragraph D above. Otherwise, Yifeng Wanguo shall bear the penalty at 0.0008% per day for default as stipulated in original Acquisition Agreement (1).
- F. The Vendors shall issue receipts to Yifeng Wanguo upon receiving the consideration within five (5) days.
- G. The costs of the Mediation of approximately RMB382,000 were payable by both parties.

Acquisition Agreement (2) under the Amended Terms shown in Mediation report

Date: 8 October 2015

Parties:

Vendors: Mr. Liu Dingbo, Mr. Yang Zhi and Mr. Wen Baolin own the equity interests in Xizang Changdu of 30.3460%, 55.0079% and 14.6461% respectively.

Purchaser: HK Taylor

Assets involved: Mr. Liu Dingbo, Mr. Yang Zhi and Mr. Wen Baolin agreed to transfer the equity interests in Xizang Changdu in the percentage of 21.4531%, 5.9270% and 7.6199% respectively to HK Taylor

Details of the amended terms to the Acquisition Agreements (2) dated 16 May 2014 are set out below:

- H. The consideration for the acquisition of 35% equity interest in Xizang Changdu be reduced from RMB164.5 million to RMB133.8 million.
- I. Upon receipt of the consideration from Yifeng Wanguo as stipulated in paragraph D above within sixty (60) days , the Vendors and/or HK Taylor shall complete the following:
1. The Vendors shall procure the completion of the change of registration of 35% equity interest in Xizang Changdu to HK Taylor with Industry and Commerce;
 2. Ensure no tax exposure for construction work done between 2006 and 2013 by providing missed invoices, technical and relevant supporting;

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3. Ensure no tax exposure for Vendors' expenses incurred before 2014 by providing missed tax invoices; and
 4. The Vendors shall procure the completion of assets realization account opening.
- J. Upon completion of the matters mentioned in paragraph I above, HK Taylor shall pay the consideration of RMB133.8 million to the Vendors. Otherwise, HK Taylor shall bear the penalty at 0.0008% per day for default as stipulated in original Acquisition Agreement (2).
- K. The Vendors shall issue receipts to HK Taylor upon receiving the consideration within five (5) days.
- L. The costs of the Mediation of approximately RMB818,000 were payable by both parties.

Except for the Amended Terms as mentioned in paragraphs A to L above, all of the terms of the two Acquisition Agreements remain unchanged as disclosed in the Previous Circular. Please refer to the Previous Circular for details of the two Acquisition Agreements.

The aggregate Consideration for the two Acquisition Agreements under the Amended Terms has been reduced from RMB239.7 million to RMB195.0 million as the Revised Consideration, representing a saving by the Group of RMB44.7 million or 18.6% for the Acquisition. The Revised Consideration will be funded by internal resources and bank borrowings. Yifeng Wanguo has obtained a loan facility of RMB600.0 million with validity to 19 March 2019 from a PRC reputable bank. At the Latest Practicable Date, RMB30.0 million had been utilised and carried an interest rate of RMB benchmark loan rate issued the People's Bank of China plus 30% for a terms of 1-3 years and mining rights of Yifeng Wanguo as security.

The Revised Consideration of RMB195.0 million was determined between the Company and the Vendors on an arm's length basis and on normal commercial terms with reference to (i) the market value of minerals available of approximately RMB17.5 billion (multiply average prices of lead at RMB13,433.80 per tonne and silver at RMB3,702.68 per kg during the periods from the Date of Acquisition Agreements (i.e. 16 May 2014) to the Date of Mediation (i.e. 8 October 2015) by resources of contained lead and contained silver at 1,000,000 tonnes and 1,100,000 kg respectively) for 100% shareholding pursuant to Chinese Mining Resources and Reserve Standard, prepared by an advanced exploration report from Hubei Provincial Northeast Geological Brigade (湖北鄂東北地質大隊), an independent third party, and (ii) negotiated appropriate discount factors of 2.19% in aggregate associated with various future risks and uncertainties such as building processing plants, life cycle of the mine and further exploration work etc and downturn risk of metal market. Hubei Provincial Northeast Geological Brigade used manual resource for the above estimation by using polygonal methods, which is the standard practice acceptable in PRC.

LETTER FROM THE BOARD

The Group has engaged an independent professional geological consulting firm, Al Maynard & Associates Pty Ltd (“AM&A”), to provide an Independent Technical Valuation of the Walege lead-mine of Xizang Changdu by use of an empirical method to derive a range of values under the VALMIN code (2005) Guidelines as of the Date of Mediation. The valuation as of the Date of Mediation was US\$47.2 million (or approximately RMB299.7 million) for the purpose of transfer 51% equity interest in Xizang Changdu. The Revised Consideration has not been determined based on AM&A’s valuation. Please refer to sub-section headed “Letter from the Board — Introduction” in the Previous Circular for details of AM&A. The date of advanced exploration report and the Independent Technical Valuation report were August 2013 and October 2015 respectively. SKNI prepared the resources estimation based on geology report from Hubei Provincial Northeast Geological Brigade as well as JORC code. AM&A prepared the Independent Technical Valuation based the resources estimated from SKNI. As a result, since the date of the reports, there has been no material changes in resources and the change in value of mine is attributable to the changes in metal prices in the market.

AM&A prepared a valuation of Walege lead-mine of Xizang Changdu in accordance with the requirements of the VALMIN code (2005) as adopted by the Australian Institute of Geoscientists (“AIG”) and the Australasian Institute of Mining and Metallurgy (“AusIMM”).

Basis of valuation

The VALMIN Code defines fair value as “The estimated amount of money, or the cash equivalent of some other consideration, for which, in the opinion of the Expert reached in accordance with the provisions of the VALMIN Code, the mineral asset or security shall change hands on the Valuation date between a willing buyer and a willing seller in an arms’ length transaction, wherein each party had acted knowledgeably, prudently and without compulsion”.

The inferred resources are excluded from the valuation.

Major Assumptions

AM&A have adopted certain specific assumptions in valuation and the major ones are as follows:

- Information to date indicates that the project area contains no fauna or flora species regarded as being rare, threatened or endangered. The Board concurred it is reasonable as Xizang Changdu has obtained a proper exploration license granted by the Land Resources Bureau, covering an area of 21.87km² without any restricted or prohibited area. SKNI also confirmed that a valid exploration license in the project area. Vendors also confirmed that there is no fauna or flora species in the project area.
- The tenements may be subject of Indigenous Claims and would be dealt with through the local normal administrative process. Indigenous Claims refers to possible future claims on rights to the ground by Indigenous Groups. AM&A is not aware of any such claims within the tenements. SKNI confirms that the possibility of social disturbance is low and the tenements are in good standing with no known impediments. The Vendors also advised that no Indigenous Claims have been received up to the Latest Practicable Date. The Board concurred this assumption is reasonable.

LETTER FROM THE BOARD

- Where appropriate current metal prices are sourced from the usual metal market publications — Kitco.com and others. The Board noticed that Kitco.com is a public website contains spot prices and future prices of various metals, including lead and silver, quoted from various Exchanges such as the London Metal Exchange and the New York Futures Market and is open to the general public. As a result, the Board concurred this assumption is reasonable.
- A 2012 Edition JORC compliant resource/reserve has been identified. The Board noticed that the estimated resources of Xizang Changdu were prepared under the guidance of the 2012 edition of the JORC code by SKNI. As a result, the Board concurred this assumption is reasonable.
- No encumbrances or royalty payments are applicable in Xizang Changdu. The Board considered that Xizang Changdu has the wholly-owned interest of Walege Lead mine with area of 21.87 km². No encumbrances exist nor royalty is payable under the applicable laws and regulations.

Valuation method

The VALMIN Code identified various methods of valuing mineral assets, including:—

- Discounted cash flow;
- Joint Venture and farm-in terms for arms' length transactions;
- Precedents from similar asset sales/valuations;
- Multiples of exploration expenditure;
- Ratings systems related to perceived prospectivity; and
- Empirical method.

In view of current status of Xizang Changdu, AM&A considers the empirical method as the most appropriate method for the valuation. It is utilised to better provide a logical approach by allowing for the many forms of risk attached to this and any other mineral exploration asset.

Risk factors may include commodity price fluctuation, currency exchange rate variability, geological, mining, treatment, geotechnical and seismic factors, power outages, labour disruptions, flooding, explosions, fires, cave-ins, land-slides and the availability of suitable or adequate machinery. Other factors that may also be considered include labour, industrial and mechanical accidents, environmental hazards (including discharge of metals, pollutants or hazardous chemicals), competitor activity and political and social instability.

LETTER FROM THE BOARD

Empirical method

A table of value ranges was compiled as shown below using the discounts from above of the lead and silver prices (US\$1,785 per tonne and US\$15.8 per ounce respectively) as at the Date of Mediation to allow for the multitude of risk factors described above that can impinge upon the project.

By using the stated discounts the range in the dollar values for insitu mineralisation is effectively priced for a 100% shareholding at a range from US\$83.2 million (approximately RMB528.4 million) to US\$101.7 million (approximately RMB645.8 million) with the preferred value at US\$92.5 million (approximately RMB587.4 million) shown below.

A 51% of shareholding ranges from a low of US\$42.5 million (approximately RMB269.9 million) to a high of US\$51.9 million (approximately RMB329.6 million) with a preferred value of US\$47.2 million (approximately RMB299.7 million).

Shareholding %	Preferred <i>US\$ million</i>	Low <i>US\$ million</i>	High <i>US\$ million</i>
100	92.5	83.2	101.7
51	47.2	42.5	51.9

As disclosed in the Previous Circular, the relevant equity interest in Xizang Changdu held by Mr. Wen Baolin is 14.6461% and the original investment cost of relevant equity interest was approximately RMB4.4 million in 2011. At the date of investment by Mr. Wen Baolin, the geology information available was very limited. The reliability of resources was not certain. Such investment was a risk prospecting. The Vendors estimated approximately RMB38.3 million for exploration work in order to upgrade the confidence level and resources level.

In view of various due diligences in review on hand, including geology report, pre-feasibility report and valuation report, the Company considers that the consideration is fair and reasonable in terms of confidence level of resources available and its value.

No guarantee or other security was given or required as part of or in connection with the transaction. There are no restrictions which apply to the subsequent sale of the acquired equity interests in Xizang Changdu.

