OVERVIEW

We are a gold exploration, mining and processing company established in 2005 and located in Yantai city of the Shandong Province in China. We sell gold bullion derived from gold concentrate processed by us. According to the F&S Report, we were the third largest gold mining company in the Shandong Province in 2022 with a market share of 2.6% in terms of mine production volume but the top two players have an aggregated market share of approximately 78.3% in terms of gold mine production volume. Further, Shandong Province is the largest gold producing province in the PRC with gold mine production volume of approximately 41.4 t, which accounted for approximately 14.0% of the total gold mine production volume in China in 2022, while Yantai city accounted for more than 90% of the gold mine production of the Shandong Province in 2022. We believe we enjoy growth opportunities attributable to our location in Yantai city.

According to the SRK Report, we had total Probable Mineral Reserves, Indicated Mineral Resources and Inferred Mineral Resources amounted to approximately 23,130 kt, 35,840 kt and 39,710 kt, respectively, as at 30 June 2023. We operate two operating gold mines, namely, the Songjiagou Open-Pit Mine and the Songjiagou Underground Mine, both are located at Songjiagou, the Muping-Rushan gold metallogenic belt, which is one of the three major gold metallogenic belts in Yantai, and are in close proximity of around 400 metres from each other. We operate an ore processing plant within 4 km from our mines with an annual ore processing capacity of approximately 2,000.0 kt. Our mining assets and ore processing plant are well supported by upstream and downstream gold supply chain industries in the Yantai city, and are easily accessible by highway. The table below sets out a summary of the details of our principal operating mining assets as at the Latest Practicable Date:

Name	Details
Songjiagou Open-Pit Mine	• An open-pit gold mine with an area of approximately 0.594 sq.km. • Commenced commercial production since May 2011 • Permitted annual mine production volume of 900.0 kt • Annual gold production volume (before smelting) of approximately 845.4 kg (or 27,180 ounces) • LoM of approximately 8.5 years • As at 30 June 2023, Probable Mineral Reserves amounted to approximately 22,600 kt at a cut-off grade of 0.3 g/t Au
Songjiagou Underground Mine	• An underground gold mine with an area of approximately 0.414 sq.km. • Commenced commercial production since September 2019 • Permitted annual mine production volume of 90.0 kt • Annual gold production volume (before smelting) of approximately 113.2 kg (or 2,398 ounces) • LoM of approximately 6.0 years • As at 30 June 2023, Probable Mineral Reserves amounted to approximately 530 kt at a cut-off grade of 0.7 g/t Au

Name	Details
Ore processing plant	• An ore processing plant with an annual capacity of approximately 2,000.0 kt of ore • Processing ore from our Songjiagou Open-Pit Mine and Songjiagou Underground Mine • Processing ore into gold concentrate for further refining into gold bullion by third party smelters

We have the track records to develop greenfield mining assets and related facilities and have successfully turned them into actual mining and gold producing assets as both of our mining assets, ore processing plant and related facilities such as tailings dam were developed by us. Both our management and operations teams are led by professionals who have extensive industry experience. Our management team is led by our Chairman, executive Director and chief executive officer, Dr. Shao, who held a doctor of philosophy degree in mineral processing and has extensive experience in ore processing, mining-related finance and investment management. For details of his biography, please refer to the section headed "Directors and senior management" in this prospectus. Based on the fact that our gold production is mostly attributable to our Songjiagou Open-Pit Mine, we have recorded an average production cost of approximately RMB186.3 per gram in FY2022, which is below the industry average of RMB298.0 per gram in 2022 as stated in the F&S Report.

We accredited this achievement to our effective gold grade control and production management implemented by our technical team as part of our mining methodology which, before drilling and blasting activities to be carried out with respect of our mining works, incorporates geostatistics into a mix of mining methods (such as drilling, blasting, loading and transportation method for Songjiagou Open-Pit Mine and shrinkage stope and cut-and-fill mining method for Songjiagou Underground Mine) to help select and identify higher gold content orebody (i.e. ore with higher gold grade), to be extracted based on ground and mining site conditions to improve our resource quality while controlling the stripping volume so that we can ensure a stable grade of ore is being fed into our ore processing plant for our ore processing operations. Our Directors believe that our streamlined business model enables us to focus on our core mining and ore processing operations while keeping our operation costs low, thereby enhancing Shareholders' value in the long run.

We process ores mined from our Songjiagou Open-Pit Mine and our Songjiagou Underground Mine and process them into gold concentrate at our ore processing plant. We derive revenue from the sale of gold bullion, which we engage Independent Third Party gold smelters to refine gold concentrate produced by our ore processing plant into gold bullion of Au99.95. Our customers are gold smelters or their subsidiaries, who are registered with the Shanghai Gold Exchange, and sells the gold bullion purchased from us on the Shanghai Gold Exchange.

During the Track Record Period, our revenue amounted to approximately RMB361.0 million, RMB247.9 million, RMB418.4 million and RMB196.7 million, respectively, while our net profit amounted to approximately RMB114.4 million, RMB58.7 million, RMB121.0 million and RMB52.8 million, respectively.

COMPETITIVE STRENGTHS

We believe that our success is attributed to, among other things, the following competitive strengths which distinguish us from our competitors:

Our open-pit mine is instrumental to our low production cost which is below the industry average

A majority of our Group's gold production is attributable to our Songjiagou Open-Pit Mine. According to SRK, the level of capital required and cost structure for running an underground mine is different from that of an open-pit mine due to the fact that an underground mine requires more capital expenditures (and hence, also greater depreciation charges) to construct the mining infrastructure underground and procure the equipment for conducting excavation activities underground, the facilities to bring up the ore, and other structure and fixed costs for safety measures and prevention of uncertainties in underground situation, leading to the fact that the production cost of an open-pit mine is generally lower than an underground mine. In particular, according to Frost & Sullivan, among all gold mines in the PRC, approximately 95% of gold mining involves underground mining.

Based on the above and our Songjiagou Open-Pit Mine, we recorded an average production cost below the industry average. According to the F&S Report, the total production cost of gold mining in the PRC has increased from RMB200.4 per gram in 2017 to RMB298.0 per gram in 2022. While the gold mining industry continues to focus on cost management, the total production cost of gold mining continues to rise due to continuous increase in safety and environmental protection costs, we are able to effectively manage and control our operating costs to be below the industry average as mentioned above as our average production cost during the Track Record Period was approximately RMB167.4 per gram, RMB186.8 per gram, RMB186.3 per gram and RMB220.7 per gram, respectively. Please also refer to the section headed "Financial information — Key factors affecting our results of operations — Cost of sales" on other factors contributing to lower average production cost below the industry average.

We have the ability to develop greenfield mining assets and our existing operating mining assets can support our next phase of growth strategies

We have the proven track records and the ability to develop greenfield mining assets and related facilities and have successfully turned them into actual mining and gold producing assets. Developing a greenfield mine is complex, difficult and time-consuming as it involves, among others, drillings for exploration to identify reserves, application for and obtaining the relevant mining licences and construction of mines and related infrastructure such as ore processing plant and tailings dam, which generally take years to complete before a greenfield mine can commence operations and generate revenue. There is also no guarantee that a new mine will achieve the expected productivity at the estimated cost and profitability. As evidenced below, we have overcome the abovementioned obstacles over the past 15 years which led to us being able to operate two operating gold mines as at the Latest Practicable Date which are already revenue generating and profit making.

Prior to our involvement in the Songjiagou Open-Pit Mine, only small-scale underground mining operations were carried out. After our Controlling Shareholder through Majestic Yantai BVI entered into a joint venture agreement in May 2004 with the previous owner, Yantai Mujin, to establish Yantai

Zhongjia and acquire the gold exploration rights, we initiated a major drill program in 2005 to evaluate the mineral potential in order to facilitate commencement of mining operations at Songjiagou on a larger scale than previously envisioned. In August 2010, we organised and funded the construction of an ore processing plant with the capacity of 6.0 ktpd consisting of one crushing series and two identical grinding floatation series to cope with the expanded ore processing capacity. In October 2011, we completed the construction of a tailings dam with the total storage capacity of approximately 9.5 million m^3 to contain tailings from our ore processing plant and we formally commenced the sale of gold bullion from gold concentrate processed from ore mined from our Songjiagou Open-Pit Mine. As we increased our mining and ore processing capacity, we subsequently expanded and rebuilt the tailings dam in December 2014 to consist of an initial dam, a final stockpiling dam, a flood discharge system, a backwater system, an observation system and a management system, with the total storage capacity of 42.2 million m^3 in order to cater for the increase in tailings from our ore processing plant. In February 2016, based on the results of the exploration works previously conducted in the Songjiagou area, we applied for and obtained a mining licence to develop our Songjiagou Underground Mine from scratch. We spent more than three years and incurred approximately RMB97.7 million for the construction of the underground mine, including the installation of all ancillary infrastructure comprising among others, ramp, fully serviced shaft, hydraulic jumbo drills and electric scrapers. Our Songjiagou Underground Mine commenced commercial production in September 2019.

As a result of our efforts as described above, as at the Latest Practicable Date, we were operating a complete set of portfolio of mining assets and related infrastructure within close proximity with each other, which include (i) one open-pit gold mining asset, namely our Songjiagou Open-Pit Mine; (ii) one underground gold mining asset, namely our Songjiagou Underground Mine; (iii) an ore processing plant; and (iv) a tailings dam.

Our Songjiagou Open-Pit Mine has been in operations for over 10 years and has a permitted annual mine production volume of 900.0 kt while our Songjiagou Underground Mine has a well-established underground development (such as shaft sinking and horizontal level developments, and existing surface infrastructure), which enables operation on various levels from 142 metres ASL to -270 metres ASL. Pursuant to the mining licence, our Songjiagou Underground Mine has a permitted annual mine production volume of 90.0 kt. Our ore processing plant has an annual ore processing capacity of approximately 2,000.0 kt, which is sufficient to support our planned production growth. Our ore processing plant involves conventional three-stage crushing within a closed circuit, grinding within a closed circuit and floatation consisting of one stage of rouging, two stages of scavenging and two stages of cleaning. Our tailings dam is located at a valley 2 km southeast from our ore processing plant to contain the tailings from our ore processing plant. It is 160 metres in height, with a total storage capacity of approximately 42.2 million m^3. Please see paragraphs headed "Our mineral assets and reserves — Our two gold mines", "Our operations — Our ore processing facility" and "Our operations — Tailings" in this section for further details.

Our Directors estimate that our existing mining and related infrastructure are sufficient for our existing operations as at the Latest Practicable Date. As we intend to achieve sustainable growth to strengthen our position in the Shandong Province by undertaking the next phase of expansion plans as elaborated in the paragraph headed "Business strategies" in this section, we will need to incur substantial capital expenditure. While part of such capital expenditures is expected to be funded through the net proceeds from the Global Offering, the remaining portion is expected to be funded by bank financing and internal resources. In view of the above, our operating gold mines and existing mining infrastructure not only provide us with stable revenue and a sustainable asset base to maintain our current and anticipated production, but are also capable to support our business expansion in the medium-to-long run, which also save us significant lead time otherwise required to turn greenfield mining assets into operating gold producing assets so that we can focus our attention to cater for rapid future growth strategies in accordance with our business strategies.

We are committed to safety and environmental management

We have consistently adopted high safety standards in compliance with national requirements and continuously update and improve upon our internal control measures to enhance production safety in our operations. Our production management system and technologies enable mines to achieve a high level of mechanisation, digitisation and intelligent control in the gold production process. Moreover, we monitor various production and safety indicators in real-time to ensure the safety of our open-pit and underground operations. We regularly conduct trainings for our staff. As a result, we have recorded minimal occupational health or work safety accidents of two, two, two and nil for each of FY2020, FY2021, FY2022 and 6M2023 and our accident frequency rate per hundred workers was 0.8, 0.6, 0.5 and 0, respectively, during this period. During the Track Record Period, our Group's total recordable incident rate ("**TRIR**") per million hours worked was 2.2, 1.7, 1.6 and 0, respectively, which is lower than the global average TRIR per million hours worked for 2020, 2021 and 2022 of 6.5, 5.2 and 3.4, respectively. For details, please refer to the paragraph headed "Environmental, social and corporate governance — B. Social — Occupational health and safety — Work safety accidents during the Track Record Period" in this section.

We take occupational safety seriously. Despite having a temporary suspension of mining operations from February to August 2021 (in respect of our Songjiagou Open-Pit Mine) and February to November 2021 (in respect of our Songjiagou Underground Mine) to enable the government authority to carry out safety inspection of all mines in Shandong, as a result of two mining incidents in Shandong, in January and February 2021 respectively, which did not involve our Group, we were able to pass the enhanced safety inspection in accordance with the requirements of local authorities and resumed the mining activities of our Songjiagou Open-Pit Mine and Songjiagou Underground Mine in late August 2021 and December 2021 respectively.

We have also developed and implemented environmental protection measures in accordance with the industry and national standards. We emphasise on minimising the impact of mining activities on the environment and ecosystem while creating value. We seek to recover as much gold concentrate from gold ore to minimise loss of natural resources in line with the latest Catalogue for the Guidance of Adjustment to Industrial Structure (產業結構調整指導目錄) issued in October 2019 by the National Development and Reform Commission and became effective on 1 January 2020 and was amended on 30 December 2021, which encourages the recovery of gold from tailings and waste rock. Through our efforts, we have also constructed and maintained a water dam which recycles wastewater from our ore processing plant to supply water for our ore processing plant. We have a large tailings dam to contain our tailings in the form of sand. We also actively carry out land rehabilitation. We believe our good safety records and compliance with industry and national standards on environmental protection measures enable us to achieve sustainable growth and maintain positive relationships with the communities around our existing mines as well as the applicable regulatory authorities in the Muping District in Yantai city.

We have a strong technical team for our mining operation

We have a strong technical team of, among others, three mining operations engineers and six geologists, many of whom previously worked at SRK, and headed by Mr. Huang Yong, a qualified mineral resources/reserves appraiser in the PRC by the Ministry of Land and Resources of the PRC in 2002 and a recipient of China Nonferrous Metals Industry Science and Technology Award (中國有色金屬工業科學技術獎) in respect of research on optimisation of open-pit mining in 2006, who has over 40 years of experience in mine design and mining consulting. On average, our technical team has more than 15 years of experience in mining operational management. Most of them came from leading domestic institutions and international consulting firms in the mining industry. We believe that their deep understanding of mining operations and solid technical skills gained through years of ground-level experience make them competent supervisors of our mining operations to ensure smooth production.

Our technical team implements effective gold grade control and production management in our operation. Before drilling and blasting activities to be carried out with respect of our mining works, our technical team incorporates geostatistics applications into a mix of mining methods (such as drilling, blasting, loading and transportation method for Songjiagou Open-Pit Mine and shrinkage stope and cut-and-fill mining methods for Songjiagou Underground Mine) to help select and identify higher gold content orebody, (i.e. ore with higher gold grade), to be extracted based on ground and mining site conditions to improve our resource quality while controlling the stripping volume to ensure a stable grade of ore is being fed into our ore processing plant for our ore processing operations. As a result, we recorded much higher feed grade for our ore processing during the Track Record Period of 0.70 g/t Au, 0.62 g/t Au, 0.62 g/t Au and 0.54 g/t Au, respectively, despite having significantly lower cut-off grade of 0.3 g/t Au from our Songjiagou Open-Pit Mine. During the Track Record Period, we achieved gold recovery rate of over 94.6%. Such higher gold recovery rate indicates our processing efficiency as we have a higher level of resource utilisation and less wastage of resources to reduce environmental pollution.

We are led by a distinguished integrated management team

We have a dedicated and strong management team consisting of well-educated and highly experienced talents. We have a senior management team that combines strong PRC-based leadership with an on-the-ground management team. Their collective experience covers the full spectrum in the mining industry value chain, ranging from exploration, mining to ore processing. Our management team is led by our Chairman, executive Director and chief executive officer, Dr. Shao, who held a doctor of philosophy degree in mineral processing and has extensive experience in ore processing, mining-related finance and investment management. Dr. Shao oversees the overall development strategy of our Group and leads our local management team. Our executive Director, Mr. James Thomas Mackie, has over 14 years of corporate experience in financial management and administration, including corporate governance, government and securities compliances and had previously served as chief financial officer for a number of mining exploration companies listed on the TSX Venture Exchange. Our executive Director, Mr. Chen Shaohui, who held a bachelor's degree in mineral processing and was a qualified senior engineer in the PRC, has over 38 years of experience in the mining industry where he held senior managerial positions. Our senior management team in the PRC has an average of more than 30 years of experience in mining operational management. For more details of the experience and qualifications of our directors and senior management members, please see the section headed "Directors and senior management" in this prospectus.

Under the leadership, strategic vision and direction of our executive Directors and management team, a majority of them have been with us for over 10 years, we have built a business with proven track record of success. Over the past decade, we have successfully developed greenfield mining assets and turned them into actual mining and gold producing assets, and became the third largest gold mining company in the Shandong Province in 2022 with a market share of approximately 2.6% in terms of mine production volume, but the top two players have an aggregated market share of approximately 78.3% in terms of gold mine production volume according to the F&S Report. We believe that our stable management team and its knowledge, experience, capability and commitment enable us to position ourselves as one of the established mining companies in the PRC in the near future.

BUSINESS STRATEGIES

We strive to achieve sustainable growth to strengthen our position in the Shandong Province by exploiting our operational efficiencies and growth opportunities, further developing our existing assets and acquiring value-accretive assets in the PRC to substantially scale up our mining operations, gold concentrate processing operations and increase our gold reserves. To that end, we intend to implement the following business strategies:

Further construction of mining infrastructure in accordance with our mine optimisation plan

According to the SRK Report, ore bodies at our Songjiagou Open-Pit Mine are found in the elevation ranges of +145 metres ASL down to –402 metres ASL. As at 31 December 2022, there were approximately 2,400 kt of Probable Mineral Reserves available at our Songjiagou Open-Pit Mine for our mining operation until June 2023 without constructing additional mining infrastructure (representing approximately 10.6% of the Probable Mineral Reserves of approximately 22,700 kt as at 31 December 2022). As at 31 December 2022, our mining operations were conducted at two benches at the elevation +33 metres ASL and +21 metres ASL.

To continue our mining activities after June 2023, we have begun the construction of additional mining infrastructure and we have taken such opportunity to conduct a mine optimisation plan and design in 2021 which included, among others, the expansion of the mining surface area by about 150 metres south of the existing boundary of our Songjiagou Open-Pit Mine so as to expand our mining surface area horizontally. This enabled us to extend the pit opening area from 0.34 sq.km. to 0.46 sq.km. and to deepen the depth of the pit to –171 metres ASL to reach out to more gold containing ore in the unmined areas to access approximately 22,100 kt of Probable Mineral Reserves as at 30 June 2023 (representing approximately 98.0% of the Probable Mineral Reserves of approximately 22,600 kt available at our Songjiagou Open-Pit Mine as at 30 June 2023) until 2031. As part of the mine optimisation plan, we plan to construct benches from top down and each with a height of 12 to 15 metres, i.e. starting from +117 metres ASL, at the expanded mining surface area to facilitate our mining work. In this regard, we initially planned to construct four new benches (i.e. first to fourth new benches) to facilitate our mining work that would enable us to reach a depth of 48 metres below the new mining surface area to strip a total stripping volume of 312 kt of ores to support our mining activities until June 2024. In second quarter of 2023, we have further formulated the construction of three more new benches (i.e. fifth to seventh new benches) to reach a depth of 84 metres below the new mining surface area to strip a total stripping volume of 976 kt of ores to support our mining activities until June 2025. For details of our mine optimisation plan, please refer to the paragraph headed "Our mineral assets and reserves — Our two gold mines — Our Songjiagou Open-Pit Mine" in this section of the prospectus.