Completion

Completion shall take place on the Business Day after the fulfilment of the Amended Terms stated above or such other date as the Company may agree. There is no long stop date for the Acquisition under the Amended Terms and the Board considers the expected completion date shall be no later than the end of the second quarter of 2016. The Company will consider to terminate the transaction and the consideration paid by the Company will be refunded if the Acquisition under the Amended Terms is not completed by the end of the second quarter of 2016.

Upon Completion, Xizang Changdu will become an indirect subsidiary of the Company owning 51% of its equity interests.

LETTER FROM THE BOARD

REASONS AND BENEFITS FOR ENTERING INTO THE ACQUISITION AGREEMENTS UNDER THE AMENDED TERMS

The Vendors applied the relevant approvals and consent without obtaining proper legal advice since the date of the Previous Circular. The Vendors misinterpreted the application policies in respect of the transfer in various local government bureaus in the PRC and had used inappropriate procedures (i.e. the Vendors obtained a reply letter from Land Resources Bureau of Xizang Autonomous Region (西藏自治區國土廳) to the Ministry of Commerce of Xizang Autonomous Region (西藏自治區商務廳) in respect of the transfer, without further procuring an application for the consent from Land Resources Bureau of Xizang Autonomous Region), but they claimed they have already finished the application. In addition to some of approvals obtained, the Company noted that some key elements are still outstanding (i.e. consent from Ministry of Commerce without mentioning the Consideration of the Acquisition). The misinterpretation of the application policies was discovered by the Vendors and the Company when the Vendors presented these copies to the Company for payment of consideration in September 2014. The Company has sent correspondences to the Vendors and notified them that they have not yet completed the required procedures and allowed them more time to complete. However, no positive reply from the Vendors was received. The Company considered withholding the Acquisition while the Vendors would like to execute the Acquisition. Since then, both parties have started several discussions and negotiation in the terms and conditions stipulated in the Acquisition Agreements and resulted in the Mediation.

As at the Date of Mediation, the Vendors had procured the registration of transfer in Development and Reform Commission of Xizang Autonomous Region but was over the period validity, obtained an incomplete consent (without mentioning the Consideration of the Acquisition) from Ministry of Commerce and, had no consent from Land Resources Bureau of Xizang Autonomous Region. All of the aforesaid conducts resulted in the non-fulfillment of the relevant conditions precedent, and led to the Mediation. As the Vendors have not yet fulfilled the conditions precedent, the Company has not paid to the Vendors the consideration (or any part of it) after the date of the Previous Circular.

Having obtained proper legal advice, the Vendors confirmed in the Mediation that, as at the Date of Mediation, they have clear understanding of the application policies and procedures in respect of the transfer in the relevant local government bureaus. In the Mediation, they have agreed to re-apply for all the relevant consents and approvals as detailed in sub-section headed “Letter from the Board — Introduction” above with the relevant local government bureaus by the end of the first quarter of 2016. The payment is refundable as stipulated in Acquisition Agreements if the Vendors cannot obtain all the relevant consents and approvals and the Acquisition will then be terminable.

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As disclosed in sub-section headed “Letter from the Board — Acquisition Agreement (2) under the Amended Terms shown in Mediation report” above, the Revised Consideration is arrived at based on the average prices of lead and silver during the period from date of the Previous Circular to the Date of Mediation, and a higher discount factor of 2.19% was negotiated compared with 2.55% adopted in the Previous Circular to reflect the drop in metal prices of lead and silver in the market. In addition, an independent valuation of Walege lead mine as at the Date of Mediation was approximately RMB 299.7 million which was approximately 34.9% discount to the Revised Consideration. The Board therefore concluded that the Revised Consideration is fair and reasonable.

INFORMATION ABOUT XIZANG CHANGDU

As disclosed in the Previous Circular, based on the information provided by the Vendors, Xizang Changdu, is a company established in the PRC on 20 November 2008 with limited liability. As of the date of this circular, it has a registered capital of RMB30 million which was fully contributed by cash. Xizang Changdu is engaged in exploration of lead ore resources and owns the Walege lead-mine of Changdu exploration right (certificate number T54120080802013385) issued by the Land Resources Bureau of Xizang Autonomous Region, the PRC. Walege Pb-Ag Deposit is located at 183 kilometres north of Changdu (Qamdo) County town in Xizang Autonomous Region, PRC. The geographic location of the Walege Pb-Ag mine is defined by the longitudes from 97°16'00"E-97°18'30"E, 31°53'00"N-31°56'00"N.

As disclosed in the Previous Circular, the product which will be produced from the mine is lead concentrates with silver as by product. Several smelting plants or companies located in Sichuan Province, are the target customers of the products. Xizang Changdu is expected to commence development and production after one year and three years respectively.

As disclosed in the Previous Circular, the Group engaged SKNI, a firm of professional geologists in Australia, to undertake an independent technical assessment of the exploration, geology, resources/reserves estimate, mining, metallurgical, environmental permits and approvals for the Walege Pb-Ag projects pursuant to the standards of the 2012 Edition of the JORC code in 2014. Xizang Changdu has not upgraded any resources and reserves since the date of the Previous Circular up to the Latest Practicable Date.

SKNI viewed the project as having good exploration potential for resource upgrade and addition. There is about 11 million tonnes in the inferred category that can be potentially upgraded by infill drilling. Additionally there are zones of down dip and along strike continuation of existing orebody that can be further explored for potential new additions to existing resources.

Exploration work started in the region in 1965 as part of regional mapping program by government. Initially the program was mainly 1: 1,000,000 scale mapping. By 1972 it completed 1:500,000 Scale mapping of the region. Based on the above geochemical surveys and heavy mineral surveys of the area were completed around 1990, leading to discoveries of several areas of Pb anomalies including the Walege. Slowly through the 1990s to 2009 more detailed mapping and mineral identification works were completed, leading to the preliminary report of discovery of Pb-Ag mineralization at Walege.

LETTER FROM THE BOARD

Detailed exploration of the region began in December 2009 and continued until the end of December 2012. The main work completed includes: (i) a geological map of 1:5,000 scale covering a 13.87 km² area, (ii) a topographical map of 1:2,000 scale, (iii) a geological survey (resurvey) covering a 8.44 km² area, (iv) trenching of 5,411.9 m³, (v) adit development of 2,204.66 m, (vi) drilling of 13,672.78 m, and (vii) 21.4 km² of geological sectional exploration at 1:1,000 scale.

Mining is a relatively high risk industry. In general, the risk should decrease from exploration, development, to production stage. The Company's project is currently at the advanced exploration stage and risks exist in different areas. SKNI has considered various technical aspects that may affect the viability of the project. Risk assessment included areas of geology, resources, mining, environment, approval, processing, marketing and cost. As an advanced exploration project at its current stage, there are always certain levels of risk associated in each of the above areas. Overall, SKNI views that the project has low to medium technical risk.

The exploration right of Xizang Changdu covers an area for exploration of approximately 21.87 square kilometres. As at the Date of the Acquisition Agreement with the Amended Terms, it had completed the advanced exploration stage. The following table shows the estimated resources of Xizang Changdu under the guidance of the 2012 edition of the JORC code by SKNI.

2014 Mineral Resources estimate Grade Tonnage Reported above a Cut-off Grade of 2.5% Pb

Category	Tonnes (Mt)	Grade (Pb %)	Ag (g/t)	Lead Metal (1,000t)	Silver Metal (1,000Kg)
Indicated	6.70	4.64	63.34	311	424
Inferred	10.62	4.15	45.32	440	481
Total	17.32	4.34	52.29	751	905

The project is in the advanced exploration stage, SKNI has completed the independent Resource Estimate. Additional work must be completed before the Resource can be converted to Reserve under the JORC code. As Xizang Changdu has not yet commenced production, there is no material change in resources of the mine since the date of the Previous Circular.

The project needs to conduct a feasibility study to finalize the mine planning. It is expected that the mine planning will be completed in June 2018. Once the mining plan is completed, part of the resources within the mining plan will be declared as Reserves. Measured Resources converts into Proved Reserves, and Indicated to Probable Reserves.

SKNI has conducted Mineral Resource estimates (MRE) for the Walege Project. The MRE is based on 72 diamond drill holes completed up until 2013. Geological and mineralisation interpretations were completed by SKNI. The wireframes were generated based on cross sectional widths of 100m-100m spacing. This was based on exploration drilling patterns. Mineralisation cut-off grades of 0.5% Pb combined with the geological logging were used to define the mineralised envelopes.

LETTER FROM THE BOARD

Based on the density data provided by Xizang Changdu, SKNI has investigated the correlation of density value against lead grade, lithology and reconciliation with resource model and has comprised an algorithm that considers a base density plus a multiplier for lead grade. The density is assigned into the blocks as an algorithm of $0.086 \times \text{Pb}\% + 3.11$.

Statistical, visual and plot assessment of the block model was undertaken to ensure that as far as the data allowed all blocks within lodes were estimated and the model estimates were acceptable.

The Mineral Resources have been classified and reported in accordance with the JORC Code. Resource classification is based on confidence in the mapping, geological interpretation, drill spacing and geostatistical measures. It is SKNI's opinion that the current resource models provide robust global estimates of the in situ mineralisation of Pb and Ag. SKNI's current Mineral Resources have been reported above cut-off of 2.5% Pb.

As Xizang Changdu is at the advanced exploration stage, it only has a valid exploration license and business license with expiry dates of April 2017 and November 2018 respectively. Mining license, safety production permit, land use permit and water permit will be applied after Xizang Changdu starts development. The Board confirms that there is no impediment in renewal of the existing licenses and application for the aforesaid licenses for production purpose.

The expected dates for application and granting the aforesaid permits are as follows:

	Expected date for application	Expected date for granting
Mining License	1st quarter of 2017	1st quarter of 2018
Safety production permit	January 2016	April 2016
Land use permit	2nd quarter of 2017	1st quarter of 2018
Water permit	2nd quarter of 2017	1st quarter of 2018

The expected timetable of the development of Xizang Changdu is from October 2016 to June 2018.

Pursuant to the Acquisition Agreements, the Vendors warranted that the exploration license is legal, valid and good standing. There are no reasons to believe that the exploration license will result in lapse, withdrawal or non-renewal as at the date of Completion. Pursuant to the Acquisition Agreements, if Vendors violate the aforesaid clause, both Yifeng Wanguo and HK Taylor have rights to:

- (i) Dissolve the Acquisition under the Amended Terms;
- (ii) Request the Vendors to repurchase the interest of Xizang Changdu at the same Revised Consideration; and
- (iii) Request the Vendors to compensate to Yifeng Wanguo and HK Taylor for any losses incurred in respect of the breach of the clause.