We commenced the construction of new benches below the new mining surface area since 1 October 2021, each with a height of 12 metres. As at the Latest Practicable Date, we have completed the construction of the first, second and third new benches and began the construction of first phase of fourth and fifth benches. We funded the construction costs of approximately RMB39.6 million for the first three new benches and phase one of both fourth and fifth benches from our internal resources. We intend to complete the construction of the remaining two benches step by step over a period of 18 months from 1 January 2024 to 30 June 2025.

In addition, in May 2020, we have obtained the renewed mining licence for Songjiagou Open-Pit Mine with the revised approved permitted annual mine production volume to accommodate a substantial increase in our mining capacity in terms of annual ore stripping volume from approximately 1,205.6 kt per year based on 135 kt of the previous permitted annual mine production volume to approximately 8,100 kt per year based on 900 kt of permitted annual mine production volume. As such, the enlarged mining area will be able to support us to fully utilise the newly revised permitted annual mine production volume and the revised annual ore stripping volume granted to our Songjiagou Open-Pit Mine.

In addition to the expansion of mining surface area by constructing the new benches, we intend to construct and develop certain mining infrastructure at the new mining area and to acquire certain machineries. The construction and development plans include (i) the construction of water storage pool and drainage system for dewatering of groundwater for safety purposes at the expanded mining area; and (ii) the construction of site office, substation and topsoil storage yard for stock piling of topsoil to prepare for future reclamation. We will also acquire three excavators under this expansion plan to support our mine to be expanded to expand our mining operations.

Based on the feasibility study conducted by our technical team and pit optimisation design recommended by SRK, we have planned to utilise approximately 20.4% or HK$54.0 million (RMB48.2 million) of our net proceeds from the Global Offering for implementing the abovementioned development and construction plans and the purchase of machineries in stages but expected to be not later than 30 June 2025. For further details including the estimated expenditure for each step of the construction and development plan and the timeframe to implement the above expansion plan, please refer to the paragraph headed "Our mineral assets and reserves — Our two gold mines — Our Songjiagou Open-Pit Mine" in this section and the section headed "Future plans and use of proceeds — Use of proceeds" in this prospectus.

Upgrade our gold reserves to increase LoM through additional exploration activities at our existing mine area

According to the SRK Report, we had total Probable Mineral Reserves, Indicated Mineral Resources and Inferred Mineral Resources amounted to approximately 23,130 kt, 35,840 kt and 39,710 kt, respectively, and our Songjiagou Open-Pit Mine and Songjiagou Underground Mine had a LoM of approximately 8.5 years and 6.0 years at a planned production capacity of 3,300 kt and 90 kt of ore, respectively, as at 30 June 2023. As part of our plans for organic growth and based on the results of exploration works conducted previously in 2013 and the recommendation of SRK, our Songjiagou Open-Pit Mine area has potential for in-fill Mineral Resource exploration and upgrade. Pursuant to a preliminary study conducted by SRK, by modifying the final pit structure of our Songjiagou Open-Pit Mine in the future, it is viable for our Group to economically capture additional Indicated Mineral Resources and Inferred Mineral Resources. As such, we intend to invest capital to identify additional mineral resources in the unmined areas next to and below the current pit's opening area covered by our mining licence for our Songjiagou Open-Pit Mine by carrying out further exploration works involving top to oblique drillings below ground surface and oblique drillings inside the pit area, which in aggregate involving 26 drillings at various depths ranging from 0 to 550 metres with the aggregate depth of over 6,500 metres in three phases so as to increase our gold mineral resources and to increase the LoM of our Songjiagou Open-Pit Mine. While we had not carried out additional exploration activities after 2013, we have regularly, during the course of our daily mining activities conducted blast holes and added channels on benches to update our Mineral Resources in local areas to guide our actual daily production. The technical experience gained from carrying out such blast holes and channel on benches to update our Mineral Resources are applicable to performing additional exploration activities involving additional 26 drillings. Accordingly, our Executive Directors are of the view that it is feasible for us to carry out the additional exploration activities involving additional 26 drillings at various depths to upgrade our Inferred Mineral Resources to Indicated Mineral Resources so as to increase our gold Mineral Reserves to increase the LoM of our Songjiagou Open-Pit Mine.

Based on the results of exploration works conducted previously and the recommendation of SRK, we have planned to utilise approximately 2.0% or HK$5.3 million (RMB4.7 million) of our net proceeds from the Global Offering to fund our exploration activities at our Songjiagou Open-Pit Mine by carrying out the abovementioned additional drillings in stages by 31 December 2024, which will cover the costs for drilling, exploration and professional fees for preparing relevant independent consultation reports. For details of the estimated expenditure on each stage and timeframe, please refer to the section "Future plans and use of proceeds" in this prospectus. Our Directors believe that such drillings and exploration activities will provide an opportunity for us to enhance the reserves of our Songjiagou Open-Pit Mine by increasing drilling density and depth, which will in turn increase its LoM.

Expand our business and grow our market share through selective acquisitions of gold mining assets

According to the F&S Report, we were the third largest gold mining company in the Shandong Province in 2022 with a market share of 2.6% in terms of mine production volume. We plan to continue to strengthen our market position in Muping-Rushan gold metallogenic belt and solidify our market position in the Shandong Province and expand our market share in this region through both organic growth and strategic acquisitions. We intend to pursue acquisition opportunities of gold mining assets in the Shandong Province through selective acquisitions of high-quality gold mines to rapidly expand our mineral resources and to boost our gold concentrate processing capacity at our ore processing plant in the future to support our sustainable growth in the longer run. We believe we will be able to leverage our past experiences to deepen our penetration into the gold mining industry in the Shandong Province.

Most of our Executive Directors have prior experiences in acquisition of mining assets in the PRC and Western Australia in the past decade prior to the delineation of our Group's business from that of our Controlling Shareholder. Such acquisition experience includes the proposed acquisition of two gold mining assets in the PRC in 2014 and 2015 and one gold mining asset and other precious metals exploration project in Western Australia in 2019. They were supported by our technical team headed by Mr. Huang Yong, who had prior experience in due diligence of numerous mining assets in the PRC and other countries. We have, together with our Executive Directors and our technical team headed by Mr. Huang Yong, in the past, successfully capitalised the mineral resources we acquired as demonstrated by our abilities in (i) identified, conducted due diligence, negotiated and acquired the majority stake in the mining rights of the Songjiagou Open-Pit Mine by way of (a) establishing our principal subsidiary, Yantai Zhongjia, as the joint venture enterprise with Yantai Mujin pursuant to the 2004 CJV Agreement (and later Dahedong, after Yantai Mujin transferred its interest in Yantai Zhongjia to Dahedong) and (b) made it operational with a long history of turning a greenfield mining project to a profitable gold mining asset; (ii) we, based on the results of the exploration works previously conducted in the Songjiagou area, applied for and obtained a mining licence to develop the Songjiagou Underground Mine from scratch; and (iii) developed our Songjiagou Open-Pit Mine and Songjiagou Underground Mine from greenfield mining assets within the planned schedule and budget through efficient and robust project management on the back of our strong technical capability.

Given that (i) our Executive Directors have been involved in the search process, due diligence process and negotiation process in respect of those potential acquisitions over the past decade, they continued to familiarise themselves with the comprehensive techniques in respect of acquisition over the years and could leveraging their prior acquisition experiences to identify acquisition target and negotiate for acquisition terms which are in the best interests of our Company and the shareholders as a whole; (ii) the intention of our Group to use the same joint venture model similar to that of the acquisition of mining rights for the Songjiagou Open-Pit Mine in 2005, and the laws and regulations on sino-foreign joint venture of mining assets in the PRC have not changed in a materially adverse manner since then; (iii) most of our Executive Directors have in-depth experiences in the mining industry of ranging from over 14 to 38 years, and they were assisted by our strong technical team headed by Mr. Huang Yong which has an average of more than 15 years of experience in mining operational management; and (iv) there were not less than 14 gold mines in the Shandong Province that fulfil certain of (ie, not all criteria) our acquisition selection criteria that are potentially available for acquisition, and if any of these fail to meet our expectation in terms of due diligence results, we may expand our acquisition outside of the Shandong Province, but still within the PRC, our Directors believe that we have the industry expertise and would be able to execute our acquisition strategy as contemplated without difficulties.

We will continue to be opportunistic in pursuing such inorganic growth opportunities, with a strong focus on transactions that will be value-accretive to our shareholders. As we may be subject to higher costs or risks when we undertake new exploration project due to uncertainties in availability of resources, as such, our Directors consider strategic investment in or acquisitions of suitable mining assets to be better alternative means of rapid and efficient expansion into new mining assets to save our costs and time as compared to explore and develop a brand new mining asset from scratch. According to the F&S Report, Shandong Province has abundant gold resources and well-established supply chain in gold mining industry in China. It is the province with the largest amount of identified gold resources in China with approximately 4.7 kt or 28.6% of total identified gold resources in China in 2022. As such, leveraging our expertise, we believe we are well-positioned to identify and capture attractive acquisition opportunities in the Shandong Province to expand our mineral resources and quickly ramp up operations of acquired mines.

Selection criteria of the acquisition targets

In terms of selection of acquisition targets, we will focus on high quality gold mining assets that are strategically value-accretive to minimise the business risks of our Group. We consider high quality gold mining assets being those with natural characteristic of chemical composition of the ore which has low contents of other minerals and metal sulphides, so that the gold deposits contain minimal level of or almost no impurities such as arsenic and carbon and has high purity of pyrites, which enable the gold to be easily separated from the ore through a simple floatation process to achieve a high gold recovery in concentrate at reasonably low mineral separation processing costs. We primarily focus on mines near commencement of commercial operations with high growth prospect.

In deciding whether to acquire a particular mining asset, we also consider other factors such as strategic value-accretion, location, licensing and compliance matters, quantum of mineral reserves and the level of synergies that could be created by the investment. We would consider acquisition targets that fulfil criteria including, among others, (i) within Shandong Province; (ii) either open-pit or underground mines with potential gold resources of at least 10 tonnes, and a depth of less than 1,000 metres for better economic benefits; (iii) has LoM of over five years after commencement of operations (excluding mine construction period); and (iv) has a payback period of less than ten years. For acquisition target that is a mine near commencement of commercial operations, we expect the acquisition cost for the mining right to be high as we expect such mining asset would have a valid mining licence of over two years, valid land-use-right and related mining infrastructure (including an ore processing plant) ready for use.

Proposed acquisition structure and management of the joint venture entity

We intend to establish a new sino-foreign joint venture entity in the PRC after the Listing to acquire a controlling stake of not less than 51% of the equity interest in a mining asset so that we can align the mining asset with our overall business strategies, utilise our management's existing experience and available managerial capacity to operate it in such manner as if they were our own mining asset. Having considered that the mining asset may have not commenced commercial production, and therefore may expose us to new geological, operating, financial, legal and regulatory risks, we expect that we can diversify our risks in developing a new gold project by having a joint venture partner who is familiar with the relevant mining asset to be acquired. Specifically, we believe that such acquisition can improve our economies of scale by shouldering a portion of our fixed expenditures.

We plan to focus on the effective integration of human resources, organisational structure and corporate culture when integrating newly acquired mining asset, which we believe will lead to improved overall management efficiency and service capabilities, thereby enhancing our local competitiveness, eliminating excessive and unnecessary expenditures, and improving our results of operations and overall profit margin. We anticipate that our technical team will be involved in handling the technical aspect of the day-to-day operations of the newly acquired mining asset upon completion of the mining infrastructure and its commercial production. We also intend to appoint a manager to be stationed on the site of the newly acquired mining asset to oversee its day-to-day operations, who will report to our management team. We believe that by expanding our reserves through acquisitions, we will benefit from the current PRC government policies that encourages the consolidation of mines in Shandong Province, and such resources will be a driving force for our future growth.

Investment payback

In the event that we were able to identify gold mining assets fulfilling the abovementioned selection criteria, the overall budget for the mining asset will be approximately RMB300 million (based on our affordability having considered our net proceeds from the Global Offering and our internal resources) largely comprises the costs of acquiring the mining asset with a mining licence for an appraised value of approximately RMB260 million and additional investment for the construction of additional mining infrastructure to optimise and expand the production for approximately RMB40 million. While we intend to acquire a majority stake in the mining asset, if the acquisition costs exceed our abovementioned budget, we will consider acquiring a lesser stake so that the acquisition costs remain to be within the budget.

We estimated that it takes around three years to complete the construction of mining infrastructure. In such case, we estimated that the gold mining asset requires five years of profit to cover the abovementioned initial cost on the assumptions that (i) the gold price remain at approximately RMB420.1 per gram; (ii) the mining asset has an annual gold production volume of not less than 500 kg; and (iii) the profitability of the gold mining asset is similar to that of our Group in 6M2023. Overall, the investment payback period for us to recover our investment costs in acquiring the gold mining assets would be estimated at approximately eight years. If we proceed to acquire a majority stake in the mining asset, upon completion of the acquisition, the acquisition target will become a subsidiary of our Group and its financial results will be consolidated into the consolidated financial statements of our Group. With our strong management team and our selection criteria, we expect that after the acquisition target achieves commercial operations, there will be an increase in our Group's overall revenue, gross profit and net profit after tax.

Feasibility of our acquisition plan

We have planned to utilise approximately 55.0% or HK$145.6 million (RMB130.0 million) of our net proceeds from the Global Offering and our internal resources for the remaining amount of our portion of the total initial capital contribution of the joint venture entity in the aggregate amount of not less than RMB300 million, to fund our selective acquisitions as mentioned above step by step by 30 September 2024, as our capital contribution for the joint venture entity to be established for such acquisition. The following table sets out the expected timeframe to implement our acquisition plan:

By 31 January 2024

(a) Searching/identifying potential acquisition gold mines.

By 29 February 2024

(b) (i) Commence legal, financial and technical due diligence by professional teams on the preferred potential target reviewed by our inhouse technical team;

(ii) Commence preliminary due diligence and feasibility study by inhouse technical team on the potential acquisition target.

(iii) Commence negotiation with owner of the potential target; and

(iv) Establish a new entity in the PRC for the potential sino-foreign joint venture for the acquisition.

By 31 March 2024

(c) (i) Enter into formal definitive agreement with the owner of the potential target;

(ii) Apply for the relevant regulatory approvals, including the business licence;

(iii) First capital contribution; and

(iv) Injection of the mining assets into the newly established sino-foreign joint venture.

By 30 June 2024

(d) (i) Second capital contribution; and

(ii) Obtain mining licence by the sino-foreign joint venture.

By 30 September 2024

(e) (i) Third capital contribution; and

(ii) Commence operation of the mining assets by the sino-foreign joint venture.

As of the Latest Practicable Date, we had not engaged in any commercial negotiation or entered into any letter of intent or agreement for potential acquisitions. As at the Latest Practicable Date, while our Directors have yet to identify any specific acquisition target, formed any specific acquisition plan or entered into any agreement with potential target, they were aware there were not less than 14 gold mines in the Shandong Province that fulfil certain of the abovementioned selection criteria that are potentially available. This was because, being identified by the Yantai People's Government as one of the key target companies for listing, our Group was advised by the Muping People's Government that it had issued a plan in June 2021 (updated in December 2021) and Yantai Zhongjia was to be one of the four gold mining companies to acquire other gold mining resources in the Muping District (the "**Integration Plan**").

According to the Integration Plan, among all the mining companies in the Muping District, it was the government's plan to allow Yantai Zhongjia to acquire other gold mining assets and as a result, Yantai Zhongjia will be one of the four consolidated gold mining companies at the end. Further, as stated in the Integration Plan, there were 21 underground gold mines (mining licences or companies, including our mines) in the Muping District which are owned by private companies and state-owned enterprises. Our Directors are of the view that the Integration Plan has a positive implication to the feasibility of the Group's acquisition plan as our Group's plan to acquire mining assets in Muping District is in line with the direction of the local government policy. Among the four companies named in the Integration Plan as the preferred gold mining companies for consolidation of mining assets in Muping District, Yantai Zhongjia is the only one company identified in the policy of "Three-year actions plan for promoting the listing of companies" issued by Yantai People's Government in July 2021 as a key target company for listing.

On 31 August 2022, we received a letter from Yantai Municipal Muping District Natural Resources Bureau (煙台市牟平區自然資源局) in support of Yantai Zhongjia to participate in the Integration Plan, pursuant to which the Bureau will provide preferential assistance to us to acquire gold mines in the Muping District, including but not limited to arrange meetings with other gold mine owners listed in the Integration Plan and facilitate the negotiation process as far as they are concerned, speeding up the transfer of legal title on the mining assets and rectification measures in a timely manner. Moreover, we believe our history of operating the Songjiagou Open-Pit Mine and Songjiagou Underground Mine and making them profitable has given us an edge over the other three potential acquirers named in the Integration Plan, representing a strong competitive advantage and creditability of our Group to consolidate gold mining assets in the Muping District.

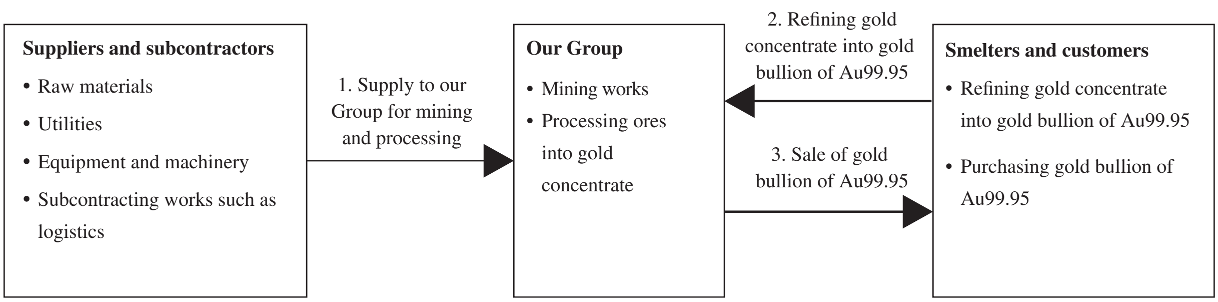
We have reviewed the Integration Plan and noted that there are 14 underground gold mines that fulfill certain or most of our acquisition selection criteria. No open-pit gold mine is identified. Further, we were advised by Frost & Sullivan that they were able to identify at least 40 underground gold mines in the Shandong Province, including the said 14 underground gold mines in the Muping District, that are all underground mines and have a LoM of more than five years after commencement of operations. Among the aforementioned gold mines, we have engaged in preliminary discussions with their owners concerning legal compliance and the operational performance of these mines. Additionally, we have conducted site visits and/or background searches. Based on the understanding we have obtained so far, we have shortlisted three underground gold mines within the Muping District, Shandong Province that align with our criteria for selective acquisition. Our Directors believe that the expected timeframe for selective acquisition is feasible primarily because the owners of the shortlisted three gold mines, upon enquiry, are fully willing to collaborate and provide all necessary due diligence information, including legal, financial, and business perspectives, in a timely manner. This collaboration ensures that there are no significant obstacles to conducting a comprehensive due diligence exercise on the target mines. Based on this and our proven operating experience, together with the industry experience of our Directors and our strong technical team, our Company is well-positioned to select a suitable gold mine by 31 January 2024. Furthermore, considering that our Group will be listed on the Stock Exchange, we believe that our Group's listing status will instil confidence in the owners of the gold mines as they will be able to readily ascertain that our Group possesses substantial financial resources and is well-prepared for the acquisition. On such basis, it is expected that the commercial negotiation process will be proactive between our Group and the owners of the targeted gold mine by 29 February 2024. As a result, our Directors are optimistic about completing the negotiation process and signing a formal definitive agreement with the owners of the targeted gold mine by 31 March 2024.

In the event that none of the due diligence results of the acquisition target selected from such lists meet our expectation, we will consider other companies in the Shandong Province as well as outside the Shandong Province, such as Yunan, Sichuan and Gansu, that fulfil certain of the abovementioned selection criteria, as the alternative plans. Leveraging our executive Directors' and technical team's experiences in acquisition of mining assets in the past, our proven track record of historical successful strategic acquisition of our Songjiagou Open-Pit Mine, our established market position, standardised internal control measures and extensive industrial experience, we believe we can successfully implement our acquisition strategies and realise integration with the acquired mining asset. Our Directors believe that such acquisition will complement our existing resources with an aim to scale up our gold concentrate processing output, as well as to increase our gold reserves to support our sustainable growth in the longer run.

OUR BUSINESS MODEL

We are a gold exploration, mining and processing company located at the Muping-Rushan gold metallogenic belt, which is one of the three major gold metallogenic belts in Yantai city of the Shandong Province in China. We explore and mine gold-containing ore from our two gold mines, namely, the Songjiagou Open-Pit Mine and the Songjiagou Underground Mine, and process ore into gold concentrate at our ore processing plant with an annual ore processing capacity of approximately 2,000 kt. We sell gold bullion of Au99.95 refined by third party smelters derived from gold concentrate processed by us. As advised by Frost & Sullivan, the registered members of the Shanghai Gold Exchange are typically (i) financial institutions; (ii) corporates engaged in trading of gold or gold related products; (iii) corporates engaged in smelting business and possess smelting plants to refine gold concentrate into gold bullion; or (iv) a combination of the aforementioned. Since none of the aforementioned is the principal business of our Group, we have never applied and have not intended to apply to be registered as a member of the Shanghai Gold Exchange in the foreseeable future. According to Frost & Sullivan, a typical reason for gold mining companies to register as a member of the Shanghai Gold Exchange is to facilitate their gold smelting business and/or trading activities since they have scale and cost advantages to do so. We sell the gold bullion to the gold smelters or their subsidiaries, who are registered with the Shanghai Gold Exchange, for their subsequent sales on the Shanghai Gold Exchange. Therefore, the gold smelters are our major customers who are also our subcontractors.

During the Track Record Period, there had been no change in the business focus of our Group. The following diagram illustrates our business model as at Latest Practicable Date:



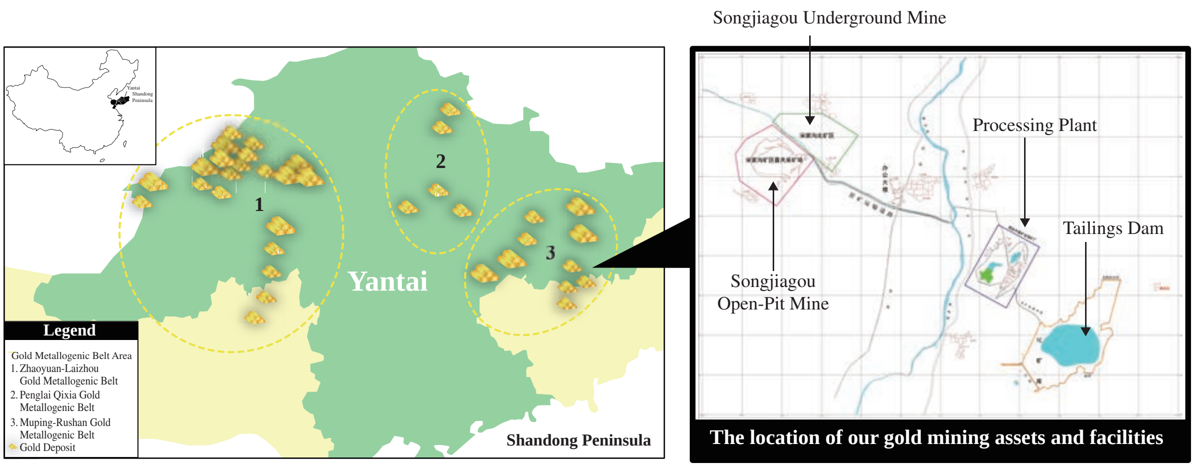
Prior to February 2021, we outsourced a substantial portion of our mining works comprising demolition, drilling, blasting and excavation works, refining and logistics works to qualified third-party subcontractors. Since February 2021 and up to the Latest Practicable Date, we carry out substantially all of our mining works comprising demolition, drilling, blasting and excavation works ourselves seeking to reduce the costs of mining but outsource all the refining and logistics works to qualified third-party subcontractors. We take safety seriously and have training programmes in place for our staff and third-party subcontractors. All third-party subcontractors are required to possess the requisite qualifications to undertake the commissioned works and carry out their works according to our mine plannings and under our supervision and inspection. For details, please refer to the paragraph headed "Suppliers and subcontractors" below in this section.

During the Track Record Period and up to the Latest Practicable Date, as we are not a registered member of the Shanghai Gold Exchange for the sales of gold bullion, we sold gold bullion of Au99.95 to gold smelters (or one of the gold smelters' subsidiary), namely, Shandong Guoda and Shandong Humon, whom we engaged to refine the gold concentrate processed by us and are registered with the Shanghai Gold Exchange, for their subsequent sales on the Shanghai Gold Exchange. We entered into separate agreements in respect of the sale of gold bullion and procurement of refining services and hence, all revenue derived from the sale of gold bullion to these gold smelters and the expenses paid to them for refining services were recognised on a gross basis. For further details, please refer to the paragraph headed "Sales and customers" in this section.

During the Track Record Period, our revenue amounted to approximately RMB361.0 million, RMB247.9 million, RMB418.4 million and RMB196.7 million, while our net profit amounted to approximately RMB114.4 million, RMB58.7 million, RMB121.0 million and RMB52.8 million, respectively.

OUR MINERAL ASSETS AND RESERVES

As at 30 June 2023 and up to the Latest Practicable Date, we operated two gold mines, namely, the Songjiagou Open-Pit Mine and the Songjiagou Underground Mine, located in Yantai City in the Shandong Province. The maps below illustrate the geographical locations of our two operating mines and other mining infrastructure:



The location of our gold mining assets and facilities

Our major mining assets and facilities located at Muping-Rushan gold metallogenic belt in the Shandong Province, the PRC, include:

(i) one open-pit gold mine, namely the Songjiagou Open-Pit Mine, with an area of approximately 0.594 sq.km. and operates on various levels from 150 metres ASL to –400 metres ASL, with a permitted annual production volume of 900.0 kt as at the Latest Practicable Date; and

(ii) one underground gold mine, namely our Songjiagou Underground Mine, with an area of approximately 0.414 sq.km. and operates on various levels from 142 metres ASL to –270 metres ASL, with a permitted annual production volume of 90.0 kt.

Our two gold mines are located in close proximity of around 400 metres from each other, and within 4 km from our ore processing plant with an annual ore processing capacity of approximately 2,000 kt, a tailings dam and together with other ancillary facilities, which are easily accessible by highway and are approximately 50 km from the port of Yantai. Our two mines generally operate in three shifts per day, eight hours per shift, for 330 days per year. During the Track Record Period, our total gold production volume was approximately 991.4 kg (or 31,874.3 ounces), 576.9 kg (or 18,547.8 ounces), 1,072.5 kg (or 34,481.7 ounces) and 472.5 kg (or 15,191.2 ounces), respectively.

Mineral Resources and Mineral Reserves

According to the SRK Report, we had total Probable Mineral Reserves, Indicated Mineral Resources and Inferred Mineral Resources amounted to approximately 23,130 kt, 35,840 kt and 39,710 kt, respectively, as at 30 June 2023. Assuming that no new Mineral Reserves are identified, the

Songjiagou Open-Pit Mine will have a LoM of about 8.5 years at annual production capacity of approximately 3,300 ktpa and the Songjiagou Underground Mine will have a LoM of about 6.0 years at annual production capacity of approximately 90 ktpa.

The following table sets forth the information on our Mineral Resources and Mineral Reserves as at 30 June 2023 under NI 43-101, based on the SRK Report:

Asset	Mineral Resources					Mineral Reserves				
	Resource category	Ore Tonnes	Gold grade	Gold content		Reserve category	Ore Tonnes	Gold grade	Gold content	
		(kt)	*(g/t)*	*(kg)*	*(koz)*		*(kt)*	*(g/t)*	*(kg)*	*(koz)*
Songjiagou	Indicated	34,200	1.10	37,600	1,210.0	Proven	—	—	—	—
Open-Pit Mine	Inferred	36,700	0.95	34,800	1,120.0	Probable	22,600	1.17	26,400	849
	Total	**70,900**	**—**	**72,400**	**2,330.0**	**Total**	**22,600**	**—**	**26,400**	**849**
Songjiagou	Indicated	1,640	1.38	2,270	73.0	Proven	—	—	—	—
Underground	Inferred	3,010	1.24	3,730	120.0	Probable	530	1.39	737	23.7
Mine	**Total**	**4,650**	**—**	**6,000**	**193.0**	**Total**	**530**	**—**	**737**	**23.7**

The table below sets forth the average mining loss rate and the average dilution rate of our two gold mines during the Track Record Period, which are comparable to industry average, and the estimated LoM based on the current levels of gold production and Mineral Reserves as at 30 June 2023:

	Average mining loss rate[(Note)]	Average dilution rate[(Note)]	LoM
	(%)	*(%)*	*(years)*
Songjiagou Open-Pit Mine	5	5	8.5
Songjiagou Underground Mine	8	11	6.0

Note: According to the F&S Report, the average mining loss rate and the average dilution rate in the PRC gold mining industry in 2022 are 6.9% and 11.0%, respectively. In 2022, the industry average mining loss rate for open-pit mining and underground mining in China was 5.0% and 6.9%, respectively while the industry average mining dilution rates for open-pit mining and underground mining in China were 6.0% and 11.0%, respectively. Open-pit mining has lower mining loss rate and lower mining dilution rate than underground mining due to the fact that it naturally generates higher resource utilisation efficiency than underground mining.

Our Directors confirmed that no material adverse changes had occurred with respect to our Mineral Reserves or Mineral Resources of our mines since 30 June 2023, the effective date of the SRK Report included in Appendix III to this prospectus, and up to the Latest Practicable Date.

As at 30 June 2023, both of our mines were and are still in production. The production scale of our mines is governed by our mining licence, which sets out the permitted annual production volume. For our Songjiagou Open-Pit Mine, the permitted annual production volume as set out in its mining licence has to be interpreted together with the utilisation plan, which sets out certain technical parameters of our Songjiagou Open-Pit Mine, including the average stripping ratio (a specific term used in open-pit mining only). As a result, for our Songjiagou Open-Pit Mine, the permitted annual ore stripping volume, which refers to the volume of rocks permitted to be stripped in a year, is equivalent to the permitted annual production volume times the average stripping ratio of 9.00 from FY2020 onwards according to the utilisation plan as submitted by Yantai Zhongjia and approved by the government. The stripping ratio is specific to open-pit mines to accommodate the large amount of waste rocks inevitably extracted with ores in the course of conducting mining activities in open-pit mines. For our Songjiagou Underground Mine, its permitted annual ore stripping volume equals to its permitted annual production volume as stated in its mining licence. Since we have reached the ores of our Songjiagou Underground Mine through the construction of ramps and tunnels underground, stripping ratio is not applicable. The stripping of rocks essentially refers to the processing of ores as conducted in the processing plant. As such, the permitted annual ore stripping volume is observed by us as the limit to the volume of ores that we can send to the processing plant for processing in a year. Ore processed volume is the volume of ores that we send to our processing plant for processing, while ore mined volume is the volume of ores excavated from our mining operation.

During our normal mining operation, we may produce a large amount of waste rocks. Further, we may from time to time construct mining infrastructure for safety and transportation purposes and as a result, we also mined and processed "ore-rocks" generated from the construction of mining infrastructure. According to the confirmation letter issued by Yantai Municipal District Natural Resources Bureau* (煙台市牟平區自然資源局) on 17 May 2022, the authority acknowledged and confirmed with us that the "ore-rocks" have relatively low gold grade and produced as a result of constructing infrastructure such as roads and ramps in the mining site. Such "ore-rocks" are not regarded as ore produced during our normal mining process and thus, the "ore-rocks" mined is excluded when comparing with the permitted annual stripping volume. In respect of our ore processed volume, our Group did not exceed the permitted annual ore stripping volume during the Track Record Period. Based on the above, we confirmed that our Group has not exceeded any permitted volume during the Track Record Period and up to the Latest Practicable Date.

In addition to the above production restrictions under our mining licences, our productivity is also restricted by our existing resources and mine design. We have designed our mines to enable the maximum annual ore mined volume that can be achieved by our Group in the usual and ordinary course of business based on our existing resources and mine structure. According to the SRK Report, the estimated production capacity is 3,300 ktpa and 90 ktpa for our Songjiagou Open-Pit Mine and Songjiagou Underground Mine, respectively. Such volumes refer to the optimal annual volume of ore mined and processed to be achieved by our Group during the period of mine optimisation plan for our mines.

The following table sets forth our permitted annual production volume, permitted annual ore stripping volume, ore mined volume, ore processed volume and gold production volume for the period indicated:

	FY2020	FY2021	FY2022	6M2023
Permitted annual production volume				
Songjiagou Open-Pit Mine (kt)	900.0	900.0	900.0	900.0 (Note 1)
Songjiagou Underground Mine (kt)	90.0	90.0	90.0	90.0 (Note 1)
Total (kt)	990.0	990.0	990.0	990.0
Permitted annual ore stripping volume				
Songjiagou Open-Pit Mine (kt) (Note 4)	8,100.0	8,100.0	8,100.0	8,100.0 (Note 1)
Songjiagou Underground Mine (kt)	90.0	90.0	90.0	90.0 (Note 1)
Total (kt)	8,190.0	8,190.0	8,190.0	8,190.0
Ore mined volume				
Songjiagou Open-Pit Mine (kt)	1,499.2	960.0	1,899.2	615.1
Songjiagou Underground Mine (kt)	89.9	10.7	90.0	44.3
Total (kt)	1,589.1	970.7	1,989.2	659.4
Ore processed volume				
Songjiagou Open-Pit Mine (kt)	1,500.2 (Note 3)	1,013.1 (Note 3)	1,900.9 (Note 3)	952.4 (Note 3)
Songjiagou Underground Mine (kt)	89.9	10.7	90.0	44.3
Total (kt)	1,590.1	1,023.8	1,990.9	996.7
Gold production volume				
Songjiagou Open-Pit Mine (kg)	935.3	570.7	1,024.0	451.5
Songjiagou Underground Mine (kg)	56.1	6.2	48.5	21.0
Total (Note 2) (kg)	991.4	576.9	1,072.5	472.5

Notes:

1. This is annual volume for FY2023.

2. Actual volume of gold realised after smelting.

3. The total ore processed volume from the Songjiagou Open-Pit Mine was more than its total ore mined volume in each of FY2020, FY2021, FY2022 and 6M2023 because of ore stockpile from the previous period.

4. The permitted annual ore stripping volume is equivalent to the permitted annual production volume times the average stripping ratio of 9.00 according to the utilisation plan as submitted by Yantai Zhongjia and approved by the government. The permitted annual ore stripping volume is observed by us as the limit to the volume of ores that we can send to the processing plant for processing, as indicated by the ore processed volume.

Our Directors confirmed that our Group's production activities, as indicated by the ore processed volume, had not exceeded any of the permitted annual ore stripping volume that would lead to over-production as prohibited under relevant PRC laws and regulations during the Track Record Period and up to the Latest Practicable Date.

During the Track Record Period, our gold production volume was approximately 991.4 kg (or 31,874.3 ounces), 576.9 kg (or 18,547.8 ounces), 1,072.5 kg (or 34,481.7 ounces) and 472.5 kg (or 15,191.2 ounces), respectively. During the Track Record Period, our revenue amounted to approximately RMB361.0 million, RMB247.9 million, RMB418.4 million and RMB196.7 million, while our net profit amounted to approximately RMB114.4 million, RMB58.7 million, RMB121.0 million and RMB52.8 million, respectively. The decrease in our revenue in FY2021 was mainly due to the decrease in our gold production volume as a result of the temporary suspension of our mining operations for the government authority to carry out safety inspection in accordance with the requirements of the local authorities as further elaborated in the paragraph headed "Impacts of the temporary suspension of mining operations in FY2021 — Lower production volume and utilisation rate" in this section of the prospectus below. The ore mined volume of our Songjiagou Open-Pit Mine decreased by approximately 35.2% for 6M2023 as compared to FY2022 (on an annualised basis). Such decrease was mainly attributable to the fact that our mining activities were paused during May to mid-July 2023 to facilitate the safety inspection on our newly constructed benches (i.e. the southern part of our Songjiagou Open-Pit Mine). Such safety inspection was required by government for enabling us to obtain an enhanced safety production permit and conduct mining works under +21 m ASL. While our Directors expected that the safety inspection would be conducted and completed within May 2023, there was unexpected delay solely due to scheduling conflicts between our Group and the designated specialists of the government department for safety inspection. As confirmed by Muping Emergency Management Bureau, the government body which led the safety inspection, confirmed that they did not note any material findings during the safety inspection. Further, in light of the fact that our mining activities were paused at the material time, we took the opportunity to repair the road connecting our Songjiagou Open-Pit Mine and our processing plant which is used by us for the transportation of ores as such repairing work would significantly affect our transportation of ores when our Songjiagou Open-Pit Mine is in normal operation. The road repairment was completed in the end of June 2023 and the safety inspection was completed in mid-July 2023. An enhanced safety production permit enabling us to conduct mining works under +21 m ASL was issued by the government department to us on 19 July 2023 and our Songjiagou Open-Pit Mine resumed normal operation on the same day. In particular, the ore mined volume in July 2023 was approximately 104 kt and that for the period from 1 August 2023 to end of August was 205 kt, which resumed back to the range of our normal operation.

Mining rights, mining licences and other licences

As at the Latest Practicable Date, we held two valid mining licences in the Shandong Province in China. Our valid mining licences had a total permitted production volume of approximately 990.0 kt per year and covered a total area of approximately 1.008 sq.km.