LETTER FROM THE BOARD

The Board confirms that there is no legal impediment or obstacle in converting the exploration license to mining license because:

- (i) Current exploration license is valid and good standing;
- (ii) Walege lead-mine is not located in protected area;
- (iii) Expected products to be mined are lead and silver, which are permitted and allowable; and
- (iv) Resources are available and have been confirmed by third parties, Hubei Provincial Northeast Geological Brigade and SKNI.

The Revised Consideration has already taken into account there is no guarantee of a mining license, but given that as of now, there is no legal impediment in obtaining one, the Company takes that view that the Acquisition under Amended Terms would still be in the best interests of the Company and Shareholders as a whole. In the event that the mining license cannot be obtained, an announcement will be made accordingly.

The production-related permits and licenses in Xizang Changdu such as mining license, safety production permit, land use permit and water permit etc., are required to obtain or renew from relevant PRC authorities in the future. There is no assurance that the Group will be able to obtain the aforesaid licenses or permits in the future. If the Group is unable to obtain any of such licenses or permits, the business of Xizang Changdu and its results of operations will be materially and adversely affected. The cost of the Revised Consideration paid and other relevant costs incurred will be impaired and reflected in the Group's financial statements accordingly.

As at the Latest Practicable Date, Xizang Changdu has not yet commenced any production. Pursuant to pre-feasibility report performed by Geology and Mineral Resource Company of Jiangxi Province (江西省地礦資源勘察開發有限公司), an independent professional mining consulting firm, it is expected to complete processing plants and commence production at Xizang Changdu within three years. Set out below is the financial information of Xizang Changdu based on its unaudited management accounts, which have been prepared in accordance with the PRC accounting standard, for the two years ended 31 December 2014 and six months ended 30 June 2015.

There are no material differences between PRC accounting standards and HKFRs which is the Group's accounting standards.

	Year ended 31 December		Six months
	2013	2014	ended 30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>2015</i>
			<i>RMB'000</i>
Loss for the year/period before and after tax	404	2,658	1,395
Net assets	70,551	67,893	66,497

LETTER FROM THE BOARD

The expected capacity of the processing plants of Xizang Changdu is 1,200,000 tpa. Pursuant to pre-feasibility report, the estimated capital commitment and expenditure of Xizang Changdu is approximately RMB588 million, of which the Group is responsible for approximately RMB300 million and is expected to pay between October 2016 and June 2018. The payment is expected to be financed by internal resources, share placement or issuance of convertible bonds. Xizang Changdu is expected to commence production in October 2018 (i.e. completion of processing plants). However, the expected date of production may be postponed if there is delay or failure of share placement or issuance of convertible bonds (as the case may be).

Further announcement(s) will be made by the Company regarding the aforesaid share placement or issuance of convertible bonds and substantial delay in commencement of production as and when appropriate in compliance with the Listing Rules.

INFORMATION ABOUT OUR GROUP AND REASONS FOR CONTINUING THE ACQUISITION AND EXPECTED BENEFITS TO THE GROUP

As disclosed in the Previous Circular, the Group is principally engaged in the business of mining, ore processing and sales of concentrates in the PRC. As disclosed in the prospectus of the Company dated 28 June 2012, one of the Company's growth strategies is to expand the Company's mineral resources and ore reserves through acquisition of new mines.

Lead is a soft, dullish grey coloured metal. It is highly ductile and malleable and easy to smelt. Lead is a main component in the manufacturing of automotive batteries, which occupies over 85% demand of lead. Lead is also commonly used as protective materials in radioactive plants.

Silver is one of the most commonly known precious metals, like gold. Other than application in jewellery, silver has been an investment asset and store of value, and was a currency in the past. Silver is also widely used in industrial application, such electronic industry.

The weak economy in both the PRC and Europe caused downturn pressure on the whole metal market, including lead and silver. The average prices of lead and silver decreased by 3.8% and 13.2% during the period from the Date of the Acquisition Agreements to the Date of Mediation. The Board believes that the downturn of lead and silver is temporary. The Board considers that it is appropriate to negotiate with the Vendors for reduction of the Consideration to reflect such changes in metal market. Based on the reduction of the Consideration, the Board believes the Walege lead-mine of Changdu became very attractive with the Revised Consideration. The Board considered it is an appropriate time to acquire it, and will lose the best chances if the Company choose to terminate the Acquisition.

The reasons why the Company chose to acquire a lead and silver mine with no track record and has not yet commenced production are as follows:

- (a) The core value of a mining company is the resources. We believe the validity of the resources after various investigations conducted by local and overseas experts as well as the Company's team members.

LETTER FROM THE BOARD

- (b) The Group has knowledge and experience in exploration and mine development as the Group has successfully developed currently owned Xinzhuang mine from its Greenfield stage.
- (c) The following table shows the change in percentage of metal price as at the Date of Mediation compared with the average price of metal in the first nine months of 2015, yearly average prices of 2014, 2013, 2012 and 2011 respectively.

	Date of Mediation	First 9 months in 2015	2014	2013	2012	2011
Lead (US\$/tonne)	1,785	(1.5%)	(15.0%)	(17.5%)	(15.6%)	(25.0%)
Silver (US\$/once)	15.8	(0.6%)	(15.1%)	(32.5%)	(49.6%)	(55.6%)

Source: Bloomberg

Based on the above table, the Board considered the prices of lead and silver as at date of Mediation were attained at relatively low level compared with the past four years and there were no substantial fluctuations compared with the average prices in the first nine months of this year. Therefore, the Board considered the prices of lead and silver as at the Date of Mediation were around the bottom under such trend.

The Company has considered possibility in alternative acquisition. However, the information available is so limited and doubted, the risk on availability in resources and reserves are too high for further consideration.

Since Xizang Changdu has substantial resources of lead and silver, it is expected to be further exploited, and processing plants built upon Completion by the Company and to contribute sales revenue and profits to the Group. At this moment, the Company has no intention to acquire additional interest in Xizang Changdu as at the Latest Practicable Date.

The Company has carefully performed a balanced assessment of the Acquisition and believes that the Acquisition, through Yifeng Wanguo and HK Taylor (both are indirect wholly-owned subsidiaries of the Company), will further expand the Company's business and maximise returns to the Shareholders.

The Acquisition will result in an increase in the gearing ratio of the Group as the Group requires debt finance for the Acquisition. As the Walege mine is located at a high altitude in the Xizang Autonomous Region, the cost of transportation is relatively high compared with other mines. Due to the abundant amount of resources available, the Group expects to resolve it by increasing the scale of production at 1,200,000 tpa which is double to the Company's production capacity in our current mine, to reduce the unit cost of production. As disclosed in sub-section headed "Letter from the Board — Information about Xizang Changdu" on page 17, the Company will apply to Land Resources Bureau of Xizang Autonomous Region for the mining licence of 1,200,000 tpa which is the designated production scale pursuant to the pre-feasibility report. The Group has already attained production capacity of 600,000 tpa by the end of 2014 in the Company's current mine.

LETTER FROM THE BOARD

LISTING RULES IMPLICATIONS ON THE ACQUISITION UNDER THE AMENDED TERMS

As the relevant percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Acquisition under the Amended Terms exceed 5% but are less than 25%, the Acquisition under the Amended Terms constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules. In addition, given that Mr. Wen Baolin, one of the Vendors, is a non-executive Director, the Acquisition under the Amended Terms would constitute a connected transaction as defined in the Listing Rules. The Acquisition under the Amended Terms is therefore subject to the approval by the Independent Shareholders. As Mr. Wen Baolin has a material interest in the Acquisition under the Amended Terms, he has abstained from voting the board resolution to approve the Acquisition Agreements under the Amended Terms and the transactions contemplated thereunder. As of the Latest Practicable Date, Mr. Wen Baolin, Mr. Yang Zhi and Mr. Liu Dingbo did not hold any equity interests in the Company.

The Independent Board Committee comprising all the independent non-executive Directors has been established to consider the terms of the Acquisition Agreements under the Amended Terms and the transactions contemplated thereunder and to provide recommendation to the Independent Shareholders in relation to thereto. Sinolink Securities (Hong Kong) Company Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

RECOMMENDATION

The Directors (excluding the independent non-executive Directors whose views are set out in the section headed “The letter from the Independent Board Committee” in this circular after taking into consideration the advice from the Independent Financial Adviser) consider that the terms and conditions of the Acquisition Agreements under the Amended Terms and the transactions contemplated thereunder are fair and reasonable have been entered into after arm’s length negotiation and determined on normal commercial terms and the Acquisition Agreements under the Amended Terms and the transactions contemplated thereunder are in the best interests of the Company and the Shareholders as a whole.

Accordingly, the Directors (excluding the independent non-executive Directors) recommend the Shareholders to approve the Acquisition Agreements under the Amended Terms and the transactions contemplated thereunder.

LETTER FROM THE BOARD

SHAREHOLDERS' MEETING WAIVER

No Shareholder has any material interest in the Acquisition Agreements under the Amended Terms, no Shareholder would be required to abstain from voting at EGM of the Company (if one was convened) convened to approve the Acquisition Agreements under the Amended Terms. Pursuant to the Rule 14A.37 of the Listing Rules, the Company has obtained a written approval (in lieu of holding a general meeting of the Company) regarding the Acquisition under the Amended Terms from Victor Soar and Achieve Ample, collectively being the holders of 450,000,000 Shares, representing 75% of the issued share capital of the Company as at the Date of Mediation. Victor Soar is a company wholly-owned and controlled by Mr. Gao Mingqing, owns 50.25% of the equity interest of the Company. Achieve Ample is a company wholly-owned and controlled by Ms. Gao Jinzhu, owns 24.75% of the equity interest of the Company. Both Mr. Gao Mingqing and Ms Gao Jinzhu are Directors of the Company. The Company has applied for the Shareholders' meeting waiver under Rule 14A.37 of the Listing Rules and the waiver was granted by the Stock Exchange on 22 October 2015.

Accordingly, no EGM will be convened for the purposes of considering and approving the Acquisition Agreements under the Amended Terms.

ADDITIONAL INFORMATION

The letter from the Independent Board Committee containing its advice and recommendation is set out on pages 21 to 22 of this circular. The letter from Sinolink Securities containing its advice and recommendation is set out on pages 23 to 45 of this circular.