The following table sets forth the details of the mining licences and the safety production permits that we held in the PRC in respect of our mines as well as the blasting operation permit which we held as at the Latest Practicable Date:

	Licence/ Permit name	Licence/ Permit holder	Area (km^2)	Type of natural resources	Permitted annual mine production volume (kt)	Licence/ Permit number	Validity period of licence/permit From	To	Status
Songjiagou Open-Pit Mine	Mining licence	Yantai Zhongjia	0.5937	Gold	900	C37000020090 44110010983 *(Note 1)*	17 May 2020	17 May 2031	Valid
	Safety production permit	Yantai Zhongjia	—	Gold	—	(2023) 06-0002	2 March 2023	1 March 2026	Valid
	Blasting operation permit	Yantai Zhongjia	—	—	—	3706001300087	8 September 2022	8 September 2025 *(Note 3)*	Valid
Songjiagou Underground Mine	Mining licence	Yantai Zhongjia	0.4140	Gold	90	C37000020160 24210141314 *(Note 2)*	18 February 2021	18 February 2031	Valid
	Safety production permit	Yantai Zhongjia	—	Gold	—	(2022) 00-0042	12 September 2022	11 September 2025 *(Note 4)*	Valid
	Blasting operation permit	Yantai Zhongjia	—	—	—	3706001300082	25 May 2022	25 May 2025	Valid
Tailings dam	Safety production permit	Yantai Zhongjia	—	—	—	(2023) 00-0117	8 December 2023	7 December 2026	Valid

Notes:

1. This mining licence was renewed in May 2020 as the validity period of the previous licence was from 17 May 2015 to 17 May 2020.

2. This mining licence was renewed in February 2021 as the validity period of the previous licence was from 18 February 2016 to 18 February 2021.

3. This blasting operation permit was renewed in September 2022 as the validity of the previous permit was from 24 June 2021 to 11 September 2022.

4. This safety production permit was renewed in September 2022 as the validity of the previous permit was from 12 September 2019 to 11 September 2022.

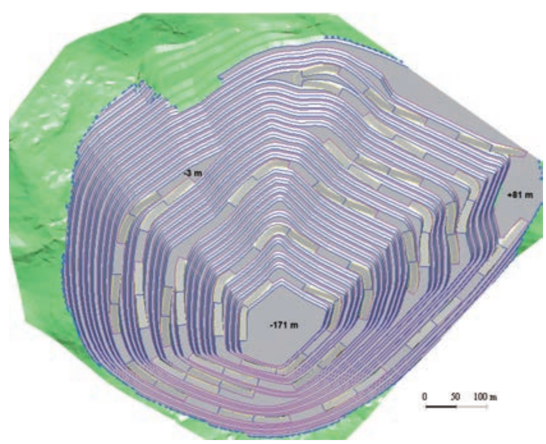
We did not pledge any mining rights to secure any of our bank facilities during the Track Record Period and up to the Latest Practicable Date. For further details of our bank facilities, please refer to the section headed "Financial information — Indebtedness" in this prospectus.

According to the PRC Mineral Resources Law, the Regulation for Registering to Explore for Mineral Resources Using the Block System (礦產資源勘查區塊登記管理辦法) and the Procedures for Administration of Registration of Mining of Mineral Resources (礦產資源開採登記管理辦法), before the exploration and mining activities relating to mineral resources can commence, the project company must first obtain the exploration licences and the mining licences, which generally entitle the project company to the exploration and mining rights attached to the relevant mining project. The holder of a mining licence has, among others, the rights to engage in mining activities in the designated area and within the term prescribed under the mining licence, to conduct exploration within the designated mining area for the purpose of their own production, and to set up production facilities and amenities within the designated area, to sell the mineral products except for those minerals which are required by the State Council to be sold to designated entities and to acquire the land use rights legally based on the requirement of its production and construction. Therefore, as advised by our PRC Legal Advisers, no separate exploration licence is required to be obtained as long as Yantai Zhongjia conducts exploration within the designated mining area under its mining licences for its own production.

In May 2020 and February 2021, we successfully renewed the mining licences for our Songjiagou Open-Pit Mine and our Songjiagou Underground Mine for a further term of 11 and 10 years, respectively. If any of our mines have a residual Proven and Probable Mineral Reserves upon expiration of our mining licences, we will submit a renewal application. Under the PRC laws and regulations and as advised by our PRC Legal Advisers, if residual reserves remain after the term of the mining rights expires, the holders of such mining rights are entitled to apply for extensions of additional terms. Application for renewal of a mining licence must be made at least 30 days prior to expiration date. As advised by our PRC Legal Advisers, there is no specific restriction or limitation on the number of times the licences may be renewed.

Our two gold mines

Our Songjiagou Open-Pit Mine



Our Songjiagou Open-Pit Mine is a large-scale mine, which we operate through our principal subsidiary, Yantai Zhongjia, a sino-foreign equity joint venture in which we hold 75% equity interest and Dahedong holds the remaining 25% equity interest during the Track Record Period and up to the Latest Practicable Date.

The permitted annual ore stripping volume for our Songjiagou Open-Pit Mine was 8,100.0 kt based on 900.0 kt of permitted annual production volume for FY2020, FY2021 and FY2022 after we have renewed the mining licence in May 2020 with the revised permitted annual production volume. The cut-off grade of the ore is 0.30 g/t Au. During the Track Record Period, the ore mined volume at our Songjiagou Open-Pit Mine was approximately 1,499.2 kt, 960.0 kt, 1,899.2 kt and 615.1 kt, respectively. Our Directors confirmed that our Group's production activities (as indicated by ore processed volume) at our Songjiagou Open-Pit Mine had not exceeded any of the permitted annual volume that would lead to over-production as prohibited under relevant PRC laws and regulations during the Track Record Period and up to the Latest Practicable Date.

Our Songjiagou Open-Pit Mine is located at Muping-Rushan gold metallogenic belt in the Shandong Province, the PRC, which is one of the three major gold metallogenic belts in Yantai city of the Shandong Province. It is located in the eastern part of Jiaobei Terrane and the northeast margin of the Jiaolai Basin on the Shandong Peninsula, which is easily accessible by highway and is approximately 50 km south of downtown Yantai city, an important coastal city in China's well-developed eastern Shandong Peninsula. It is a moderate temperature hydrothermal filling and metasomatic conglomerate type gold deposit, associated with mesothermal filling activities and followed by alterations and metasomatism.

The geomorphology of the mining area is characterised by gently undulating hills, and overall topography slopes downward from west to east. The highest elevation is 140 metres ASL and the lowest is 78 metres ASL with a relief of 62 metres.

As at 30 June 2023, at a cut-off grade of 0.3 g/t Au, our Songjiagou Open-Pit Mine has Probable Mineral Reserves of approximately 22,600 kt at averaging gold grade of 1.17 g/t, approximately 34,200 kt of Indicated Mineral Resources at averaging gold grade of 1.10 g/t, and approximately 36,700.0 kt of Inferred Mineral Resources at averaging gold grade of 0.95 g/t. As the plan of the mine, our Songjiagou Open-Pit Mine will have a LoM of about 8.5 years at an annual production capacity of approximately 3,300 ktpa ore. Based on the SRK Report and projection by using discount cash flow modelling, our Songjiagou Open-Pit Mine has a net present value of approximately RMB3,246 million at a discount rate of 9%. Therefore, it is technically feasible and economically viable.

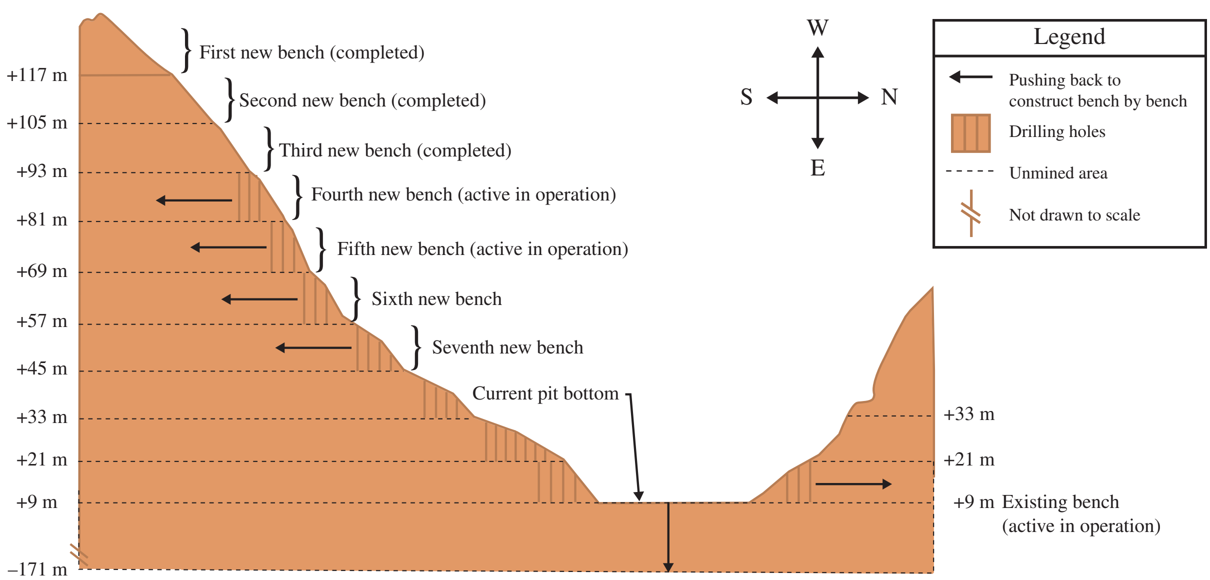
LoM is the shortest timeframe that the Mineral Reserves of a mine are estimated to be fully utilised. Such calculated LoM is subject to change under certain circumstances. For instance, if the annual mining volume is reduced, indicating a decrease in the utilisation rate of the Mineral Reserves or if Mineral Reserves are increased by upgrading our Mineral Resources via additional exploration activities, it would take a longer time to deplete the Mineral Reserves of the mine. There are Mineral Resources for our Songjiagou Open-Pit Mine having potentials to be upgraded to Mineral Reserves to increase the current estimated LoM. The LoM of our Songjiagou Open-Pit Mine of 8.5 years is estimated based on, among others, the Probable Mineral Reserves of 22,600 kt of ores as at 30 June 2023. However, this estimation has not taken into account the 36,700 kt Indicated Mineral Resources as at 30 June 2023.

As advised by SRK, a portion of Inferred Mineral Resources, which is usually 50% to 70%, could be upgraded to Indicated Mineral Resources through continued exploration. Furthermore, Indicated Mineral Resources could potentially be converted into Probable Mineral Reserves (included in the calculation of LoM) if the relevant resources are determined to be economically viable for exploitation through certain preliminary feasibility studies. Pursuant to a preliminary study conducted by SRK, by modifying the final pit structure of our Songjiagou Open-Pit Mine in the future, it is viable for our Group to economically capture additional Indicated Mineral Resources and Inferred Mineral Resources. As advised by SRK, it is common in the gold mining industry and commercially sensible for gold mines to perform exploratory activities to ascertain the existence of economically mineable Mineral Reserves only when the mining and exploratory activities proceeded to a deeper level. Based on the Mineral Resources available at the Songjiagou Open-Pit Mine and the industrial and technical expertise relating to exploration possessed by the Group, SRK is of the view that there is substantial potential for the Group's Songjiagou Open-Pit Mine to increase its LoM along with the exploratory activities and further studies to be conducted in the future.

Mine optimisation plan

The availability and stability of gold resources of our mines is of utmost importance to our Group's business. Therefore, we are in the process of implementing a plan to optimise the structure of our Songjiagou Open-Pit Mine in order to facilitate the extraction of Indicated Mineral Resources that can be converted to Probable Mineral Reserves of 22,600 kt with average gold grade of 1.17 g/t within an 8.5 year timeframe starting from 2023. We expect such plan can support the mining operations of our Group in mid to long run.

Our Songjiagou Open-Pit Mine is a cone-shaped pit formed along with our excavation activities according to our mining plan. The final open-pit structure is about 811 metres to the east, 787 metres to the north and 308 metres in vertical direction. Based on the geological study of our technical team, the Mineral Resources of our Songjiagou Open-Pit Mine is unevenly distributed and in various depths underground. According to the SRK Report, Mineral Resources at our Songjiagou Open-Pit Mine are found in the elevation ranges of +145 metres ASL down to –402 metres ASL. As such, it is not technically feasible for a single pit structure, or pit shape to facilitate the extraction of all those Indicated Mineral Resources that can be converted to Probable Mineral Reserves of 22,600 kt with average gold grade of 1.17 g/t available at our Songjiagou Open-Pit Mine as at 30 June 2023 within the current pit opening area if the surface boundary of the mining site is not expanded as there is no such big drill rig, excavator or truck that can reach this depth. Therefore, the final open-pit structure is typically divided into horizontal layers in the form of working benches. The height of the working benches depends on the type of deposit, the mineral being mined, and the equipment being used, generally in the range of 12 to 15 metres. In each level, there will be roads and ramps to connect with the next level of bench for dump trucks for ore haulage to surface. Construction of ramps connecting each working benches is necessary so that access to different levels of benches is gained through a system of ramps with typical widths range from 20 to 40 metres. Mining on a new level of working benches is begun by extending a ramp downward. The open-pit structure is progressively widened by constructing bench by bench towards the pit bottom. Such mining infrastructure allows for mining activities to be carried out on safe mining surface area in a number of benches at any one time. It has the advantage of less infrastructure stripping, less infrastructure investment, short construction period and add stability of the slopes of the open pit mine. The bench is not boundless, it is constrained to the final open-pit wall. The use of benches will be ended when all Probable Mineral Reserves are extracted pursuant to the mine optimisation plan. Therefore, the lifetime of the use of each bench follows the remaining length of the mine optimisation plan at the construction such bench which approximates the prevailing LoM of the mine.



An open-pit is gradually expanded in a few phases/stages and finally ending in the final open-pit so that a consistent level of waste stripping volume could be maintained over the life of mine to improve pit economics. As an industry practice, we devised and adopted a mining plan at the beginning to form an initial pit structure (usually a smaller cone at initial stage) followed by modifications or expansions of pit structure so that the extractions of waste rocks and ore are balanced to ensure the viability and sustainability of the mine development process. In 2021, we have commenced the mine optimisation plan for, among others, implementing the modification of pit structure and formulating the future mining and production plan.

— The pit structure of our Songjiagou Open-Pit Mine before the mine optimisation plan

Prior to the implementation of mine optimisation plan, the excavation activities of our Songjiagou Open-Pit Mine were primarily carried out at two benches at the elevation +45 metres ASL and +33 metres ASL in 2021 and the bottom of the pit at the material time was at +21 metres ASL. The gold Mineral Resources available at these two benches (i.e. +45 metres ASL and +33 metres ASL) and at +21 metres ASL could support our mining operations until June 2023. After the excavation work at these mining area is completed and in the event that the mine optimisation plan is absent, we would continue our excavation work based on such initial pit structure, i.e. below the elevation of +21 metres ASL. As our excavation work proceeds, the pit bottom will eventually reach –39 metres ASL, forming the final pit structure. As confirmed by SRK, we could only capture Indicated Mineral Resources that can be converted to Probable Mineral Reserves of approximately 8,000.0 kt below +21 metres ASL, representing approximately 35.4% of the total 22,600 kt with average gold grade of 1.17 g/t Probable Mineral Reserves available as at 30 June 2023 without the mine optimisation plan. Therefore, our mining operations may become less effective as we will not be able to extract all those Indicated Mineral Resources that can be converted to Probable Mineral Reserves.

— Implementation of the mine optimisation plan

With the full implementation of the mine optimisation plan, the bottom of the optimised final pit structure will eventually reach the elevation of –171 metres ASL (as compared to –39 metres ASL without the mine optimisation plan) and capture all remaining Indicated Mineral Resources that can be converted to Probable Mineral Reserves of 22,100 kt (representing approximately 98.0% of as at 30 June 2023 the Probable Mineral Reserves of approximately 22,600.0 kt available at our Songjiagou Open-Pit Mine), which is expected to facilitate our mining operation until 2031.

As part of the mine optimisation plan, we have extended the southern boundary of the pit opening by about 150 metres, extending the pit opening area from 0.34 sq.km. to 0.46 sq.km. The extended pit opening area enables us to expand the final pit structure and reach out to Mineral Resources in the unmined areas outside the initial pit structure. Further, we plan to construct benches from top down and each with a height of 12 to 15 metres, i.e. starting from +117 metres ASL, at the expanded mining surface area to facilitate our mining work. We initially planned to construct four new benches (i.e. first to fourth new benches) to facilitate our mining work that would enable us to reach a depth of 48 metres below the new mining surface are to support our mining activities until June 2024. In second quarter of 2023, we have further formulated the construction of three more new benches (i.e. fifth to seventh new benches) to reach a depth of 84 metres below the new mining surface area to support our mining activities until June 2025. The ores contained in the rocks stripped, for the construction of these new benches, will increase the ore stripping volume of 169 kt, 705 kt and 102 kt in 2023, 2024 and 2025, respectively. After the construction of the new benches, the elevation of the expanded new mining area will reach +45 metres ASL and our annual production capacity can be increased from the current annual production capacity of approximately 2,000 ktpa to 3,300 ktpa in 2026. As concurred by SRK, such production capacity is considered to be the optimal production capacity that would be achievable by our Group based on our Group's mining plan. In particular, our Group had already possessed the necessary machines and equipment, for example, excavators and drill rigs to achieve such production capacity. At the material time, the expanded mining area of our Songjiagou Open-Pit Mine is expected to reach +33 metres ASL, which would provide sufficient working benches and spaces for our Group's excavators and drill rigs to operate. Pursuant to our production plan, we will then mainly focus our excavation activities at both the new benches and at the same time continue to mine below +21 metres ASL, scale up our mining operation and eventually reach more gold containing Mineral Resources at a deeper level, extracting all Indicated Mineral Resources that can be converted to Probable Mineral Reserves (i.e. 22,600.0 kt with average gold grade of 1.17 g/t available as at 30 June 2023) effectively within 8.5 years. Therefore, the lifetime of the use of benches follows the length of the mine optimisation plan of 8.5 years.

The following table sets out the commencement date of construction and the construction status of the four new benches:

	Commencement date of construction	**Status as at the Latest Practicable Date**
First bench (above the elevation of +117 metres ASL)	1 October 2021	Construction and mining operation completed in May 2022
First phase of second bench (between the elevation of +105 metres ASL and +117 metres ASL)	1 January 2022	Construction and mining operation completed in July 2022
Second phase of second bench (between the elevation of +105 metres ASL and +117 metres ASL)	1 August 2022	Construction and mining operation completed in December 2022
Third bench (between the elevation of +93 metres ASL and +105 metres ASL)	1 June 2023	Construction and mining operation completed in July 2023
First phase of fourth bench (between the elevation of +81 metres ASL and +93 metres ASL)	1 July 2023	Commenced construction, expected to be completed in December 2023
Second phase of fourth bench (between the elevation of +81 metres ASL and +93 metres ASL)	1 January 2024	Not yet commenced construction, expected to be completed in June 2024

	Commencement date of construction	Status as at the Latest Practicable Date
First phase of fifth bench (between the elevation of +69 metres ASL and +81 metres ASL)	1 July 2023	Commenced construction, expected to be completed in December 2023
Second phase of fifth bench (between the elevation of +69 metres ASL and +81 metres ASL)	1 January 2024	Not yet commenced construction, expected to be completed in June 2024
Sixth bench (between the elevation of +57 metre ASL and +69 metres ASL)	1 April 2024	Not yet commenced construction, expected to be completed in December 2024
First phase of seventh bench (between the elevation of +45 metres ASL and +57 metres ASL)	1 October 2024	Not yet commenced construction, expected to be completed in December 2024
Second phase of seventh bench (between the elevation of +45 metres ASL and +57 metres ASL)	1 January 2025	Not yet commenced construction, expected to be completed in June 2025

— Benefit of the mine optimisation plan

As mentioned above, the mine optimisation plan enables us to expand our pit structure and to capture more Mineral Resources. Our Directors noted that the resources to be captured by the optimised final pit are Probable Mineral Reserves, which is of a relatively lower confidence level as compared to Proven Mineral Reserves. As advised by SRK, the difference between Probable Mineral Reserves and Proven Mineral Reserves is that the level of confidence in estimating the Proven Mineral Reserves is relatively higher as a result of detailed exploration, sampling and testing conducted and comprehensive modifying factors assessed. As further advised by SRK, detailed exploration, sampling and testing (i.e. leading to Measured Mineral Resources) can facilitate a more precise positioning of an ore body and estimation of grades. Such precise positioning and estimation are commonly adopted for mine with ore body that can be easily interpreted and interpolated (such as a sedimentary iron deposit) or is large enough in dimensions (such as a porphyry copper deposit) to arrange sufficient exploration works. For Songjiagou Open-Pit Mine, its ore body is relatively scattered and hence, the adequately detailed exploration, sampling and testing (i.e. leading to Indicated Mineral Resources) are appropriate for us to design and construct its mining infrastructure. SRK is also of the view that the risks of "overestimate of mineral resource potential" and "lack of significant mineral reserves" are unlikely for our Songjiagou Open-Pit Mine and hence, it is unnecessary to conduct large scale of sampling and testing or additional exploration activities in order to further prove the existence of gold resources and hence, it is adequately reliable for us to rely on Probable Mineral Reserve to implement the mine optimisation plan.