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

Yours faithfully,
For and on behalf of the Board
Wanguo International Mining Group Limited
Gao Mingqing
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



Wanguo International Mining Group Limited

萬國國際礦業集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3939)

2 December 2015

To the Independent Shareholders

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION
AMENDMENTS TO THE TERMS OF THE ACQUISITION
OF 51% EQUITY INTEREST IN
XIZANG CHANGDU COUNTY DADI MINING COMPANY LIMITED**

We refer to the circular dated 2 December 2015 issued by the Company to its Shareholders (“**Circular**”) of which this letter forms part. Terms defined in the Circular have the same meanings when used in this letter, unless the context otherwise requires.

Under the Listing Rules, the transactions contemplated under the Acquisition Agreements under the Amended Terms constitute a discloseable and connected transaction for the Company and is thus subject to the approval of the Independent Shareholders.

We have been appointed by the Board as the Independent Board Committee to consider the terms of the two Acquisition Agreements under the Amended Terms and the transactions contemplated thereunder and to advise the Independent Shareholders as to the fairness and reasonableness of the Acquisition Agreements under the Amended Terms and the transactions contemplated thereunder, and whether such transaction is on normal commercial terms and in the ordinary and usual course of business of the Company, and whether such transactions are in the interests of the Company and the Shareholders as a whole, and how to vote on such transaction. Sinolink Securities has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders in this respect.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We wish to draw your attention to the letter from the Board and the letter from Sinolink Securities as set out in the Circular.

Having considered the principal factors and reasons considered by, and the advice of Sinolink Securities as set out in its letter of advice, we consider that the terms of Acquisition Agreements under the Amended Terms and the transactions contemplated thereunder are on normal commercial terms and entered into after arm's length negotiation, and that the Acquisition under the Amended Terms is in the best interest of the Company and the Shareholders as a whole. The Acquisition under the Amended Terms is in the ordinary and usual course of business of the Company. We also consider that the terms of the Acquisition Agreements under the Amended Terms and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and in the best interests of the Company and its Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to approve the Acquisition Agreements under the Amended Terms and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Independent Board Committee

Shen Peng

Qi Yang

Lu Jianzhong

Li Hongchang

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of advice from Sinolink Securities (Hong Kong) Company Limited to the Independent Board Committee and the Independent Shareholders for incorporation in this circular.



Sinolink Securities (Hong Kong) Company Limited
Units 2505-06, 25/F.,
Low Block, Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

2 December 2015

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

**DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO AMENDMENTS TO THE TERMS
OF THE ACQUISITION OF 51% EQUITY INTEREST
IN XIZANG CHANGDU COUNTY DADI MINING COMPANY LIMITED**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders regarding the amendments to the terms of the acquisition of 51% equity interest in Xizang Changdu (the “**Acquisition under the Amended Terms**”), details of which are set out in the letter from the board (the “**Letter from the Board**”) of the circular issued by the Company dated 2 December 2015 (the “**Circular**”), of which this letter forms part. This letter contains our advice to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition under the Amended Terms. Unless otherwise stated, defined terms used herein shall have the same meanings as those defined in the Circular.

As disclosed in the Previous Circular, on 16 May 2014, the Company announced that Yifeng Wanguo and HK Taylor, both being wholly-owned subsidiaries of the Company, entered into two Acquisition Agreements with Vendors pursuant to which Yifeng Wanguo and HK Taylor have conditionally agreed to acquire and the Vendors have conditionally agreed to dispose of 51% equity interests in Xizang Changdu at a consideration of RMB239.7 million in aggregate (the “**Consideration**”).

According to the Letter from the Board, the Vendors have not yet fulfilled the conditions precedent of the Acquisition Agreements, i.e. obtaining proper consents and approvals of the transfer in various local government bureaus, before 30 September 2014 (being the latest date of payment by the Company as disclosed in Previous Circular), details of which are set out in the Letter from the Board.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Company and each of the Vendors upon negotiation and the Mediation on the aforesaid issues, conditionally agreed to amend the Acquisition Agreements including (i) reduction of the Consideration to be settled and amending dates of payment, and (ii) enforcement on the proper consents and approval of the transfer in various local government bureaus.

As discussed in the Previous Circular, upon Completion, Xizang Changdu will become an indirect subsidiary of the Company with equity interest of 51%.

As the relevant percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Acquisition under the Amended Terms exceed 5% but are less than 25%, the Acquisition under the Amended Terms constitutes a disclosable transaction for the Company under Chapter 14 of the Listing Rules. In addition, given that Mr. Wen Baolin, one of the Vendors, is a non-executive Director, the Acquisition under the Amended Terms also constitutes a connected transaction (as defined in the Listing Rules) for the Company. The Acquisition under the Amended Terms is therefore subject to the approval by the Independent Shareholders. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Mr. Liu Dingbo and Mr. Yang Zhi are third parties independent of the Company and not connected persons of the Company.

No Shareholder has any material interest in the Acquisition under the Amended Terms, no Shareholder would be required to abstain from voting at EGM of the Company (if one was convened) convened to approve the Acquisition Agreements under the Amended Terms. Pursuant to the Rule 14A.37 of the Listing Rules, the Company has obtained a written approval (in lieu of holding a general meeting of the Company) regarding the Acquisition under the Amended Terms from Victor Soar and Achieve Ample, collectively being the holders of 450,000,000 Shares, representing 75% of the issued share capital of the Company as at the Date of Mediation. Victor Soar is a company wholly-owned and controlled by Mr. Gao Mingqing, owns 50.25% of the equity interest of the Company. Achieve Ample is a company wholly-owned and controlled by Ms. Gao Jinzhu, owns 24.75% of the equity interest of the Company. Both Mr. Gao Mingqing and Ms. Gao Jinzhu are Directors of the Company. The Company has applied for the Shareholders' meeting waiver under Rule 14A.37 of the Listing Rules and the waiver was granted by the Stock Exchange on 22 October 2015.

We, Sinolink Securities (Hong Kong) Company Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee, which comprises all the Independent non-executive Directors, namely Mr. Shen Peng, Mr. Qi Yang, Dr. Lu Jianzhong, Mr. Li Hongchang, and the Independent Shareholders as to whether the terms of the Acquisition Agreements under the Amended Terms and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and the Acquisition under the Amended Terms is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

BASES OF OUR OPINION

In formulating our opinion, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management. We have assumed that all statements, information, opinions and representations contained or referred to in the Circular and/or provided to us were true, accurate and complete at the time they were made and continued to be so as at the date of the Circular.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We have no reason to believe that any statements, information, opinions or 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 statements, information, opinions or representation provided to us untrue, inaccurate or misleading. We have assumed that all the statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management have been reasonably made after due and careful enquiry. We have relied on such statements, information, opinions and representations and have not conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation and giving our advice to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition Agreements under the Amended Terms and the transactions contemplated thereunder, we have considered the following principal factors and reasons:

1 Information of the Group, Yifeng Wanguo and HK Taylor

The Group is principally engaged in the business of mining, ore processing and sales of concentrates products in the PRC. As disclosed in the annual report of the Company for the year ended 31 December 2014 (the “**Annual Report 2014**”), one of the Company’s growth strategies is to expand the Company’s mineral resources and ore reserves through acquisition of new mines.

Yifeng Wanguo is a limited liability company established in the PRC and is an indirectly wholly-owned subsidiary of the Company as disclosed in the Annual Report 2014. It is principally engaged in mining and processing of ores and sales of processed concentrates.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

HK Taylor is a limited company incorporated in Hong Kong and is an indirectly wholly-owned subsidiary of the Company as disclosed in the Annual Report 2014. It is principally engaged in investment holding.

Set out below is a summary of the Group's financial information for the two years ended 31 December 2013 and 31 December 2014 and for the six months ended 30 June 2015 prepared in accordance with the Hong Kong Financial Reporting Standards extracted from the Annual Report 2014 and the interim report of the Company for the six months ended 30 June 2015 (the "**Interim Report 2015**"):

	For the year ended		For the
	31 December		six months
	2013	2014	ended
	<i>RMB '000</i>	<i>RMB '000</i>	30 June
			2015
			<i>RMB '000</i>
Revenue	261,438	219,163	117,785
Gross profit	132,499	86,847	36,627
Profit and total comprehensive income for the year/period	66,321	24,047	9,370
	As at 31 December		As at
	2013	2014	30 June
	<i>RMB '000</i>	<i>RMB '000</i>	2015
			<i>RMB '000</i>
Bank balances and cash	133,447	37,716	32,608
Secured bank borrowings — current	9,000	40,318	30,000
Secured bank borrowings — non current	18,000	9,000	—

We note from the Annual Report 2014 that the decrease in revenue in 2014 was primarily attributable to the decrease in the average prices of copper in copper concentrates, iron concentrates and sulfur concentrates under the slowdown of China's economy.

The profit after taxation decreased by approximately 63.7%, or approximately RMB42.3 million, from approximately RMB66.3 million for the year ended 31 December 2013 to approximately RMB24.0 million for the year ended 31 December 2014. Net profit margin decreased from approximately 25.4% for the year ended 31 December 2013 to approximately 11.0% for the year ended 31 December 2014 as a result of the decrease in revenue and the drop in metal prices.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on the Interim Report 2015, the Group had bank balances and cash of approximately RMB32.6 million as at 30 June 2015, compared to approximately RMB37.7 million as at 31 December 2014. As at 30 June 2015, the Group recorded net assets and net current liabilities of approximately RMB265.8 million and approximately RMB63.3 million respectively. As at 30 June 2015, the Group had secured bank borrowings of RMB30.0 million in aggregate with maturity within one year and effective interest rate of 5.89%. The decrease of the bank balances and cash was attributable to the repayment of bank borrowings, coupled with the increase in investment in fixed assets for current expansion plan.

2 Information regarding the Xizang Changdu

Business

According to the Letter from the Board, Xizang Changdu, is a company established in the PRC on 20 November 2008 with limited liability. As of the date of this circular, it has a registered capital of RMB30 million which was fully contributed by cash. Xizang Changdu is engaged in exploration of lead ore resources and owns the Walege lead-mine of Changdu exploration right (certificate number T54120080802013385) issued by the Land Resources Bureau of Xizang Autonomous Region, the PRC.

The exploration right of Xizang Changdu covers an area for exploration of approximately 21.87 square kilometres. As at the Date of the Acquisition Agreement with the Amended Terms, it had completed the advanced exploration stage. The following table shows the estimated resources of Xizang Changdu under the guidance of the 2012 edition of the JORC code by SKNI.

2014 Mineral Resources estimate Grade Tonnage Reported above a Cut-off Grade of 2.5% Pb

Category	Tonnes (Mt)	Grade (Pb %)	Ag (g/t)	Lead Metal (1,000t)	Silver Metal (1,000Kg)
Indicated	6.70	4.64	63.34	311	424
Inferred	10.62	4.15	45.32	440	481
Total	<u>17.32</u>	<u>4.34</u>	<u>52.29</u>	<u>751</u>	<u>905</u>

According to the Letter from the Board, as Xizang Changdu has not yet commenced production, there is no material change in resources of the mine since the date of the Previous Circular.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Financial information

As at the Latest Practicable Date, Xizang Changdu has not yet commenced any production. Pursuant to pre-feasibility report performed by Geology and Mineral Resource Company of Jiangxi Province (江西省地礦資源勘察開發有限公司), an independent professional mining consulting firm, it is expected to complete processing plants and commence production at Xizang Changdu within three years. The Company has confirmed to us that it is optimistic on the processing schedule of Xizang Changdu.

We have reviewed the unaudited management accounts prepared by Xizang Changdu, based on which the loss and net assets for the two financial years ended 31 December 2013 and 31 December 2014 and six months ended 30 June 2015 are as follows:

	Year ended 31 December		Six months
	2013	2014	ended 30 June
	<i>RMB '000</i>	<i>RMB '000</i>	<i>2015</i>
			<i>RMB '000</i>
Loss for the year/period before and after tax	404	2,658	1,395
Net assets	70,551	67,893	66,497

According to our discussion with and the information provided by the Company, the Company advises us that the loss for the year of Xizang Changdu increased by approximately 557.9%, or approximately RMB2.3 million, from approximately RMB0.4 million for the year ended 31 December 2013 to approximately RMB2.7 million for the year ended 31 December 2014, mainly due to increase in salaries by recruiting more staff and engineers. The expected capacity of the processing plants of Xizang Changdu is 1,200,000 tpa. Pursuant to pre-feasibility report, the estimated capital commitment and expenditure of Xizang Changdu is approximately RMB588 million, of which the Group is responsible for approximately RMB300 million and is expected to pay between October 2016 and June 2018. The payment is expected to be financed by internal resources, share placement or issuance of convertible bonds. Xizang Changdu is expected to commence production in October 2018 (i.e. completion of processing plants). However, the expected date of production may be postponed if there is delay or failure of share placement or issuance of convertible bonds (as the case may be). According to the Letter from the Board, further announcement(s) will be made by the Company regarding the aforesaid share placement or issuance of convertible bonds and substantial delay in commencement of production as and when appropriate in compliance with the Listing Rules.

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3 Details of the Acquisition Agreements under the Amended Terms shown in Mediation report

	Acquisition Agreement (1) under the Amended Terms shown in Mediation report	Acquisition Agreement (2) under the Amended Terms shown in Mediation report
Date:	8 October 2015	8 October 2015
Parties:		
— Vendors	Mr. Liu Dingbo, Mr. Yang Zhi and Mr. Wen Baolin	Mr. Liu Dingbo, Mr. Yang Zhi and Mr. Wen Baolin
— Purchaser	Yifeng Wanguo	HK Taylor
Assets involved:	16% of equity interest in Xizang Changdu	35% of equity interest in Xizang Changdu
Consideration:	RMB61.2 million	RMB133.8 million

Mr. Wen Baolin is a non-executive Director. Please refer to the Letter from the Board for further information of the Acquisition Agreements under the Amended Terms.

As stated above, Yifeng Wanguo is a limited liability company established in the PRC and HK Taylor is a limited company incorporated in Hong Kong. As advised by the Company, the entering into of the two Acquisition Agreements under the Amended Terms allows the Company to have more flexibility in terms of financing in the PRC as well as Hong Kong. The Company can enjoy both onshore and offshore finances by separating the agreements with two purchasers.

Completion

Completion shall take place on the Business Day after the fulfilment of the Amended Terms stated above or such other date as the Company may agree. There is no long stop date for the Acquisition under the Amended Terms and the Board considers the expected completion date shall be no later than the end of the second quarter of 2016. The Company will consider to terminate the transaction and the consideration paid by the Company will be refunded if the Acquisition under the Amended Terms is not completed by the end of second quarter of 2016.

Upon Completion, Xizang Changdu will become an indirect subsidiary of the Company, with equity interest of 51%.

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Consideration

According to the Letter from the Board, the Revised Consideration of RMB195.0 million was determined (i) by reference to the market value of minerals available of approximately RMB17.5 billion (multiply average prices of lead at RMB13,433.80 per tonne and silver at RMB3,702.68 per kg during the periods from the Date of Acquisition Agreements (i.e. 16 May 2014) to the Date of Mediation (i.e. 8 October 2015) by resources of contained lead and contained silver at 1,000,000 tonnes and 1,100,000 kg respectively) for 100% shareholding pursuant to Chinese Mining Resources and Reserve Standard, prepared by an advanced exploration report from Hubei Provincial Northeast Geological Brigade (湖北鄂東北地質大隊), an independent third party, and (ii) negotiated appropriate discount factors of 2.19% in aggregate associated with various future risks and uncertainties such as building processing plants, life cycle of the mine and further exploration work etc and downturn risk of metal market.

We have reviewed and discussed with the Company regarding the advanced exploration report from Hubei Provincial Northeast Geological Brigade (湖北鄂東北地質大隊). Also, we have reviewed the relevant market prices of lead and silver quoted in the website of fubao (富寶資訊) at www.f139.com and reviewed the historical price trend of lead and silver on Bloomberg with no material differences noted between these two sources. As advised by the Company, since the Vendors have not fulfilled the conditions precedent of the Acquisition Agreements, i.e. obtaining proper consents and approval of the transfer in various local government bureaus, before 30 September 2014 (being the latest date of payment by the Company), the negotiation of discount factors between the Company and each of the Vendors has taken into account this factor. Given the negotiation of discount factors has taken into account the non-fulfilment of the conditions precedent of the Acquisition Agreement, we consider that it is a commercial decision between the Company and each of the Vendors to acquire mining assets at a discount. We consider the basis for determining the Revised Consideration fair and reasonable given the Company and the Vendors have negotiated the discount factors at 2.19%, which is lower than the discount factors stated in the Previous Circular. We understand the Group has engaged an independent professional geological consulting firm, A1 Maynard & Associates Pty Ltd (“AM&A”), to provide an Independent Technical Valuation of the Walege lead-mine of Xizang Changdu by use of an empirical method to derive a range of values under the VALMIN code (2005) Guidelines as of the Date of Mediation. The valuation as of the Date of Mediation was US\$47.2 million (or approximately RMB299.7 million) (the “**Value Amount**”) for the purpose of transfer of 51% equity interest in Xizang Changdu. The Revised Consideration has not been determined based on AM&A’s valuation.

As disclosed in the Previous Circular, we understand the Group also engaged SKNI, a firm of professional geologists in Australia, to undertake an independent technical assessment of the exploration, geology, resources/reserves estimate, mining, metallurgical, environmental permits and approvals for the Walege Pb-Ag projects pursuant to the standards of the 2012 Edition of the JORC code in 2014. Xizang Changdu has not upgraded any resources and reserves since the date of the Previous Circular up to the Latest Practicable Date.

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We have reviewed the terms of engagement of SKNI with the Company and SKNI's qualification and experience in relation to the performance of the technical assessment. From the information provided by SKNI and/or the Company, we are satisfied with the terms of engagement of SKNI as well as their qualification and experience for performing the independent technical assessment, and SKNI has confirmed that it is independent to the Group and the Vendors. Furthermore, we note that SKNI has completed an independent resource estimate under the guidance of the 2012 edition of the JORC code, a recognised code under Chapter 18 of the Listing Rules.

SKNI viewed the project as having good exploration potential for resource upgrade and addition. There is about 11 million tonnes in the inferred category that can be potentially upgraded by infill drilling. Additionally there are zones of down dip and along strike continuation of existing orebody that can be further explored for potential new additions to existing resources.

We have reviewed and enquired into (i) the terms of engagement of AM&A with the Company; (ii) AM&A's qualification and experience in relation to the performance of the valuation; and (iii) the steps taken by AM&A when conducting the valuation. From the information provided by AM&A and/or the Company and based on our enquiry, we are satisfied with the terms of engagement of AM&A and consider the scope of the work is appropriate and there are no limitations which, in our opinion, would adversely affect the degree of assurance given by AM&A. Also, we have reviewed AM&A's qualification and experience and have no reason to doubt his experience or qualifications to prepare such valuation report. AM&A has also confirmed that it is independent to the Group and the Vendors. To form a better understanding on the valuation, we have further discussed with AM&A regarding the methodology of, and basis and assumptions adopted for the valuation. We have been advised by AM&A that empirical method is used for the valuation as it provides better logical approach by allowing many forms of risk attached and any other mineral exploration asset. The empirical method used in the valuation is in accordance with the VALMIN code (2005) Guidelines. We have reviewed the major assumptions used by AM&A as stated in the Letter from the Board and discussed them with the Company and AM&A. We are not aware of any major assumptions which are uncommon and consider the empirical method adopted to derive the Value Amount to be fair and reasonable.

As stated in the Letter from the Board, Mr. Wen Baolin had limited geology information available at the time when he made the investment decision. The reliability of resources was not certain. We understand from the Company that the Vendors have incurred substantial costs for exploration work in order to upgrade the confidence level and resources level. Given the Revised Consideration represents approximately 34.9% discount to the Value Amount and market value of minerals available, we consider the Revised Consideration is fair and reasonable.

After entering into the aforementioned agreements, Yifeng Wanguo and HK Taylor will be responsible for paying the consideration with an amount of approximately RMB195.0 million in aggregate.