In addition, the enlarged mining area will enable us to scale up our excavation activity so that we can better utilise the mining licence of Songjiagou Open-Pit Mine which was renewed in 2020 with a revised permitted annual ore stripping volume from approximately 1,205.6 kt per year to approximately 8,100.0 kt per year. With the enlarged mining area and increased permitted annual ore stripping volume, we expect that our ore mined volume will reach our optimal production capacity, as advised by SRK, of 3,300 ktpa in FY2026. As a result of the increased ore tonnage volume, it is expected that the unit cost of production will decrease with the increased mining volume due to economies of scale and in turn, our gold production volume and gross profit would increase in FY2026, partially offset by the depreciation on capital expenditure to be spent on the additional mining infrastructure. From FY2027 to FY2031, the extent of increase in ore tonnage and gross profit are expected to be greater than the prior years as more gold containing Mineral Resources will be extracted at a deeper level. Based on the above, our Directors are of the view, and SRK concurs that the implementation of eight-year optimisation plan is beneficial to the Group's mid-to-long term business development and in compliance of the latest approved utilisation plan to convert Indicated Mineral Resources to estimate Probable Mineral Reserves at the Songjiagou Open-Pit Mine.

— Risk of the mine optimisation plan

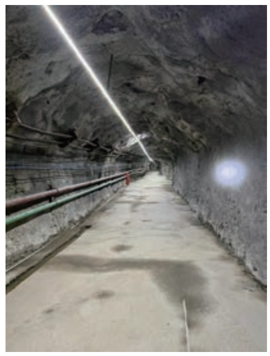
Since the mine optimisation plan will primarily be conducted by stripping of rocks to modify the pit structure which is similar to the daily excavation activities of our Group, our Directors are of the view that the chance of failing to implement the mine optimisation plan is highly remote. In the highly unlikely event that the mine optimisation plan is delayed or interrupted as a result of shortage of funding for the construction costs, severe weather conditions or any other factors outside our controls, the net present value of the mine will decrease. Further, the efficiency of extracting the Indicated Mineral Resources that can be converted to Probable Mineral Reserves and gross profit will decrease. Nevertheless, should we fail to implement the mine optimisation plan, we would not be completely suspending our mining operations as we would continue our excavation work under the current pit bottom below +21 metres ASL, where Probable Mineral Reserves of approximately 8,000 kt are located.

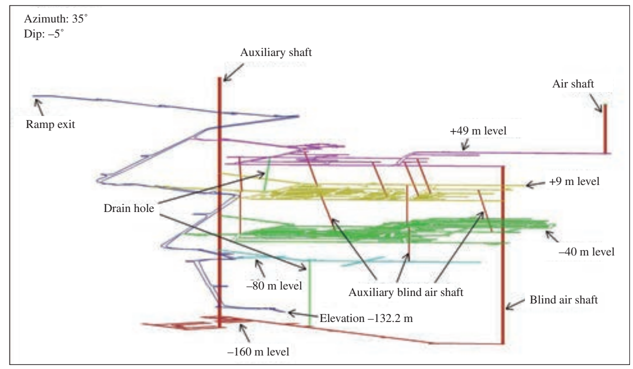
Future plans

In addition to the mine optimisation plan as mentioned above, we intend to carry out further exploration works involving top to oblique drillings below ground surface and oblique drillings inside the pit area, which in aggregate involving 26 drillings at various depths ranging from 0 to 550 metres with the aggregate depth of over 6,500 metres in three phases so as to increase our gold mineral reserves and to increase the LoM of our Songjiagou Open-Pit Mine. Please refer to the paragraphs headed "Business strategies — Further construction of mining infrastructure in accordance with our mine optimisation plan" and "Business strategies — Upgrade our gold reserves to increase LoM through additional exploration activities at our existing mine area" in this section for further details. Upon

Listing, our Company will comply with the relevant requirements under the Listing Rules including but not limited to the disclosure requirements of details of exploration, development and mining production activities and summary of expenditure incurred on these activities under Chapter 18 of the Listing Rules to keep our Shareholders and investors informed.

Our Songjiagou Underground Mine





We operate our Songjiagou Underground Mine through Yantai Zhongjia with a permitted annual mine production volume of about 90.0 kt. The cut-off grade of the ore is 0.7 g/t Au, which is more than two times the grade of our Songjiagou Open-Pit Mine. During the Track Record Period, the ore mined volume at our Songjiagou Underground Mine was approximately 89.9 kt, 10.7 kt, 90.0 kt and 44.3 kt, respectively. Our Directors confirmed that our Group's production activities (as indicated by ore processed volume) at our Songjiagou Underground Mine had not exceeded any of the permitted annual volume that would lead to over-production as prohibited under relevant PRC laws and regulations during the Track Record Period and up to the Latest Practicable Date.

Songjiagou Underground Mine is also located at the Muping-Rushan gold metallogenic belt in the Shandong Province, the PRC, which is approximately 405 metres away from our Songjiagou Open-Pit Mine. It is a moderate temperature hydrothermal filling and metasomatic conglomerate type gold deposit, associated with mesothermal filling activities and followed by alterations and metasomatism.

Current underground production comes from the upper three levels in the mine while development of the ramp in the lower three levels continues. The ramp was collared at an elevation of +80 metres and is designed to achieve a total length of 2,265 metres in this phase of development. As at 30 June 2023, the ramp has served six production levels at the elevations of +49 metres, +9 metres, –40 metres, –80 metres, –120 metres, and –160 metres. As at 30 June 2023, the ramp has advanced a total of 2,265 metres down to the –160 metres level. Each level is accessed by a 3.5 metres diameter fully serviced shaft that was sunk to –185 metres.

Horizontal roadway has been advanced 1,952 metres at level +49 metres, 3,094 metres at level +9 metres, 4,891 metres at level –40 metres, 45 metres at level –80 metres and 1,092 metres at level –160 metres. Underground mining operations are highly mechanised and include high efficiency, rapidpenetrating, hydraulic jumbo drills for development work, rotary drilling equipment employing extension steel for inclined medium and longer holes, 20 tonne dump trucks for ore haulage to surface via the ramp, and electric scrapers to facilitate ore recovery and loading in work areas.

Ventilation is provided by high capacity axial fans through air ducts secured by hangers on the side of mine passageways, while compressed air and water are introduced to the mine through metal pipes sized to accommodate fluctuating demand. Pumping stations have been installed underground to deal with water inflows, which are common in most underground mines — and the lifting system for the service shaft utilises a multi-rope friction hoist with dual cages for transporting miners and their gear.

As at 30 June 2023, at a cut-off grade of 0.7 g/t Au, our Songjiagou Underground Mine has Probable Mineral Reserves of approximately 530.0 kt at averaging gold grade of 1.39 g/t, approximately 1,640.0 kt of Indicated Mineral Resources at averaging gold grade of 1.38 g/t, and approximately 3,010.0 kt of Inferred Mineral Resources at averaging gold grade of 1.24 g/t. After taking into account our Group's current production capacity, our Songjiagou Underground Mine will have a LoM of about 6.0 years. Based on the SRK Report and projection by using discounted cash flow modelling, our Songjiagou Underground Mine has a net present value of approximately RMB85.0 million at a discount rate of 9%. Therefore, it is technically feasible and economically viable.

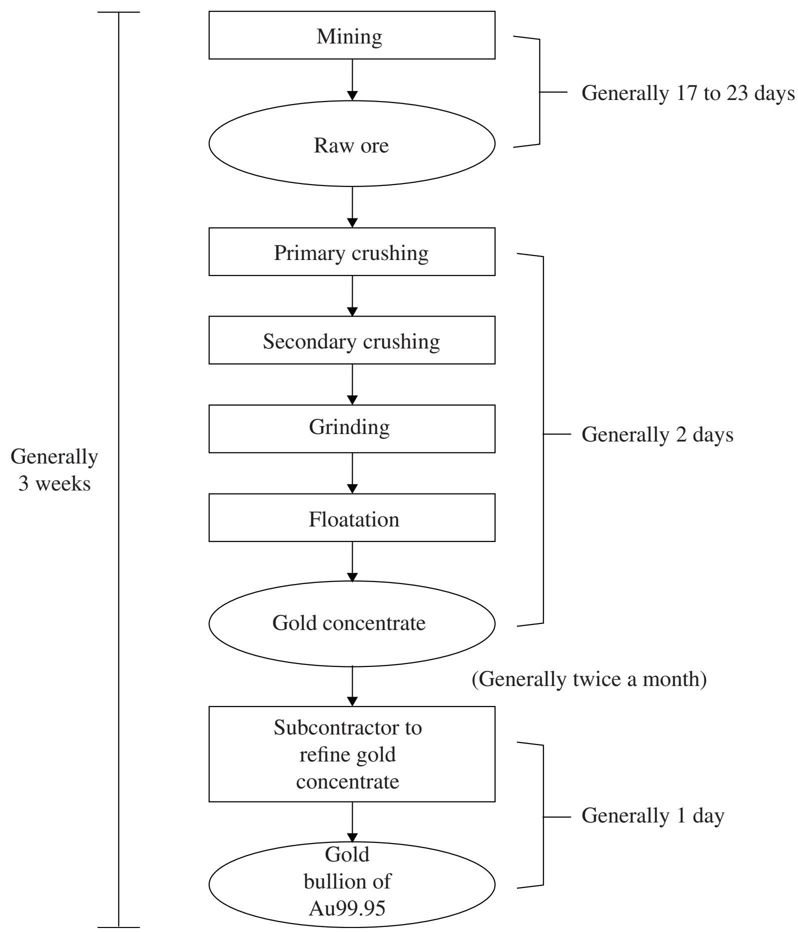
Future plans

As the current underground production is coming from the upper three levels up to –160 metres ASL, we will continue to develop and construct the lower three levels up to –270 metres ASL as permitted under the mining licence. As at the Latest Practicable Date, we had no plan to carry out further exploration activities at our Songjiagou Underground Mine. Upon Listing, our Company will comply with the relevant requirements under the Listing Rules including but not limited to the disclosure requirements of details of exploration, development and mining production activities and summary of expenditure incurred on these activities under Chapter 18 of the Listing Rules to keep our Shareholders and investors informed.

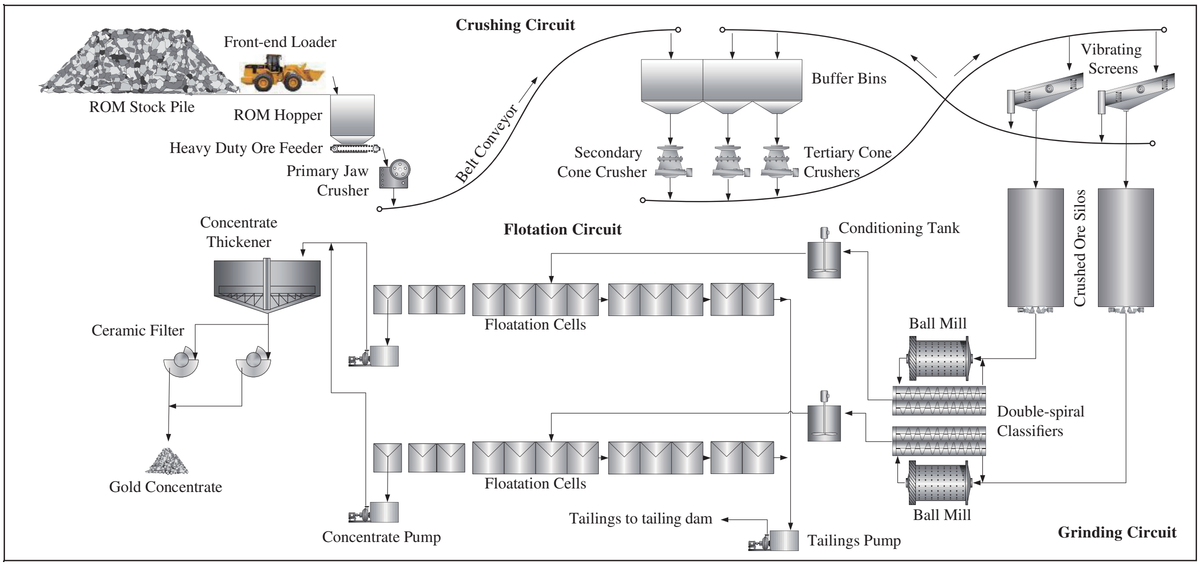
OUR OPERATIONS

Overview

Our production process involves three major steps: (i) mining (both open-pit and underground mining); (ii) ore processing, which in turn includes crushing, grinding and floatation; and (iii) gold refining, which we outsource the refining of gold concentrate into gold bullion of Au99.95 to Independent Third Party smelters. The following chart illustrates the major steps of our production processes. In general, the period from extracting the ores from our mining operations to production of our finished products in the form of gold bullion of Au99.95 is approximately three weeks.



The flowchart below illustrates our mining operations to the production of gold concentrate processed by us:



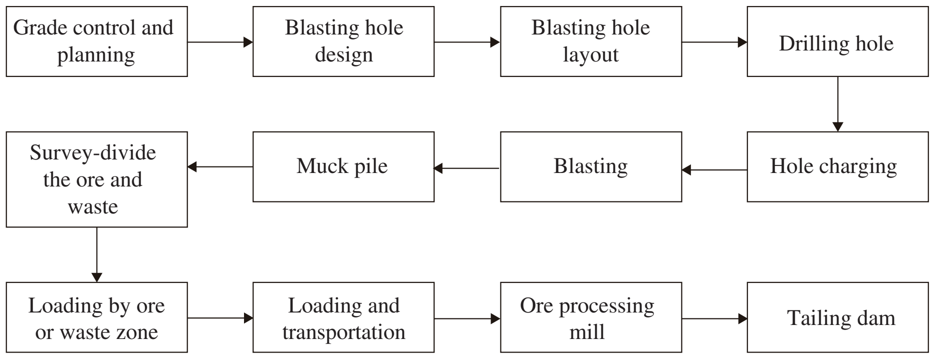
Our main production facilities include one open-pit mine, one underground mine, an ore processing plant and other ancillary facilities such as a tailings dam.

Mining

We conduct our mining activities systematically and implemented gold grade control and production management using geostatistics applications. Before drilling and blasting activities to be carried out for our mining operations, we incorporate geostatistics into a mix of mining methods (such as drilling, blasting, loading and transportation method for Songjiagou Open-Pit Mine and shrinkage stope and cut-and-fill mining method for Songjiagou Underground Mine) to help select and identify higher gold content orebody to be extracted based on ground conditions and localised thinning of the veins in our mining sites to improve our resource quality while controlling the extraction volume. As a result, we can ensure a stable grade of ore is being extracted and fed into our ore processing plant for our ore processing operations.

Our Songjiagou Open-Pit Mine

The flowchart below illustrates our mining operations using the conventional drilling, blasting, loading and transportation method at our Songjiagou Open-Pit Mine:

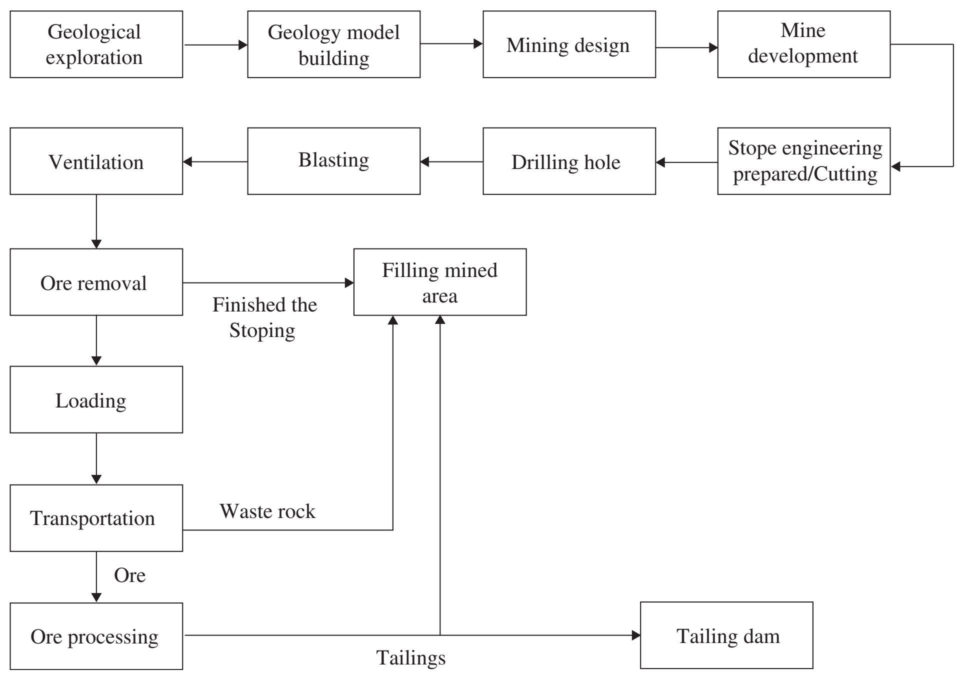


We carry out open-pit mining at our Songjiagou Open-Pit Mine using conventional mining methods of drill-blast-load-haul mining cycle to exploit rocks within the pit. We drill ore body by high air-pressure drill rigs, break ore body through blasting, excavate raw ore by hydraulic excavators and transport raw ore to the ore processing plant by trucks. Tailings from our ore processing plant are contained at our tailings dam. Our ore processing plant and tailings dam are located in close proximity of about 4 km away from our Songjiagou Open-Pit Mine.

Our Songjiagou Open-Pit Mine is a producing open-pit, generally operates approximately eight hours per shift, three shifts per day, 330 days per year.

Our Songjiagou Underground Mine

The flowchart below illustrates our mining operations using the upward cut-and-fill mining and shrinkage stope mining at our Songjiagou Underground Mine:



We carry out underground mining at our Songjiagou Underground Mine, which is mainly accessed through an access ramp, six haulage ways and a vertical auxiliary shaft. Off-road dump trucks are used to move both ore and wastes to surface along the haulage way and the access ramp. The mining methods include upward cut-and-fill mining where the recovery of ore starts from the bottom undercut, advancing upward vertically and shrinkage stope mining where pillars with high grade of ore are recovered, while pillars with low grade gold is left permanently. Same drilling, blasting and ventilation are applied for both mining methods and rely on cemented paste fill or cemented rock fill to support the stoping operation. We excavate raw ore by hydraulic excavators and transport raw ore to the processing plant by trucks.