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According to the Letter from the Board, the consideration of Acquisition Agreement (1) under the Amended Terms is valued at RMB61.2 million. Yifeng Wanguo shall pay to the Vendors RMB30 million on 20 October 2015 and RMB10 million on or before 10 January 2016. These monies are refundable if the Vendors fail to complete the conditions as stipulated in the Acquisition Agreement (1) under the Amended Terms. As at the Latest Practicable Date, Yifeng Wanguo had paid such RMB30 million to the Vendors. Upon completion of the conditions as stipulated in the Acquisition Agreement (1) under the Amended Terms, Yifeng Wanguo shall pay the remaining balance of RMB21.2 million to the Vendors within five (5) Business Days. The consideration of Acquisition Agreement (2) under the Amended Terms is RMB133.8 million. Upon completion of the conditions as stipulated in the Acquisition Agreement (2) under the Amended Terms, HK Taylor shall pay the consideration of RMB133.8 million to the Vendors.

According to the Letter from the Board, the aggregate consideration for the two Acquisition Agreements under the Amended Terms has been reduced from RMB239.7 million to RMB195.0 million as the Revised Consideration, representing a saving by the Group of RMB44.7 million or 18.6% for the Acquisition. The Revised Consideration will be funded by internal resources and bank borrowings. Yifeng Wanguo has obtained a loan facility of RMB600.0 million with validity to 19 March 2019 from a PRC reputable bank. At the Latest Practicable Date, RMB30.0 million had been utilized and carried an interest rate of RMB benchmark loan rate issued the People's Bank of China plus 30% for a terms of 1-3 years and mining rights of Yifeng Wanguo as security.

We have reviewed the Acquisition Agreements under the Amended Terms and are of the view that the Acquisition Agreements under the Amended Terms are on normal commercial terms and is in the interests of the Company and the Shareholders as a whole.

Having considered the above factors, in particular, (i) the Revised Consideration represents approximately 34.9% discount to the Value Amount (prepared by an independent professional geological consulting firm by use of an empirical method); and (ii) we note that the empirical method used in the valuation is in accordance with the VALMIN code (2005) Guidelines, we are of the view that the Revised Consideration is fair and reasonable and are of the view that the terms of the Acquisition under the Amended Terms are acceptable and are fair and reasonable insofar as the Company and the Shareholders are concerned.

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4 Reasons and benefits of the Acquisition under the Amended Terms

Corporate strategy of the Group

The Group is principally engaged in the business of mining, ore processing and sale of concentrates products in the PRC. As disclosed in the Annual Report 2014, the Group, through its wholly-owned subsidiaries, owns the entire equity interest in Yifeng Wanguo which in turn owns the Xinzhuang Mine in which the Group conducts underground mining. The Xinzhuang Mine has a substantial volume of non-ferrous polymetallic mineral resources. Products of the Group primarily include copper concentrates, iron concentrates, zinc concentrates, sulfur concentrates as well as by-products of gold and silver.

According to the Annual Report 2014, the Group has the strategy of horizontal expansion through future acquisitions of new mines. The Acquisition under the Amended Terms will be beneficial to the Company's expansion strategy into lead and silver reserves.

Overview of the PRC economy

Set out below is the gross domestic product (“GDP”) of the PRC from 2009 to 2014:

	2009	2010	2011	2012	2013	2014
	(RMB billion)	(RMB billion)	(RMB billion)	(RMB billion)	(RMB billion)	(RMB billion)
GDP	34,562.9	40,890.3	48,412.4	53,412.3	58,801.9	63,613.9

Source: National Bureau of Statistics of China

As shown out in the above table, GDP of the PRC grew from approximately RMB34,526.9 billion in 2009 to approximately RMB63,613.9 billion in 2014, representing a compounded annual growth rate of approximately 13.0%.

Overview of lead

Lead is a soft, dullish grey coloured metal. It is highly ductile and malleable and easy to smelt. Lead is a main component in the manufacturing of automotive batteries, which occupies over 85% demand of lead. Lead is also commonly used as protective materials in radioactive plants.

Set out below is the possession of civil vehicles in the PRC from 2009 to 2014:

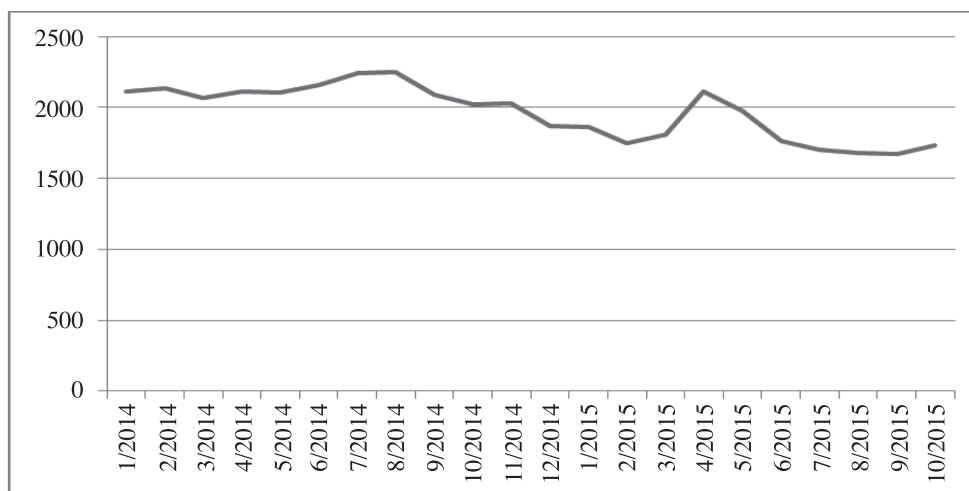
	2009	2010	2011	2012	2013	2014
	(Units million)	(Units million)	(Units million)	(Units million)	(Units million)	(Units million)
Number of civil vehicles	62.81	78.02	93.56	109.33	126.70	145.98

Source: National Bureau of Statistics of China

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As shown out in the above table, the number of civil vehicles in the PRC grew from approximately 62.81 million units in 2009 to approximately 145.98 million units in 2014, representing a compounded annual growth rate of approximately 18.4%.

Set out below is the diagram which illustrates the historical trend in lead price from January 2014 to 8 October 2015 (being the date of the Acquisition Agreements under the Amended Terms):



Source: Bloomberg

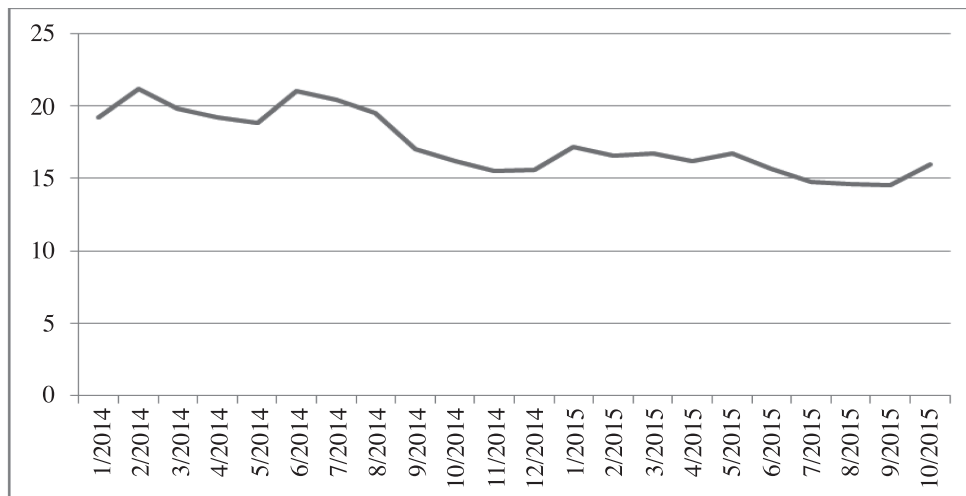
Based on the diagram above, the price of lead has been decreasing since January 2014. In view of the growth of PRC's GDP rate and the possession of civil vehicles in the PRC from 2009 to 2014, we are of the view that the demand for lead will rise in the future as lead is considered a main component in the manufacturing of automotive batteries.

Overview of silver

Silver is one of the most commonly known precious metals, like gold. Other than application in jewelry, silver has been an investment asset and store of value, and was a currency in the past. Silver is also widely used in industrial application, such as electronic industry. As disclosed in the paragraph headed "Market Review" under the section headed "Management Discussion and Analysis" in the Annual Report 2014, the weak economy in both China and Europe caused downturn pressure on silver price in 2014. The decline in demand of silver for industrial use also resulted in a drop in silver price.

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Set out below is the diagram illustrates the historical trend in silver price from January 2014 to 8 October 2015 (being the date of the Acquisition Agreements under the Amended Terms):



Source: Bloomberg

Based on the diagram above, we noted the price of silver has decreased since the beginning of 2014. Although the prices of silver are still at a comparatively low level, it has slightly stabilized in 2015. It is reasonable to anticipate that the prices of silver will be supported and improved in coming years after the global economy stabilizes and investment demand increases.

We consider the Acquisition under the Amended Terms is consistent with the Group's strategy to expand its mineral resources and ore reserves through acquisition of new mines. As stated above, the prices of lead and silver have decreased since the beginning of year 2014 and the values of mines containing such resources have become more attractive. We consider and believe that the Acquisition under the Amended Terms represents a valuable opportunity for the Company to acquire a mining project with development potential to drive future revenue and profit at a lower and attractive cost given the decrease in prices of lead and silver. As stated in the Letter from the Board, Xizang Changdu has valid exploration license and business license with expiry dates of April 2017 and November 2018 respectively. Mining license, safety production permit, land use permit and water permit will be applied after Xizang Changdu starts development. The expected dates for application and granting the aforesaid permits are stated in the Letter from the Board. The expected timetable of the development of Xizang Changdu is from October 2016 to June 2018. The Company has confirmed to us that there is no impediment in renewal of the existing licenses and application for the aforesaid licenses for production purpose.

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We have been advised by the Company that it has exercised considerable care in selecting the potential sellers of lead and silver reserves, and has considered many different factors including price, reserve and location. According to our discussion with and the information provided by the Company, the Company advises us that, based on their assessment on the potential targets at the very preliminary stage, the Company noted that most of the potential targets were still at the very beginning of exploration stage with very low level of confidence in the availability of resources, therefore, the Company advises us that they did not conduct any further assessment nor detailed due diligence on other potential targets which were at the very preliminary stage and the respective counterparties had been rejected by the Company or had not approached the Company thereafter. In this regards, the Company is of the view that Xizang Changdu has completed the advanced exploration stage. In addition, as stated in the Letter from the Board, Xizang Changdu has substantial reserves of lead and silver, (the indicated mineral resources and the inferred mineral resources of Xizang Changdu reached approximately 6.70 million tonnes and 10.62 million tonnes respectively). The exploration license of Xizang Changdu covers an area for exploration of approximately 21.87 square kilometres. As at the Latest Practicable Date, Xizang Changdu has not yet commenced any production. Pursuant to the pre-feasibility report performed by Geology and Mineral Resource Company of Jiangxi Province (江西省地礦資源勘察開發有限公司), an independent professional mining consulting firm, it is expected to complete processing plants and commence production at Xizang Changdu within three years. The expected capacity of the processing plants of Xizang Changdu is 1,200,000 tpa. We concur with the Company's view that the reserves of lead and silver, which is expected to be further exploited, and processing plants built upon Completion by the Company will contribute to the Group's sales revenue and profits.