We employ a mix of mining methods which are based on mining and geological conditions that are expected to be quite variable. Where warranted by ground conditions, mined out areas will be backfilled with tailings which, in addition to providing good ground support, reduces output into the surface tailings disposal area.

Our Songjiagou Underground Mine is a producing underground mine, generally operates eight hours per shift, three shifts per day, 330 days per year. Hauling of ore along the access ramp operates one shift per day. The production capacity is 90 ktpa of ore during the Track Record Period.

Prior to February 2021, we outsourced substantially all of the mining works comprising demolition, drilling, blasting and excavation works at our Songjiagou Open-Pit Mine and Songjiagou Underground Mine to third-party subcontractors, namely, 遼源卓力化工有限責任公司 (Liaoyuan Zhuoli

Chemical Industry Co., Ltd*) ("**Liaoyuan Zhuoli**") and 山東章鑒礦山工程有限公司 (Shandong Zhangjian Mining Engineering Co., Ltd*) ("**Shandong Zhangjian**"). The subcontractors worked under the supervision and management of our in-house onsite engineers. They were required to carry out their work according to the project design and production plan and in accordance with the applicable safety and environmental protection requirements under the PRC laws and regulations. Any loss and liability that arise in respect of material safety incidents shall be borne by the party who is responsible for such incidents. For details of the mining works performed by our subcontractors, please refer to the paragraph headed "Suppliers and subcontractors — Subcontractors — Mining activities" in this section. Since February 2021 and up to the Latest Practicable Date, we carry out such mining works ourselves (except for certain blasting engineering works in respect of our Songjiagou Underground Mine which we continued to subcontract to Independent Third Party subcontractor until July 2022), seeking to reduce the costs of mining. Since we carried out the aforementioned mining works ourselves, the percentage of direct labour costs and subcontracting costs to sales (excluding the effect of increase in average selling price of gold bullion) decreased from approximately 11.5% for FY2020 to approximately 9.5% for FY2021, representing an increase in gross profit margin of approximately 2.0% and net profit margin of approximately 1.5%. We also lease certain drilling equipment from an Independent Third Party.

Ore processing

The ore deposit from our mines has low level of or almost no impurities such as carbon and arsenic and has high purity of pyrites. As such, the ore is amenable to a simple floatation process for mineral separation to achieve a high gold recovery in concentrate at reasonably low mineral separation processing costs, which allows us to effectively manage and control our operating costs. We have a complete set of ore processing facility with an annual ore processing capacity of approximately 2,000 kt, comprising a plant with the capacity of 6.0 ktpd, a tailings dam and other ancillary facilities.

The ore processing plant is located on the industrial site, about 4 km southeast of our Songjiagou Open-Pit Mine. The plant with the capacity of 6.0 ktpd was put into operation in May 2011, which consists of one crushing series and two identical grinding floatation series.

Crushing Circuit

The crushing circuit includes a ROM stockpile, a coarse crushing circuit, a medium and fine crushing circuit, and a screening circuit. The crushing process is a traditional "three-stage crushing with one closed circuit", and ore less than 1,000 mm is crushed to achieve 80% less than 12 mm.

Ores mined from both our Songjiagou Open-Pit Mine and Songjiagou Underground Mine are transported to the ROM stockpile at the ore processing plant by trucks, and fed into the ROM hopper by the front-end loader. Ores are then fed into a jaw crusher for primary crushing (or coarse crushing), and then fed into a secondary cone crusher for fine crushing through belt conveyors. Ores discharged from the secondary crusher are screened at the screening workshop. Oversize materials are transported to the buffer bins by third belt conveyor for tertiary crushing which will then be transported to the screening workshop again for screening. Undersize materials which are 80% less than 12 mm are sent to the grinding circuit by the fourth belt conveyor.

Grinding circuit

The grinding circuit consists of two crushed ore silos, two grate ball mills and two double-spiral classifiers grinding the crushed ore to obtain 50% less than 75 μm. The crushed ore is sent to the crushed ore silos after screening. The crushed ore in the silo is fed onto the fifth belt conveyor and sent to the ball mill. The floatation pH adjuster lime is evenly added to the material stream on the fifth belt conveyor and the ore discharged from the ball mill is fed into the spiral classifier for classification. The return sand from the classifier is sent back to the mill for re-grinding. The overflow fineness of 50% less than 75 μm flows into the floatation circuit by itself.

Floatation circuit

The floatation circuit includes a conditioning tank and a row of floatation cells. The overflow from the spiral classifier flows into a conditioning tank by itself. Water is added to the particles to form a slurry and the slurry is pumped to a series of floatation machines for the extraction of gold concentrate. After mixing with the floatation reagents, it then enters into the floatation circuit consisting of a row of floatation cells to produce gold concentrate and tailings. Chemicals are added to the slurry, and air is added to the bottom of the thickening pond and rises through the slurry. Chemicals added to the slurry attach themselves to the metal-bearing ore and to the passing air bubbles and float to the top of the pond, where they form a gold concentrate froth. This gold concentrate froth is then collected and fed to the dewatering circuit.

Dewatering

The dewatering circuit primarily contains a concentrate thickener and two ceramic filters. The gold concentrate froth from the floatation circuit is pumped into a concentrate thickener, with its overflow used as return water and the underflow fed into the ceramic filter. The filter cake has a moisture content of less than 8% forming the gold concentrate and is stored in the warehouse.

Our ore processing process is designed to be environmentally friendly. In addition, the water discharged from the ore processing plant is recycled for ore grinding. Therefore, the ore processing plant does not discharge wastewater. We have also adopted the technology of pressure filtration and dry heaping of tailings, which reduces the size of tailings and demand for fresh water. For further details, please see the paragraph headed "Environmental, social and governance — Our environmental, social and climate-related risks and opportunities — A. Environment — Environmental protection" in this section.

Our ore processing facility

Our integrated ore processing facility comprises one mill to process the ores mined from our Songjiagou Open-Pit Mine and Songjiagou Underground Mine. Our ore processing plant has a total surface area of approximately 0.9 ha. The total designed ore processing capacity of our ore processing facility amounted to approximately 2,000 ktpa (or 6.0 ktpd) as at 30 June 2023.

The following table sets forth the details of our ore processing facility;

Ore processing facility	**Designed ore processing capacity** *(ktpd)*	**Description**
Mill with a capacity of 6.0 ktpd	6.0	Gold concentrate is produced after processing and delivered to third party smelters. Such ore processing plant is leased from Dahedong, a minority shareholder of Yantai Zhongjia and a connected person of our Company. Since we funded the costs of construction of such processing plant, there was no rental payable for such lease.

Utilisation rate

The table below sets forth the utilisation rate and volume of ore processed at our ore processing plant with a capacity of 6.0 ktpd:

	FY2020		FY2021		FY2022		6M2022		6M2023	
	Ore processed	Utilisation rate(Note)	Ore processed	Utilisation rate(Note)	Ore processed	Utilisation rate(Note)	Ore processed	Utilisation rate(Note)	Ore processed	Utilisation rate(Note)
	(kt)	*(%)*	*(kt)*	*(%)*	*(kt)*	*(%)*	*(kt)*	*(%)*	*(kt)*	*(%)*
Mill with a capacity of 6.0 ktpd	1,590	80.3	1,024	51.7	1,991	100.6	1,001	50.6	997	50.3

Note: Utilisation rate is calculated by dividing volume of ore processed for each period by the designed annual processing capacity of the same period, which is calculated based on our designed ore processing capacity per day assuming we operate 330 days per year. Our utilisation rate in FY2022 exceeded 100% because the actual working days of our processing plant in that year surpassed the theoretical designed 330 working days per annum or equivalent to a processing capacity of 1,980 ktpa.

The utilisation rate of our ore processing plant decreased from approximately 80.3% in FY2020 to approximately 51.7% in FY2021 because of the Temporary Operation Suspension as mentioned above. For further details, please refer to the paragraph headed "Impacts of the temporary suspension of mining operation in FY2021 — Lower production volume and utilisation rate" in this section. The utilisation rate of our ore processing plant increased from approximately 51.7% in FY2021 to 100.6% in FY2022, as we operated in the ordinary and usual circumstances in absence of the Temporary Operation Suspension such as that affected our operations in FY2021. The utilisation rate of our ore processing plant remained relatively stable at approximately 50.6% in 6M2022 and 50.3% in 6M2023. We expect to maintain maximum utilisation rate of 100% when we complete the additional construction of mining infrastructure in accordance with our mine optimisation plan at our Songjiagou Open-Pit Mine by expanding the mining surface area by about 150 metres south of its boundaries, as further elaborated in the paragraph headed "Business strategies — Further construction of mining infrastructure in accordance with our mine optimisation plan" in this section.

Gold recovery rate and feed grade

The gold recovery rate of our ore processing plant was over 94.6% during the Track Record Period at a feed grade of 0.70 g/t Au, 0.62 g/t Au, 0.62 g/t Au and 0.54 g/t Au, respectively, which is slightly higher than the industry's average of around 93.1% in 2022. This was attributable to our effective gold grade control and processing efficiency as we have a higher level of resource utilisation and less wastage of resources to reduce environmental pollution. Our feed grade was higher than our cut-off grade of 0.30 g/t Au from our Songjiagou Open-Pit Mine mainly due to the increase in the grade and purity of the surface materials processed from our Songjiagou Open-Pit Mine and relatively higher cut-off grade from our Songjiagou Underground Mine of 0.70 g/t Au since its commencement of commercial production in September 2019. The decrease in feed grade for 6M2023 was mainly attributable to the fact that the gold grade of ores extracted in the newly constructed benches was relatively lower.

Production machinery and equipment

Main production machinery and equipment that we use at our ore processing facility include ball mills, belt conveyors, mixing drum, ceramic filter, crushers, heavy-duty ore feeder, floatation machine and submerged pump. We own a majority of the machinery and equipment necessary for our processing operations. Main mine equipment onsite includes drill rigs, excavators, truck, loader and bulldozer. We have sufficient equipment to support our production capacity of 3,300 ktpa of ore as we also lease certain mine equipment from an Independent Third Party. We purchase most of our machinery and equipment at our mines and ore processing plant through a selective tendering process. During the Track Record Period, we utilised internal resources of approximately RMB2.0 million, RMB20.5 million, RMB12.2 million and RMB4.3 million to purchase production machinery and equipment, respectively. As at 30 June 2023, the carrying value of our plant and machinery was approximately RMB94.9 million or approximately 29.6% of the total carrying value of our property, plant and equipment as at 30 June 2023. As at 30 June 2023, the average remaining useful life of our main ore processing and mining machinery and equipment was 7.7 years and 4.2 years, respectively.

Minor maintenance and repair works of our machinery and equipment are generally conducted by our in-house mechanics periodically. For complicated maintenance and repairs of our machinery and equipment, it will be conducted by external vendors, on an as-need basis. The average scheduled downtime for maintenance and repair works per equipment ranged from one day to five days depending on the complexity of the repair and maintenance works. The plant and machinery are either depreciated over five to 20 years on a straight-line basis or based on production volume.

Tailings

Tailings have been sent to the tailings dam which is located in a valley 2 km southeast from our ore processing facility. The tailings dam was designed as a valley type, and was completed and put into use in October 2011. In December 2014, we carried out a capacity expansion to rebuild or expand the original tailings dam consisted of an initial dam, a final stockpiling dam, a flood discharge system of the tailings dam area, a return water system, observation system and management system. The expanded tailings dam elevation is +160 metres in total with the total storage capacity of approximately 42.2

million m^3 and an effective storage capacity of approximately 30.0 million m^3 in total. After expansion, the tailings dam is a third-class storage facility and has the capacity to support 10 years of production at current throughput as of 30 June 2023.

The tailings of the ore processing plant are pumped to the tailings main dam through the tailings pump station in the ore processing plant, and the tailings conveying main pipe is laid along the axis of the tailings dam. The slurry branch pipe is laid perpendicular to the main pipe with a horizontal interval of 20 metres. The branch pipe is laid along the dam slope in the tailings dam. The alternately distributed and evenly discharged ore along the axis of the dam is adopted to maintain the uniform rise of the dam body. After filling up, the main pipeline is elevated, and then the next-level sub-dam will be piled up.

Safety monitoring facilities

In accordance with the design and safety management requirements, the tailings dam has established a sound safety management system with an online monitoring system, including a dam displacement monitoring system, an saturation line monitoring system and a safety warning facility. The tailings dam is well constructed, managed and operated, and has acquired a safety production licence from the government safety supervision agency.

We keep the gold concentrate we produce in the storage facilities located at our processing plant with access restricted to authorised persons. The storage facilities are guarded by our own security team, and the storage facilities are equipped with stringent security systems.

Explosives supply and management

Two explosive magazine (including one which is 40-tonne) have been constructed on the mines to store explosives. According to the production plan, the required blasting materials are applied for by our Group, and were delivered to the explosive magazine by the Suppliers. Onsite blasting can only be performed under the supervision of policies. During the Track Record Period and up to the Latest Practicable Date, we procured explosives from Independent Third Party suppliers.

Laboratory

We have a laboratory on site within close proximity to our ore processing plant. It has a complete set of equipment and instruments for sample preparation, fire assay and volumetric analysis, which can fully meet the daily production testing requirements of the ore processing plant.

Water supply

Water for the industrial use is extracted from the Rushan River, which flows by 2 km east of our production site, which we have obtained the approval from the local Department of Water Resources in May 2017 to use approximately 465,000 m^3 of water per annum. A pump station on the bank of Songjiagou River, Jincheng Village, about 2 km west of the ore processing plant, supplies water for the plant's production demand. Water for domestic use is sourced from a local ground well. According to the SRK Report, the water supply is adequate to support mine's production.

Our ore processing plant has two 1,230 m^3 concrete head tanks (15 metres in diameter and 7 metres in height): one is for storing new water from the Rushan River, which is mainly used for production supplementation, ground washing, dust suppression and fire protection; the other is for storage of ore processing return water, with return water utilisation rates ranging from 80% to 85%. A water pumping station is built on the bank of the Songjiaohe River near Jincheng Village, which is 2 km southeast from the ore processing plant, and the river water is pumped to the new water head tank through pipelines. The clarified water from the tailings dam is diverted through the culvert to the valley between the tailings dam and the ore processing plant. A dam is built at the valley mouth next to the plant to form a small reservoir, which stores a large amount of tailings clarified water that is then pumped to the return water head tank of ore processing plant. The unfiltered water from the tailings dam is directly pumped back to the return water head tank through the return water tank at dam toe. The concentrate unfiltered water and ground washing water of the ore processing plant are pumped back to the return water head tank after sedimentation and clarification in the ore processing plant settling tank.

During the Track Record Period and up to the Latest Practicable Date, we did not discharge any wastewater from our gold mining and ore processing operations, nor were we required to pay a fee for discharging wastewater. During the same period and up to the Latest Practicable Date, we did not experience any material interruption in our operation as a result of water shortage.

Power supply

Electricity for the mines is supplied by the local 10 kV electricity power line and by 120 kW diesel generators on standby. Electricity for the ore processing plant is sourced from the 35 kV/10.5 kV substation in Dahedong Village, Wanggezhuang Town, 5 km away from the mines, and delivered over dedicated lines. The voltage of the substation is flexible and can be switched to 10 kV, 6 kV or 380 volts as required by the mines. According to the SRK Report, the power supply is adequate to support the mine production.

Our mining and ore processing processes involve the consumption of a substantial amount of electricity and hence, an uninterrupted and stable supply of electricity is crucial to our business and operations. During the Track Record Period, our total electricity consumption was approximately 47,182 MWh, 28,336 MWh, 44,212 MWh and 22,209 MWh, respectively and our electricity costs were approximately RMB30.0 million, RMB16.4 million, RMB33.8 million and RMB17.1 million, respectively, accounted for approximately 18.1%, 15.2%, 16.9% and 16.4% of our cost of sales in the same periods. We had entered into an agreement with Supplier A, a local electricity supply provider to procure electricity for the operation of our Songjiagou Open-Pit Mine and Songjiagou Underground Mine. The price is promulgated by the PRC government. The contract is generally for five calendar years.

During the Track Record Period and up to the Latest Practicable Date, our Directors confirmed that we did not experience any material interruptions in our operations due to power shortages or outages. However, since September 2021, our Group had to comply with the power restriction policy imposed by the PRC government aiming to reduce energy consumption across China, and in Shandong province and other north-eastern provinces in the PRC. As a result, the possibility of power outages or prolonged power shortage in electricity supply would impose an inherent risk to our business and operation, our Directors would monitor the situation and consider the need to enhance the capacity of our power supply system if necessary.

We believe that there are no material difficulties in securing the supply of water and electricity for our operations. For details of the risks associated with the power supply or processing water, please see the section headed "Risk factors — Risks relating to the business operations of our Group — We may not be able to maintain the provision of adequate and uninterrupted supplies of electricity, water, materials and equipment at commercially accepted prices, or at all" in this prospectus.

Transportation

Gold mines → Ore processing plant → Smelters

Our transportation consists of two main stages: (i) raw ore is transported by trucks from our two mines to our ore processing plant, for which Independent Third Party subcontractors are responsible; and (ii) gold concentrate is picked up and transported from our ore processing plant to the smelters by the smelters. The gold concentrate is transported by road. Our mines and ore processing plant are served by well-established and connected infrastructures of roads.

Logistics subcontractors are responsible for transportation of ore and smelters are responsible for transportation of gold concentrate and they are generally insured by insurance policies taken out by them. Our Group considers that such logistics service providers can be replaced with other logistics service providers offering similar services with similar terms and fees. Our Directors have confirmed that our Group had not experienced any material shortage of transportation capacity during the Track Record Period. For further details, please see the paragraph headed "Suppliers and subcontractors — Subcontractors — Logistics" in this section.

Third party smelters

We generally notify the smelters when the gold concentrate is ready to be delivered to the smelters located in the Shandong Province from our ore processing plant twice every month. The two smelters we engaged during the Track Record Period are one of the largest precious metals smelters in the Shandong Province. We have over 10 years and five years of business relationships with them, namely, Shandong Humon and Shandong Guoda.

At the point that the gold concentrate is picked up at our ore processing plant, all the risks related to the gold concentrate are transferred to the smelters. They also bear the costs of transportation and insurance of the gold concentrate following their receipt.

Before our gold concentrate leaves our ore processing plant to be transported to the Independent Third Party gold smelters, our responsible staff and representatives from the third-party gold smelters weigh the gold concentrate on-site using weighing scales that meet the PRC national standards, and samples are also taken by both parties from each batch of gold concentrate to confirm the gold content of our gold concentrate. An extra sample is kept for further assaying if necessary. In general, the assaying of the gold concentrate takes around four to seven days after pick-up from our ore processing plant. In case of any material discrepancies in the gold content of our gold concentrate, a third-party laboratory will be engaged to conduct a further assay, the result of which will be final and conclusive. After that, it generally takes around one day for the gold smelters to refine our gold concentrate into gold bullion of Au99.95. During the Track Record Period and up to the Latest Practicable Date, as we are not a registered member of the Shanghai Gold Exchange for the sales of gold bullion, we sold gold bullion of Au99.95 to such gold smelters (or one of the gold smelters' subsidiary) who are registered with the Shanghai Gold Exchange, for their subsequent sales on the Shanghai Gold Exchange. For further details, please refer to the paragraph headed "Sales and customers" in this section.