Based on the above, we are of the view that the Acquisition under the Amended Terms is in the ordinary and usual course of business of the Group and the transactions contemplated under the Acquisition Agreements under the Amended Terms are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

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5 Analysis on the fairness and reasonableness of the Revised Consideration

As stated in the Letter from the Board, the total Revised Consideration of RMB195.0 million was determined between the Company and the Vendors on an arm's length basis and on normal commercial terms with reference to the anticipated level of mineral reserves, production and life of Xizang Changdu. We note from the Annual Report 2014 that the Group mined 573,915 tonnes of ores, of which it sold copper in copper concentrates of 2,540 tonnes, iron concentrates of 103,490 tonnes, zinc in zinc concentrates of 2,783 tonnes, sulfur concentrates of 117,432 tonnes, gold of 60 kg and silver of 5,560 kg for the year ended 31 December 2014. Given Xizang Changdu has more than 1,000,000 tons of contained lead and more than 1,100,000 kg of contained silver in accordance with resources and reserves under Chinese Mining Resources and Reserve, we concur with the Directors' view that Xizang Changdu has substantial reserves of lead and silver which is expected to be further exploited, and processing plants built upon Completion by the Company and to contribute sales revenue and profits to the Group. The Group has engaged an independent professional geological consulting firm to provide an Independent Technical Valuation of Xizang Changdu by use of an empirical method to derive a range of values under VALMIN code (2005) Guidelines. The preliminary valuation was US\$47.2 million (or approximately RMB299.7 million) for the purpose of transfer 51% equity interest of Xizang Changdu.

In assessing the fairness and reasonableness of the Revised Consideration, we have considered the following:

Selection of the peer companies

As at the Latest Practicable Date, the market capitalisation of the Company was approximately HK\$1.5 billion. With a view to identify comparable companies for comparison purposes, based on the existing principal activities of the Group, we have set out the following parameters, principally engaged in the mining operations with a market capitalisation of no more than HK\$4.0 billion as at the Latest Practicable Date. To the best of our knowledge, we have identified 14 listed issuers on the Main Board of the Stock Exchange which fall within the abovementioned category, namely Brockman Mining Limited, CAA Resources Limited, China Daye Non-Ferrous Metals Mining Limited, China Polymetallic Mining Limited, China Vanadium Titano-Magnetite Mining Company Limited, China Zhongsheng Resources Holdings Limited, CITIC Dameng Holdings Limited, CST Mining Group Limited, Hengshi Mining Investments Limited, Newton Resources Limited, North Asia Resources Holdings Limited, North Mining Shares Company Limited, South Sea Petroleum Holdings Limited and Xingye Copper International Group Limited (altogether the "**Peer Companies**"). In our view, the Peer Companies as set out above are fair and representative samples mainly because they are identified by us exhaustively based on the aforesaid criteria, particularly the Peer Companies are principally engaged in the mining operations business.

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5.1 Analysis of price-to-earnings ratio of Peer Companies

Further to the analysis set out above, we have also considered common approach for the evaluation of the Revised Consideration, including (i) the historical price to earnings ratio (the “**P/E ratio**”) of the Peer Companies; and (ii) the historical price to net book value ratio (the “**P/NAV ratio**”) of the Peer Companies, each of the above being an appropriate and representative method for comparison purposes. Given that Xizang Changdu has not yet commenced any production, we do not consider the P/E ratio as an objective value benchmark.

In view of the above, we have performed our analysis on the P/NAV ratio, being a common approach and an appropriate indicator in evaluating the Revised Consideration for comparable purposes.

Set out below are the market statistics of the Peer Companies for comparison purposes:

Table 5.1.1: Analysis of P/NAV ratio of Peer Companies

Name of the Peer Companies	Stock code	Market Capitalization (HK\$ million) (note 5)	Principal activities	P/NAV ratio (note 1)
Brockman Mining Limited	159.HK	1,375	Exploration and development of iron ore mining projects in Western Australia; exploitation, processing and production of copper ore concentrates in the PRC.	1.19
CAA Resources Limited (note 3)	2112.HK	3,810	Iron ore exploration, mining, crushing and beneficiation; sale of iron ore products in the form of iron ore concentrates and iron ore fines.	5.14
China Daye Non-Ferrous Metals Mining Limited (note 2)	661.HK	2,738	Mining and processing of mineral ores and selling/trading of metal products.	0.62

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Name of the Peer Companies	Stock code	Market Capitalization (HK\$ million) (note 5)	Principal activities	P/NAV ratio (note 1)
China Polymetallic Mining Limited (note 2)	2133.HK	686	Exploration, pure mining and preliminary processing of non-ferrous metals mineral resources, mainly including lead, zinc and silver, as well as the sales of non-ferrous metals concentrates.	0.33
China Vanadium Titano-Magnetite Mining Company Limited (note 2)	893.HK	633	Mining, ore processing, iron pelletising and sale of iron concentrates, iron pellets and titanium concentrates in the PRC.	0.16
China Zhongsheng Resources Holdings Limited (note 2)	2623.HK	930	Iron ore mining and processing, ilmenite ore mining and processing, sales of iron concentrate and titanium concentrate in the PRC and exploration of metal reserves in Australia.	1.04
CITIC Dameng Holdings Limited	1091.HK	2,366	Manganese mining, ore processing and downstream processing operations in Mainland China, as well as manganese mining and ore operations in Gabon	0.68
CST Mining Group Limited (note 3)	985.HK	2,827	Acquisition, exploration, development and mining of copper and other mineral resources minerals; property investment and investments in financial instruments.	0.37
Hengshi Mining Investments Limited (note 2)	1370.HK	2,820	Exploration, mining, processing and trading of iron ore products.	1.36
Newton Resources Limited (note 2)	1231.HK	2,840	Mining, ore processing and sale of iron concentrates and gabbro-diabase and stone products in the PRC.	2.23

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Name of the Peer Companies	Stock code	Market Capitalization (HK\$ million) (note 5)	Principal activities	P/NAV ratio (note 1)
North Asia Resources Holdings Limited	61.HK	2,066	Distribution of information technology products, and geological survey, exploration and development of coal, iron, gold and other mineral deposits, sales of coking coal, iron ore and alluvial gold and coal trading and logistical services.	(0.69) (note 6)
North Mining Shares Company Limited	433.HK	1,871	Exploitation and exploration, trading of mineral resources, property leasing operations and property management operations.	0.48
South Sea Petroleum Holdings Limited (note 3)	76.HK	262	Develop, explore and produce crude oil and mining, such as graphite, in Asian countries, provide electronic manufacturing services in the United Kingdom.	0.10
Xingye Copper International Group Limited (note 2)	505.HK	689	Manufacturing and sales of high precision copper plates and strips, trading of raw materials, provision of processing services and the management of a portfolio investment.	0.81
Average				1.12
Maximum				5.14
Minimum				0.10
Acquisition under the Amended Terms (note 4)				5.63

Source: Stock Exchange's website, Bloomberg and published annual reports of the Peer Companies

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Notes:

- (1) Calculated by the respective share price as at 8 October 2015 (being the date of the Acquisition Agreements under the Amended Terms) divided by the respective latest published audited net asset value (excluding non-controlling interests) per share.*
- (2) Conversion of RMB into Hong Kong dollars is based on the exchange rate of RMB1.00 = HK\$1.25.*
- (3) Conversion of US Dollar (“US\$”) into Hong Kong dollars is based on the exchange rate of US\$1.00 = HK\$7.80.*
- (4) Calculated based on the Revised Consideration divided by the net assets value attributable to 51% equity interests in Xizang Changdu.*
- (5) Calculated based on the market capitalisation of the Peer Companies as at 8 October 2015 (being the date of the Acquisition Agreements under the Amended Terms).*
- (6) According to the 2014 annual report of North Asia Resources Holdings Ltd., the company recorded net liabilities during the year. Therefore, we believe it is inappropriate for comparison purposes.*

As shown in the table above, the P/NAV ratio of the Acquisition under the Amended Terms is at approximately 5.63 times, which is above the average P/NAV ratio of the Peer Companies of approximately 1.12 times. Xizang Changdu has not yet commenced any production, which may not be directly comparable to the operations of the Peers Companies. We have performed an additional analysis by referencing to the P/NAV ratio of transactions conducted by Peer Companies.