In general, the Independent Third Party gold smelters charge us a refining fee according to the tonnage of our gold concentrate. Additional charges will be incurred or the delivery rejected, if certain deleterious elements are identified in excessive quantities by the gold smelters. As confirmed by our Directors, this had not happened during the Track Record Period. Each of the gold smelters is an Independent Third Party and our Directors confirmed there has been no dispute or disagreement with the gold smelters during the Track Record Period. For further details of the salient terms of the refining contracts with the Independent Third Party gold smelters, please refer to the paragraph headed "Suppliers and subcontractors — Subcontractors — Refining works" in this section.

SALES AND CUSTOMERS

Our principal product is gold bullion of Au99.95. We believe our sales volume is largely dependent upon our production volume. During the Track Record Period, our sales volume of gold bullion of Au99.95 amounted to approximately 987.4 kg (or 31,745.6 ounces), 645.5 kg (or 20,753.3 ounces), 1,084.9 kg (34,880.3 ounces) and 468.1 kg (15,049.8 ounces), respectively, and the average selling price for our gold bullion was approximately RMB365.6 per gram, RMB384.0 per gram, RMB385.7 per gram and RMB420.1 per gram, respectively. In line with the industry practice in the PRC, we generally do not engage in marketing activities and we do not expect to incur significant marketing expenses in the future. According to the F&S Report, the demand for gold in the PRC is expected to reach approximately 1,227.6 tonnes in 2027, while the supply of gold in the PRC is expected to be approximately 897.1 tonnes. As such, our Directors believe that there would be sufficient demand on the gold bullions produced by us in the foreseeable future.

According to the website of the Shanghai Gold Exchange, the Shanghai Gold Exchange had 289 registered members as at the Latest Practicable Date. Due to limited space available for membership, it is difficult to be admitted as a member of the Shanghai Gold Exchange if there is no vacancy. As we are not a registered member of the Shanghai Gold Exchange, during the Track Record Period, all of our gold bullion of Au99.95 was sold at an agreed price with reference to the prevailing Au (T+D) spot price as quoted on the Shanghai Gold Exchange to the two Independent Third Party gold smelters, namely, Shandong Guoda and Shandong Humon, who refine gold concentrate produced by us, purchase from us the gold bullion refined for their subsequent sales on the Shanghai Gold Exchange. Despite such practice, it is not mandatory for us to sell to Shandong Guoda and Shandong Humon the gold bullion refined by them under our arrangement with them.

(a) Refining and sales processes

Before refining, the weight, gold grade and agreed recovery rate of each batch of gold concentrates delivered to smelters are recorded. Such information enables our smelters and us to calculate the amount of gold bullion to be generated from each batch of gold concentrates delivered. Monthly smelting report capturing these information would be provided by Shandong Guoda and Shandong Humon to us for monitoring the amount of gold bullion available for sale. As confirmed by Shandong Guoda and Shandong Humon, for the refining of a batch of gold concentrates received from mining companies, they return the amount of gold based on a theoretical amount calculated by multiplying the weight of gold concentrates with the gold grade of such batch of gold concentrates and the applicable gold recovery rate. In other words, the smelters would always deem that the applicable gold recovery rate would be met during their refining process. In particular, the gold grades of gold concentrates are agreed by both parties based on sample testing results or based on the umpired results.

The gold recovery rates are set out in the refining service agreement, which in general increase with gold grade. When the smelters devise the applicable gold recovery rates, they have already considered their refining capability and efficiency to ensure the amount of gold produced would not be less than the theoretical amount to be produced from a batch of gold concentrates and at the same time balancing their market competitiveness. If the actual amount of gold produced is less than the theoretical amount, it is typically caused by the failure in the smelters' refining process instead of the quality of the gold concentrates supplied by mining companies. Hence, the smelters should bear the loss if the agreed gold recovery rate is not achieved, instead of the mining companies. There was no discrepancy in gold recovery rate during the Track Record Period and up to the Latest Practicable Date.

We typically make settlement in respect of smelting services provided by smelters on a monthly basis. After refining, the gold bullion produced is kept at our smelters (who are also our customers on group level) instead of transferring back to us to avoid any risks arisen during transportation process. As confirmed by Shandong Guoda and Shandong Humon, they would not charge us and other gold mining companies any storage or safe keeping fees for gold bullion at their premises which is in line with the industry practice. Nevertheless, we understood from our smelters that since our gold concentrates are processed by them in bulk together with gold concentrates from their other customers, they are unable to confirm with us the amount and volume of gold bullion that was solely refined from our gold concentrates but not from any other of their customers. As such, we record the amount and volume of the gold concentrate delivered in our inventory account. Once we deliver gold bullion to our customers and confirm the quantity, we recognise the corresponding amount of gold concentrate as our cost of sales and the sales amount of gold bullion as our revenue. As at 31 December 2020, 2021 and 2022 and 30 June 2023, our gold concentrates in our inventory account of approximately RMB11.9 million, RMB2.6 million, RMB0.8 million and RMB1.3 million were delivered to our smelters and the corresponding sales amount of gold bullion represented approximately 8.7%, 2.6%, 0.4% and 1.7% of our annual sales volume for FY2020, FY2021, FY2022 and 6M2023, respectively.

When we decide to sell our gold, we will place a sales order to our customers. We will give sales order to our customers after considering various factors, including (i) the prevailing Au (T+D) spot price as quoted on the Shanghai Gold Exchange which is directly related to our revenue; (ii) expected future trend of market price of gold; (iii) our production capacity to ensure our Group could fulfil the relevant sales orders within a reasonable time; and (iv) the expected gross profit margin to be realised from such sales price. We may place sales orders prior to having the respective amount of gold bullion on hand, i.e., prior to the smelting services provided by smelters. Our sales orders specify the volume of gold bullion to be sold and the selling price of the gold bullion to be sold under such sales order. The sales orders are delivered to and confirmed by our customers. We do not fix a delivery date at the time as the sales prices for the gold bullion were fixed upon the placement of sales orders. Nevertheless, based on the mutual understanding between Shandong Guoda and Shandong Humon and us, the sales orders placed by us are typically fulfilled within one year. In practice, we will provide an expectation to our customers regarding the expected time for completing the sales order (i.e. the timing of delivering the gold bullion) through our routine communication with our customers. Pursuant to the refining service agreements entered into with our smelters during the Track Record Period, the smelters are not obliged to refine the gold concentrates within a specific period of time after the receipt of gold concentrates from us. However, we have obtained an understanding from the smelters in relation to the expected refining time regarding each batch of gold concentrates sent to our smelting subcontractors. In practice, the refining process is considered completed when the gold bullion from a batch of gold concentrate is ready for delivery and settlement. Revenue from the sale of gold bullion is recognised on delivery of the gold bullion, which is at the point in time when control of the asset is transferred to the customer. To control the refining time of our smelters, we regularly communicate with them regarding the expected time for the gold bullion from a batch of gold concentrates to be ready for delivery and settlement and also monitor the monthly smelting reports. During the Track Record Period, although there was no contractual obligation on the refining time, the average timespan from the delivery of gold concentrates to smelters, the smelting of the gold concentrates, the delivery of gold bullion from respective smelting division to the selling division of the smelters to the settlement of relevant delivery of gold bullion is around one month. Further, we have negotiated and entered into a supplemental agreement with our smelter, Shandong Guoda, with effect from 6 January 2023 that they will complete the refining process of our gold concentrates or enable us to settle with them the amount of gold produced or to be produced from our gold concentrates in the form of cash payments or physical gold, within 30 days from the date of delivery of our gold concentrates to them.

During the Track Record Period, save for the sale of 135 kg of gold bullions to Shandong Guoda that were smelted by Shandong Humon in FY2019, all of our gold bullions were sold to the same customer who smelted the gold bullions in accordance with the sales process as stated above. We recognised revenue of approximately RMB33.4 million and RMB6.7 million from the sale of these 135kg of gold bullions smelted by Shandong Humon to Shandong Guoda in FY2019 and FY2020, respectively, which accounted for approximately 14.6% and 1.9% of the total revenue in FY2019 and FY2020, respectively. At the material time, Shandong Guoda was competing with Shandong Humon in providing smelting services to our Group. To compete with Shandong Humon, Shandong Guoda offered our Group a shorter smelting time, shorter settlement period for sales of gold bullion and lower smelting fee as compared to Shandong Humon. In particular, in comparing the gold sales transactions between our Group, Shandong Humon and Shandong Guoda in FY2019, but before the sales of the aforementioned 135 kg of gold bullion, the average smelting time and average settlement period of Shandong Humon were 32.2 days and 7.5 days, respectively, longer than those offered by Shandong Guoda at 15.5 days and 0.3 days, respectively. Further, the smelting fee offered by Shandong Humon was RMB150 per tonne of gold concentrates, which was greater than that offered by Shandong Guoda of RMB140 per tonne of gold concentrates. As such, our decision to sell these 135 kg of gold bullion to Shandong Guoda instead of Shandong Humon, directly after Shandong Humon's smelting, were primarily a commercial choice made by our Group. This decision was made with an intent to: (i) shift more business to Shandong Guoda in light of the shorter smelting time and settlement period they offered; (ii) negotiate more favourable smelting time, settlement period and smelting fee with Shandong Guoda by increasing the transaction scale with them; and (iii) negotiate similar terms with Shandong Humon by demonstrating that Shandong Guoda was offering more competitive terms to our Group. Before we decided to sell the relevant 135 kg of gold bullions to Shandong Guoda, we had not placed sales orders with Shandong Humon specifically for these 135 kg of gold bullions and hence, there was no cancellation of sales orders with Shandong Humon with regard to these gold bullions. These 135 kg gold bullions were delivered to Shandong Guoda as part of the batches of gold bullions to fulfill the on-going sales orders placed by our Group with them. All of these 135 kg of gold bullions, smelted by Shandong Humon, were sold under the same sales orders with Shandong Guoda as the gold bullions smelted by Shandong Guoda. As such, there was no difference in price fixing in respect of these 135 kg of gold bullions as compared to the sales of other gold bullions smelted by Shandong Guoda. Regarding the settlement time, the average settlement time in respect of these 135 kg of gold bullions was 3.4 days, which was slightly longer than the average settlement time of gold bullion smelted by and sold to Shandong Guoda during the same period, which was 0.3 days. In respect of the delivery of these 135 kg gold bullions, we arranged transportation with Shandong Guoda to pick up the gold bullions from Shandong Humon and delivered them to the selling division of Shandong Guoda. Testing was conducted on these gold bullions before acceptance by Shandong Guoda. Such additional logistics arrangement was not material and hence, did not result in any significant delay in the delivery, pricing and settlement of such gold bullions. No additional profit was derived from the sale of these 135 kg of gold bullions to Shandong Guoda instead of Shandong Humon since there were no other sales orders placed for these 135 kg gold bullions at a different price with Shandong Humon.

On the basis that (i) it is not mandatory for us to sell to the same customer who smelts the gold bullion under our existing refining contracts; (ii) the framework sales contracts with our customers include a contractual term on testing before acceptance to cater for gold bullions purchased from other gold smelters; and (iii) Shandong Guoda has confirmed to our Group that it has, in its ordinary course of business, purchased gold bullions smelted by other smelters, our Executive Directors are of the view, and the Sole Sponsor and Frost & Sullivan concur, that it is not an uncommon practice for our Group's customers, who are large gold smelters themselves, to purchase gold bullions from different gold smelters.

Pursuant to the "Notice regarding issues on Tax Policy on Gold Transactions" (關於黃金稅收政策問題的通知) (the "**Notice**") issued by the Ministry of Finance and the State Taxation Administration (國家稅務總局), gold production enterprises engaged in sales of gold (except for standard gold) such as our Group are exempt from value added tax ("**VAT**"). We have obtained a written confirmation from Yantai Muping Branch of State Taxation Administration (the "**YMBSTA**") on 14 April 2023, which our PRC Legal Advisers confirmed that YMBSTA is the competent authority for administration of VAT, that confirmed in light of the aforementioned requirements pursuant to the Notice, Yantai Zhongjia was not engaged in sales of standard gold and hence, is exempt from VAT. Notwithstanding the foregoing, in late 2020, solely upon the request of Shandong Guoda, the Group voluntarily agreed to issue VAT invoice for its sales transactions of gold to support the internal control requirements of Shandong Guoda. Nevertheless, Yantai Zhongjia was not required to pay the relevant VAT as stated on the VAT invoices or the VAT invoices would state that the transaction was tax-fee. Such practice was acknowledged and approved in written by YMBSTA.

(b) Pricing and internal control procedures

The selling prices as specified in the sales orders are determined with reference to the prevailing Au (T+D) gold spot price as quoted on the Shanghai Gold Exchange on the day of the sales order. The Au (T+D) spot price is a standardised pricing term of the Shanghai Gold Exchange and commonly used in the PRC gold industry. There is no contractual obligation for us to specify the number of days as referred to in the Au(T+D) spot price. The Au (T+D) spot price is adopted even if the date of the sales order and the date of actual delivery to customers were the same. During the Track Record Period, the variance between the agreed prices on sales orders and the average gold spot prices on the dates of sales orders are all less than ±2%. Such arrangement is mutually beneficial for our Group and for the customers since this can allow us to reduce the impact of short-term fluctuation in gold price on our working capital management while the customers can ensure a more expectable supply of gold bullion to them. Depending on our negotiation with them, we may be required to place a security deposit for our sales orders placed with gold bullion yet to be delivered. During the Track Record Period, we paid security deposit in the amount of approximately RMB9.0 million to Shandong Humon in FY2020 and did not pay any such security deposit in FY2021, FY2022 and 6M2023. Accordingly, our sales pursuant to each sales order are concluded in batches such that revenue is recognised each time when our gold bullion is delivered from the smelting division of the gold smelters (where our gold bullions are kept after smelting) to the division in-charge of selling of gold bullion (i.e., our customers) and accepted by our customers. Respective settlements are also received in batches after the delivery of gold bullion in batches within the same sales order. In particular, the smelting fees and sales proceeds of gold bullion with Shandong Guoda and Shandong Humon are settled separately in gross.

During the Track Record Period, the Group did not have a detailed written policy to govern the volume of gold bullion sales in a particular period. The average and range of time gap between pricing the gold bullion with and the actual delivery to our customers during the Track Record Period was 78.7 days and 0 to 261 days, respectively, which are in line with the industry average. There was a significant time gap between the pricing and actual delivery of the gold bullion because we placed sales orders to fix the sales price of gold bullion when we were satisfied with the prevailing Au (T+D) spot price but prior to having the relevant gold bullion on hand, and under such circumstances, we require time to produce the gold bullions for delivery and to complete the sales. During the Track Record Period, our Group from time to time placed a new sales order (i.e. pricing the gold bullion) before completing the previous ones. Such new sales order would not be completed until the previous ones were fulfilled which lengthened the average time gap between pricing the gold bullion and the actual delivery to our Group's customers. In addition, our Group delivered gold bullion under a sales order in batches and hence, the inventory turnover days were likely to be shorter than the number of days required for the full completion of the sales order.

Our sales department is responsible for the day-to-day sales of gold bullion, including analysing the sales price and sales volume. Sales price shall be fixed in accordance with the prevailing Au (T+D) spot price as quoted on the Shanghai Gold Exchange. In determining the sales order volume, we will estimate our production capacity and amount of gold bullion available for sales when we place our sales orders. In the event that the prevailing Au (T+D) spot price is in upward trend as compared with the average Au (T+D) spot price in the previous three months, our sales department shall check the quantity of gold bullion available for sales, which sales quantity shall not exceed our Group's scheduled production for the next three months or 200 kg, whichever is lower. This is to avoid concentration of sales volume in a particular period. The volume of gold bullion sales shall be relatively lesser if the prevailing Au (T+D) spot price is in a downward trend. Our sales department will submit an analysis report in respect of the abovementioned to the Chairman of Yantai Zhongjia for approval before placing the sales orders, including any special circumstances to the above.

We also have policy and procedures in place to avoid prolonged delay in settlement of our gold bullion sales. After acceptance by the customer, our head of finance department shall monitor the agreed settlement date, and any delays in delivery and settlement date shall be reported in writing to our Deputy General Manager, who shall then understand the reasons for delay with the smelters to facilitate the follow-up actions with our relevant departments and customers. Monthly reports of mining operations shall be submitted to the Deputy General Manager for review to ensure our sales are settled in accordance with the prescribed period. In particular, the Deputy General Manager used to monitor closely with the smelter to ensure that all delivered and processed gold concentrates into gold bullion must be transferred to the customer for immediate sales for proper cut off at each month end.

(c) Reasons for our Group to adopt and our customers to accept the pricing and delivery arrangement of our gold bullion

The abovementioned pricing arrangement with our customers, i.e. determined based on prevailing Au (T+D) spot price, is adopted after taking into account the fact there is an active market of gold bullion in the PRC (i.e. the Shanghai Gold Exchange), and hence, it is fair for us and for our customers to use the prevailing Au (T+D) spot price as the price reference of the sales transactions of our gold bullion.

(i) *Reasons for our Group to adopt the pricing and delivery arrangement of our gold bullion*

Under this pricing arrangement, we can lock the sales price in advance to the production of gold bullion by placing sales orders with our customers in order to secure a majority portion of our revenue at a relatively early stage of a year and to minimise our price risk exposure without subject to the possible volatility of gold price for the remainder of the year. We are inclined to place sales orders and lock the sales price of gold bullion if the price level can enable us to make a reasonable profit. By doing so, the advantage of such is that we can secure in the first half of year most of our Group's revenue for the year derived from the delivery of gold bullion and hence, has roughly locked in the profit for the whole year without subject to the possible volatility of the price of gold for the remainder of the year. Our Executive Directors prefer achieving a more promising financial performance of our Group by locking the sales price of gold bullion at a relatively early stage of a year rather than the uncertainty in earning the potential upside of the price of gold bullion for the remainder of the year.

Based on our Executive Directors' understanding from three dominant market players and the Group's customers, namely Shandong Humon and Shandong Guoda, they consider that such delayed delivery arrangement or a similar delivery arrangement is not uncommon in their transactions with their gold suppliers and the adoption of pricing and delivery arrangement is determined by the commercial negotiation between the relevant parties. The three dominant market players were among the top four gold producers by mine production volume in China 2022, two of which were also the top two gold producers by mine production volume in Shandong in 2022. As such, our Executive Directors considered, and the Sole Sponsor concurred, the views of the three dominant market players are a meaningful indication of the prevailing industry practice. As advised by Frost & Sullivan, gold smelting and refining industry in China has the problem of excess capacity and smelters are always eager to source more gold concentrates so that they can utilise their excess smelting capacities and earn smelting fees. As such, Frost & Sullivan is of the view that it is not uncommon for gold smelters to accept the delayed delivery arrangement as an incentive for gold mining companies to choose them as smelter.