5.2 P/NAV ratio of transactions conducted by Peer Companies

In addition to the above analysis, we have also compared the Acquisition under the Amended Terms P/NAV ratio with the P/NAV ratio of acquisition transactions entered into by the Peer Companies, of which the relevant announcement was dated during the period commenced on 1 January 2014 up to and including the Latest Practicable Date (the “**Transaction Comparables**”). To the best of our knowledge and belief, the Transaction Comparables as set out below represent an exhaustive list that we were able to identify from the Stock Exchange’s website. Details of which are set out below:

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Table 5.2.1: Transaction Comparables comparison

Date of Announcement	Company name <i>(stock code)</i>	Description of transaction	Consideration <i>(HK\$'million)</i>	Net asset value ("NAV") attributable to the respective target company <i>(HK\$'million)</i>	Transaction P/NAV Ratio
31-Mar-2014	Hengshi Mining Investments Limited (1370.HK)	Disclosable and connected transaction acquisition of 10% equity interests in Laiyuan County Jiheng Mining Co., Ltd.	147.5 <i>(note 3)</i>	671.2 <i>(note 3)</i>	2.20
16-May-2014	CAA Resources Limited (2112.HK)	Disclosable transaction in relation to the acquisition of 14.2857% in Fortune Union Financial Holdings (Asia Pacific) Limited	77.5 <i>(note 5)</i>	563.9 <i>(note 4)</i>	0.96
19-Aug-2014	Hengshi Mining Investments Limited (1370.HK)	Disclosable transaction in relation acquisition of 100% of Yaobei Iron Ore Mine Asset of Yucheng Processing Plant	271.3 <i>(note 3)</i>	n/a	n/a <i>(note 1)</i>
22-Aug-2014	North Mining Shares Company Limited (433.HK)	Very substantial acquisition of 100% equity interest in China Potassium Shares Company Limited and Resumption of Trading	4,772.9 <i>(note 5)</i>	179.1 <i>(note 5)</i>	26.65
29-Dec-2014	China Vanadium Titano-Magnetite Mining Company Limited (893.HK)	Disclosable transaction acquisition of 100% Panzhihua Yixingda Industrial Trading Co., Ltd.	379.6 <i>(note 5)</i>	(1.4) <i>(note 3)</i>	(274.5) <i>(note 2)</i>
				Average	9.94
				Maximum	26.65
				Minimum	0.96
8 October-2015	the Company	Acquisition under the Amended Terms	243.8 <i>(note 3)</i>	84.9 <i>(note 3)</i>	5.63

Source: Stock Exchange's website and the announcement of the Transaction Comparables

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Notes:

- (1) According to the announcement of Hengshi Mining Investments Limited on 19 August 2014, a wholly owned subsidiary of Hengshi Mining Investments Limited entered into an Asset Acquisition Agreement with the seller. The net asset value of the asset was not disclosed in the announcement. Therefore, we believe that it is inappropriate for comparative purposes.*
- (2) According to the announcement of China Vanadium Titano-Magnetite Mining Company Limited on 29 December 2014, “the current business scope of Panzhihua includes installation of pastic steel doors and windows and sales of ore, machinery and equipment, construction materials, metal and rubber products. Panzhihua holds the Exploration Permit. Panzhihua has not commenced any business operation since its establishment. It recorded net liabilities of approximately RMB1.1 million as at 31 October 2014”. Therefore, we believe it is inappropriate for comparison purposes.*
- (3) Conversion of RMB into Hong Kong dollars is based on the exchange rate of RMB1.00 = HK\$1.25.*
- (4) Conversion of US\$ into Hong Kong dollars is based on the exchange rate of US\$1.00 = HK\$7.80.*
- (5) The consideration expressed in HK\$ is extracted from the respective announcement.*

As set out in Table 5.2.1 above, the Transaction Comparables P/NAV ratios ranged from approximately 0.96 times to approximately 26.65 times, with an average of approximately 9.94 times. The Acquisition under the Amended Terms P/NAV ratio of approximately 5.63 times is within the range of the Transaction Comparables P/NAV ratios.

The Independent Board Committee and Independent Shareholders should note that (i) Xizang Changdu has not yet commenced any production, which may not be directly comparable to the operations of the Peers Companies; (ii) the Acquisition under the Amended Terms P/NAV Ratio of approximately 5.63 times is within the range of the Transaction Comparables P/NAV ratios; (iii) the primary reference of the Revised Consideration shall be the Value Amount given that the Value Amount is prepared by AM&A, which is independent to the Company and each of the Vendors, under the VALMIN code (2005) Guidelines; and (iv) the Revised Consideration represents approximately 34.9% discount to the Value Amount. Having considered the above factors, we are of the view that the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

6 Possible financial effects of the Acquisition under the Amended Terms on the Group

Effect on net assets value

The Company shall effectively hold 51% equity interest in Xizang Changdu, immediately upon the Completion. According to the Annual Report 2014, the net assets attributable to owners of the Company was approximately RMB272.4 million as at 31 December 2014. According to the unaudited combined management account of the Xizang Changdu, the net asset value was approximately RMB67.9 million as at 31 December 2014. The Company considers that the Acquisition under the Amended Terms will not have any material negative impacts on the net assets position of the Group upon the completion of Acquisition under the Amended Terms.

Effect on earnings

As stated in the Letter from the Board, Xizang Changdu recorded an unaudited loss for each of the two years ended 31 December 2014 and six months ended 30 June 2015 of approximately RMB0.4 million, RMB2.7 million and RMB1.4 million, respectively. According to Letter from the Board, as at the date of the Circular, Xizang Changdu has not yet commenced any production. Apart from the cost arising from the operating of Xizang Changdu, the Acquisition under the Amended Terms is not expected to have any material impact on the Group's financial results for the year ending 31 December 2015.

Effect on gearing and working capital

As stated in the Letter from the Board, the Revised Consideration of RMB195.0 million will be settled entirely by internal resources and bank borrowings. As disclosed in the Interim Report 2015, the bank balance and cash of the Group as at 30 June 2015 were approximately RMB32.6 million. Part of the Revised Consideration will be settled by the bank borrowings. We have been advised by the Company that Yifeng Wanguo has obtained a loan facility of RMB600.0 million with validity to 19 March 2019 from a PRC reputable bank. As disclosed in the Annual Report 2014, the Group's gearing ratio (representing total bank borrowings and payables to former non-controlling shareholder of a subsidiary divided by total assets) amounted to approximately 38.4%. Subsequent to the Completion of the Acquisition under the Amended Terms, assuming all the Revised Consideration would be settled by the bank borrowings, it is expected that the gearing ratio of the Group would increase. Such increase mainly reflects the new bank borrowings raised to finance the Acquisition under the Amended Terms.

In light of the above, we consider the Acquisition under the Amended Terms will not have any material adverse impact on the financial position of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having taking into account the principal factors and reasons as discussed above, we consider that the Acquisition Agreements under the Amended Terms and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable and the Acquisition under the Amended Terms is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

Accordingly, we would advise the Independent Shareholders, and the Independent Board Committee to recommend the Independent Shareholders, to approve the Acquisition Agreements under the Amended Terms and the transactions contemplated thereunder should the EGM were to convene.

Yours faithfully,
For and on behalf of
Sinolink Securities (Hong Kong) Company Limited
Francis Yeung
Responsible Officer

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 is 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 OF DIRECTORS AND CHIEF EXECUTIVES

Directors' interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) 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, were as follows:

(a) Long positions in the Shares

Name of Director	Capacity/nature of interest	Number of issued Shares held	Approximate percentage of shareholding in the Company
Gao Mingqing	Interest in controlled corporation	301,500,000 ⁽¹⁾	50.25%
Gao Jinzhu	Interest in controlled corporation	148,500,000 ⁽²⁾	24.75%

Notes:

- The 301,500,000 shares were owned by Victor Soar which is wholly owned and controlled by Mr. Gao Mingqing.
- The 148,500,000 shares were owned by Achieve Ample which is wholly owned and controlled by Ms. Gao Jinzhu.

(b) Long positions in associated corporations

Name of Director	Name of associated corporation	Percentage of shareholding
Gao Mingqing	Victor Soar <i>(Note)</i>	100%

Note: Victor Soar holds more than 50% of the Shares and, therefore, is an associated corporation of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) 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.

3. INTERESTS OF SUBSTANTIAL SHAREHOLDERS**(a) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders**

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, the persons (other than the Directors or the chief executive of the Company) who had an interest or short position 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 or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other members of the Group, or had any options in respect of such capital are set out below:

Long positions in the Shares

Name of shareholder	Capacity/ nature of interest	Number of issued Shares held	Approximate percentage of shareholding in the Company
Victor Soar	Beneficial owner	301,500,000 ⁽¹⁾	50.25%
Ms. Lin Yinyin	Interest of spouse	301,500,000 ⁽²⁾	50.25%
Achieve Ample	Beneficial owner	148,500,000 ⁽³⁾	24.75%
Mr. Wang Weimian	Interest of spouse	148,500,000 ⁽⁴⁾	24.75%

Notes:

1. Victor Soar is wholly owned and controlled by Mr. Gao Mingqing.
2. Ms. Lin Yinyin is the wife of Mr. Gao Mingqing and is deemed to be interested in the 301,500,000 Shares held by Victor Soar, a company controlled by Mr. Gao Mingqing.
3. Achieve Ample Investments Limited is wholly owned and controlled by Ms. Gao Jinzhu.
4. Mr. Wang Weimian is the husband of Ms. Gao Jinzhu and is deemed to be interested in the 148,500,000 Shares held by Achieve Ample, a company controlled by Ms. Gao Jinzhu.

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company are not aware of any other persons who had an interest or short position 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 or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other members of the Group, or had any options in respect of such capital.

4. DIRECTORS' INTERESTS IN ASSETS OF THE GROUP

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which had been 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 since 31 December 2014, the date to which the latest published audited consolidated financial statements of the Company were made up.

5. DIRECTORS' SERVICE AGREEMENT

As at the Latest Practicable Date, there was no existing or proposed service contract, excluding contract expiring or terminable by the employer within one year, without payment of compensation (other than statutory compensation) between any of the Directors with any member of the Group.

6. EXPERT AND CONSENT

The following is the qualification of the expert or professional adviser who has given opinion or advice which are contained in this circular:

Name	Qualification
Sinolink Securities	A licensed corporation to carry out, Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under of the SFO

Sinolink Securities has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name in the form and context in which it appears. As at the Latest Practicable Date, Sinolink Securities:

- (a) did not have any shareholding in 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
- (b) was not interested, directly or indirectly, in any assets which has been 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 since 31 December 2014, being the date to which the latest published audited consolidated financial statements of the Company were made up.

7. LITIGATION

As at the Latest Practicable Date, there were no litigations or claims of material importance pending or threatened against any member of the Group which was known to the Directors.

8. MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading position of the Group since 31 December 2014, being the date to which the latest audited consolidated financial statements of the Group were made up.

9. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors, management shareholders and their respective associates was interested in any business apart from the business of the Group, which competed or was likely to compete, either directly or indirectly, with that of the Group.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at Unit 1, 28/F., Singa Commercial Centre, 144-151 Connaught Road West, Hong Kong up to and including the date which is 14 days from the date of this circular.

- (a) the two sets of Acquisition Agreements;
- (b) the two sets of Mediation Reports issued by Changsha Arbitration Commission;
- (c) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 21 to 22 of this circular;
- (d) the letter of advice from Sinolink Securities, the text of which is set out on pages 23 to 45 of this circular;
- (e) the written consent from Sinolink Securities referred to in the paragraph headed “Expert and Consent” in this appendix; and
- (f) this circular.

11. MISCELLANEOUS

The English text of this circular shall prevail over the Chinese text in the case of any inconsistency.