Substantially all of our Group's sales to Shandong Guoda and Shandong Humon were conducted under the delayed delivery arrangement. As advised by Shandong Guoda, approximately half of the gold procured by them were through delayed delivery arrangement. Notwithstanding the fact that, to the best knowledge of our Directors, the delayed delivery arrangement or similar arrangement are not uncommon in other industry players, including the three dominant players in the industry, the extent of delayed delivery arrangement of our Group is generally greater than that of other industry players, including the three dominant market players in the industry. Our Directors believe that the greater extent of delayed delivery arrangement of our Group is mainly attributable to the fact that when our Group considers the gold price can enable us to secure a reasonable profit margin in an early part of a year, we will place sales orders with our customers to fix the gold selling price in advance to our gold production which causes the delayed delivery arrangement. Under the approach of advance pricing and delayed delivery arrangement, we might forfeit the upside of gold price when it is in a rising trend, while we can secure a majority portion of our revenue at a relatively early stage of a year and to minimise our price risk exposure without subject to the possible volatility of gold price for the remainder of the year. We are inclined to place sales orders and lock the sales price of gold bullion if the price level can enable us to make a reasonable profit. By doing so, the advantage of such is that we can secure in the first half of year most of our Group's revenue for the year derived from the delivery of gold bullion and hence, has roughly locked in the profit for the whole year without subject to the possible volatility of the price of gold for the remainder of the year. Our Executive Directors prefer achieving a more promising financial performance of our Group by locking the sales price of gold bullion at a relatively early stage of a year rather than the uncertainty in earning the potential upside of the price of gold bullion for the remainder of the year. Having considered the aforementioned, our Directors are of the view that it is reasonable for our Group to have a greater extent of delayed delivery arrangement as compared to other industry peers.

In addition, in the PRC, gold smelters encounter the problem of excess capacity and it is their main concern to enhance the utilisation rates of their smelting facilities. The increase in utilisation of smelting facilities will reduce the overall unit cost of production for gold smelters and increase the revenue derived from provision of smelting services and sales of precious metals, non-ferrous metals and chemical by-products generated during the gold smelting process. The acceptance of the delayed delivery arrangement is one of their measures to attract more mining companies to use their smelting services or enhance the utilisation rates of smelting facilities. If a smelter refuses to adopt such arrangement, mining companies may switch to another smelter which offers the desired transaction terms and the smelter may experience a decrease in its competitiveness, decrease in gold concentrates supplies to fill their smelting capacity, loss of smelting revenue, increase in unit production costs and decrease in profits. Nevertheless, when the smelters receive the sales order from gold mining companies with the delayed delivery arrangement, the smelters are exposed to the downward price risk of gold. Such risk could be mitigated by adopting the hedge arrangement, which is commonly adopted by the smelters. Based on the foregoing, it is justifiable for gold smelters to accept the delayed delivery arrangement.

The ranges of delivery time of our Group under the delayed delivery arrangement were 0 to 222 days, 0 to 261 days, 0 to 179 days and 27 to 101 days during the Track Record Period, respectively. Such ranges of delivery time were within the ranges of delivery time of certain of our Group's industry peers, including the three dominant market players in the industry, under the delayed delivery arrangement or similar arrangement and in the event that the smelters are not required to pay sales consideration upfront, being less than one year during the Track Record Period. The average delivery times of the Group under the delayed delivery arrangement were 96.1 days, 88.2 days, 56.5 days and 60.6 days during the Track Record Period, respectively. Such average delivery times were comparable to the most common delivery time of certain of our Group's industry peers, including the three dominant market players in the industry, under the delayed delivery arrangement or similar arrangement, being 30 days, 60 days and 90 days during the Track Record Period. As further advised by the three dominant market players, gold suppliers tended to have a shorter delivery time in recent years due to the smaller size of sales orders received in light of the increasing gold price.

(ii) ***Reasons for our customers to accept the pricing and delivery arrangement of our gold bullion***

Our customers may face a downward risk in gold price since our gold bullion is not delivered to them at the same time when the gold sales price is fixed. Nonetheless, our customers would be able to maintain a reasonable amount of net profit in respect of their smelting services and sales of gold bullion even though the gross and net profit margins of gold smelting business are thin or even may have a slight loss, the profitability of smelting business is justifiable because (i) the smelting industry has the problem of excess capacity and smelters are always eager to source more gold concentrates so that they can utilise their excess smelting capacities and earn smelting fees. As a result, there is intense competition among gold smelters to acquire gold concentrates and the gold mining companies have relatively greater bargaining power over gold smelters in respect of smelting services, leading to the reasons for negotiation of pricing and delivery terms; (ii) the gold smelters could earn decent amount of net profit due to sizeable operation in its smelting segment; (iii) smelters could mitigate the risk of gold price fluctuations arising from the pricing and delivery arrangements by entering into hedging arrangement; (iv) the sales of other precious metals, non-ferrous metals or chemical by-products generated during the gold smelting process will enhance the overall efficiency and profitability of the gold smelters; and (v) smelters recognise the responsibility of being the essential part of the value chain of the gold industry in China as smelters do contribute to the local GDP for the local government and the local government will usually assist them in sourcing and obtaining mine resources.

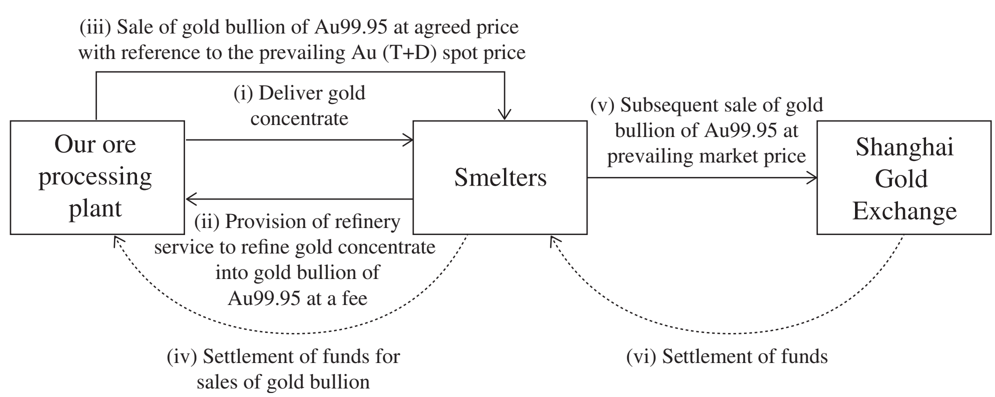
As understood from our customers, it is not their intention to realise profits from purchasing gold bullion from us for onward sales to the Shanghai Gold Exchange, but commercially sensible to utilise their excess smelting capacity of their smelting operation of their group companies and to earn smelting fees from us when we acquire the smelting services provided by their group companies, given the fact that the smelting business is one of the principal businesses of our customers. As confirmed by Frost & Sullivan, Shandong Guoda and Shandong Humon, the gold refining industry in China has the problem of excess capacity and due to scarcity of gold resources, they are always eager to source more gold concentrates to support their refining business. In particular, smelters strive to increase the refining volume to achieve better economy of scale and hence, reducing the unit production costs and maximising the profits. As such, gold mining companies have relatively greater bargaining power over smelting companies to request for the abovementioned pricing and delivery arrangement of gold bullion that may be favourable to mining companies but such arrangement is still the normal market practice as accepted by smelters in China. If a smelter refuses to adopt such arrangement, mining companies may switch to another smelter which offers more favourable transaction terms and the smelter may experience a decrease in its competitiveness, decrease in gold concentrates supplies to fill smelting capacity causing suspension of operation of the smelting process, including the furnaces, loss of smelting revenue, increase in unit production costs, decrease in profits and may incur huge energy costs in resumption of operation to reheat furnaces back to the operating temperature and will incur idle labour costs during suspension of operation.

As confirmed by our customers, the downward risk in gold price could be mitigated since our supply of gold to them is not their principal source of gold bullion, considering their own extraction activities and gold supplies from other suppliers. In practice, after receiving sales order from us, they may consider selling the same amount of gold to Shanghai Gold Exchange out of their own stock immediately or entering into a short position of Au (T+D) contract or a gold forward contract with the Shanghai Gold Exchange to net off our sales orders to hedge against the risk of fluctuation of gold price and minimise their risk exposure, at their sole discretion where appropriate. As confirmed by Shandong Guoda and Shandong Humon who are registered members of the Shanghai Gold Exchange, they also have such hedging arrangement with their other gold mining companies since it is a common practice adopted by other registered members of the Shanghai Gold Exchange, according to Frost & Sullivan. Based on the foregoing, the effect of our sales orders, in particular, the gold price is fixed in the sales orders with delayed gold delivery, on our customers' gross profit margin is inconsequential and the risk of price fluctuations borne by our customers is remote or is under their control. Nevertheless, the measures adopted by our customer to net off our sales order do not constitute any back-to-back on-selling arrangement between our Group and our customers. Moreover, our customers may not suffer from the price fixing arrangement. For example, if the gold spot price went up after our sales orders were placed, we would indeed suffer a notional loss since the profit from the increase in gold spot price was forgiven while our customers would earn a notional profit. Historically, as a result of the price fixing arrangement, our average selling price for FY2021 was higher than the average gold spot price in the PRC while those for FY2020, FY2022 and 6M2023 were lower than the average gold spot price in the PRC.

In addition to smelting fees, they are able to generate other sources of revenue as described above as well as revenue derived from sales of gold bullion (as produced by gold concentrate source from the gold mining companies or supply by the group companies of gold smelters) to the Shanghai Gold Exchange by the smelters is recorded on the book of the smelters, or its group companies. With such a large amount of revenue on book, the smelters can demonstrate its massive business scale to commercial banks, which is favourable to the smelters to negotiate with banks for financing at a better term or for the issuance of corporate bonds with high credit rating to strengthen their cash flows and liquidity.

As confirmed by our Executive Directors and our customers, as between the two customers during the Track Record Period, our customers provided similar pricing and delivery arrangements to us, and such pricing and delivery arrangements were also provided to their other gold mining and processing suppliers. As further confirmed by our customers, they accept the arrangement of delayed gold delivery to attract gold mining companies to use their smelting division where they can utilise their excess smelting capacities and earn smelting fees. As confirmed by the Frost & Sullivan, such sale and logistic arrangement between our Group and our customers are in line with the gold mining industry in the PRC. In view of the above, our Executive Directors are of the view that our pricing arrangements with our customers are reasonable and sustainable.

The following diagram illustrates the process and cash flows in a typical gold bullion sale transaction through our third-party gold smelters:



The following table sets forth our sales to Shandong Guoda and Shandong Humon during the Track Record Period:

	FY2020		**FY2021**		**FY2022**		**6M2023**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
	(RMB in thousands, except percentages)							
Revenue								
Shandong Guoda	335,778	93.0	247,872	100.0	418,413	100.0	196,659	100.0
Shandong Humon	25,221	7.0	—	—	—	—	—	—
Total	360,999	100.0	247,872	100.0	418,413	100.0	196,659	100.0

Our relationships with Shandong Guoda and Shandong Humon

Our business relationships with Shandong Guoda and Shandong Humon commenced in 2017 and 2008, respectively. During the Track Record Period, we outsourced the refining of gold concentrate produced by us into gold bullion of Au99.95 principally to Shandong Guoda, and in a lesser degree to Shandong Humon for FY2020. As we are not a member of the Shanghai Gold Exchange, after refining, we sold the gold bullion back to them for their subsequent sales on the Shanghai Gold Exchange at the agreed price with reference to the prevailing Au (T+D) spot price as quoted on the Shanghai Gold Exchange.

Shandong Guoda

Shandong Guoda was one of the two customers of our Group and the revenue generated from the sale of gold bullion to Shandong Guoda accounted for approximately 93.0%, 100.0%, 100.0% and 100.0% for FY2020, FY2021, FY2022 and 6M2023, respectively. In addition to the sales of gold bullion to Shandong Guoda, due to the increase in the price of sulfuric acid, we commenced selling to Shandong Guoda sulfuric acid in gold concentrate generated during the smelting process separately since October 2021, and recorded other income amounted to RMB1.4 million, RMB10.5 million and RMB2.4 million in FY2021, FY2022 and 6M2023, respectively. Shandong Guoda has similar arrangement in relation to sulfuric acid with some but not all of its other refining services customers depending on the scale of the gold supply from gold mining companies and whether the gold mining companies actively negotiate the separate compensation arrangement on sulfuric acid with them. During the Track Record Period, sales to Shandong Guoda were settled by bank transfer within two days of sale. Shandong Guoda was also one of our five largest subcontractors for each of FY2020, FY2021, FY2022 and 6M2023, with purchases accounted for approximately 6.0%, 7.3%, 12.2% and 10.6% of our total purchases, respectively.

Shandong Guoda is a group of companies comprises 山東國大黃金股份有限公司 (Shandong Guoda Gold Co., Ltd*) ("**Shandong Guoda Gold**") and its wholly-owned subsidiaries, 煙台國大貴金屬冶煉有限公司 (Yantai Guoda Precious Metal Smelting Co., Ltd*) ("**Yantai Guoda**") and 煙台國大貿易有限公司 (Yantai Guoda Trading Co., Ltd.*) ("**Yantai Guoda Trading**"). According to public information, as at the Latest Practicable Date, Shandong Guoda Gold is a limited liability company established in the PRC in January 1999 with a registered capital of approximately RMB173.4 million, which is primarily engaged in the business of production of gold, silver, copper, sulfuric acid, iron powder and industry gypsum; sale of own products and ore sludge, arsenic trioxide, sulfuric acid and fuming sulfuric acid. As at the Latest Practicable Date, Shandong Guoda Gold is owned by three Independent Third Party corporate shareholders, namely, (i) as to approximately 66.2% by 山東招金集團招遠黃金冶煉有限公司 (Shandong Zhaojin Group Zhaoyuan Gold Smelting Co., Ltd.*) ("**Shandong Zhaojin Gold Smelting**"), which is a wholly-owned subsidiary of Shandong Zhaojin Group Corporation Limited and is indirectly ultimately wholly-owned by PRC government authorities; (ii) as to approximately 30.1% by China Gold Development Group (H.K.) Limited, an indirect subsidiary of Zijin Mining Group Company Limited (stock code: 2899.HK; 601899.SH); and (iii) as to approximately 3.7% by China Gold Group Limited. On the other hand, Yantai Guoda is a limited liability company established in the PRC in October 2004 with a registered capital of approximately RMB40.3 million, which is primarily engaged in the business of refining of non-ferrous metals, precious metals and alloys; the use of precious metals for rolling processing; manufacturing of crafts and jewelleries; and processing of chemical or metallurgical products containing precious metals (excluding dangerous goods). Yantai Guoda Trading is a limited liability company established in the PRC in 19 April 2022 with a registered capital of approximately RMB10.0 million, which is primarily engaged in the business of wholesale of hardware products, sales of gold and silver products, wholesale of jewellery, retail of jewellery, sales of non-ferrous metal alloys, refining of non-ferrous metals, precious metals and alloys, jewellery recycling and repair services, sales of arts and crafts and ceremonial supplies (except ivory and its products), arts and crafts and retail of collectibles (except ivory and its products), domestic trade agents, internet sales (except for the sale of goods that require a licence).

As at the Latest Practicable Date, (i) Shandong Guoda is indirectly owned as to approximately 66.2% by Shandong Zhaojin Gold Smelting; and (ii) Shandong Zhaojin Gold Smelting wholly-owned our cornerstone investor, namely, Dongfang Gold Industry (Hong Kong) Limited, which will hold approximately 9.9% of the total issued share capital of our Company immediately following the completion of the Global Offering (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme).

Our Directors noted from Shandong Guoda that Shandong Guoda has been in the process of changing its principal business from gold smelting to copper smelting. As at the Latest Practicable Date, both Zhaojin Mining and Shandong Guoda are controlled by Shandong Zhaojin Group Corporation Limited. However, our Directors, after having made enquiries with a member of the senior management of Shandong Zhaojin Group Corporation Limited, understood that (i) there was no concrete timeline for the change in business of Shandong Guoda, and Shandong Guoda would continue to primarily engage in gold smelting with the development of copper smelting business; (ii) Shandong Guoda would need to overcome a number of difficulties to implement such change of principal business as it would involve significant capital investment for, among others, technology and plant and equipment required for copper smelting, which are different from gold smelting; (iii) copper smelting would need to overcome more pollution and environmental problems as compared to gold smelting, which also adds difficulties to changing from gold smelting to copper smelting; (iv) Shandong Province is not a major copper producing province in the PRC, there might not be sufficient supply of copper for the copper smelting business in the Shandong Province. Hence, the utilisation of copper smelting plant is expected to be lower than gold smelting plant. Based on the above, our Directors consider that it would be challenging for Shandong Guoda to change its principal business from gold smelting to copper smelting with immediate effect.

Having taking into account the above and the fact that the gold smelting industry is a relatively mature industry, there are ample choices of alternatives and there is no material difficulty for our Group to engage and sell to other Independent Third Party smelters in the Shandong Province who are also registered members of the Shanghai Gold Exchange to provide similar quality of services at similar pricing, our Directors are of the view that the change of Shandong Guoda's principal business from gold smelting to copper smelting would not have a material impact on the Group's operation and financial performance. According to Frost & Sullivan, there are at least four out of seven gold smelters (apart from Shandong Humon and Shandong Guoda) in the Shandong Province which are also registered members of the Shanghai Gold Exchange available to provide their smelting services to our Group, as well as there were 27 gold smelters in Shandong Province in 2022. As at the Latest Practicable Date, we were reaching out to a number of Independent Third Party smelters in the Shandong Province for potential business cooperation, in order to further reduce the risk arising from the possible change of principal business of Shandong Guoda.

Shandong Humon

Shandong Humon was one of the two customers of our Group and the revenue generated from the sale of gold bullion to Shandong Humon accounted for approximately 7.0%, nil, nil and nil for FY2020, FY2021, FY2022 and 6M2023, respectively. During FY2020, sales to Shandong Humon were settled by bank transfer within two business days of sale. Shandong Humon was also one of our five largest subcontractors for FY2020, with purchases accounted for approximately 0.4% of our total purchases. Prior to 2020, Yantai Humon Group Co., Ltd. (煙台恒邦集團有限公司), a substantial shareholder of Shandong Humon, had provided corporate guarantees in the amount of RMB20 million, in respect of banking facilities obtained by Yantai Zhongjia. Such corporate guarantee had been released in April 2020. Please refer to the section headed "Financial information — Indebtedness — Bank borrowings — secured" in this prospectus for further details. In FY2021, FY2022 and 6M2023, due to the relatively higher fees for its refining services charged to our Group as compared to the fees charged by Shandong Guoda, we did not outsource any refining works to Shandong Humon in FY2021, FY2022 and 6M2023, as it was cheaper for us to outsource such refining works to Shandong Guoda. Nevertheless, as at the Latest Practicable Date, we had entered into a framework agreement with Shandong Humon for the provision of refining services of our gold bullion. Our Directors confirmed that our Group can continue to outsource the refining works to Shandong Humon at any time during the period of the framework agreement at our discretion as long as it is beneficial for us to do so.

According to public information, as at the Latest Practicable Date, Shandong Humon is a state-controlled limited liability company established in the PRC in February 1994 with its shares listed on the Shenzhen Stock Exchange (stock code: 2237.SZ), which is principally engaged in the business of gold and silver smelting, and the production and sale of non-ferrous metals, rare metals and other metals in the PRC. Shandong Humon also owns gold mines in Shandong Province. Based on its interim report for the six months ended 30 June 2023, it recorded a revenue of approximately RMB32,227.7 million and net profit of approximately RMB280.7 million.

Customer concentration

During the Track Record Period, we engaged two Independent Third Party smelters to refine gold concentrate produced by our ore proceeding plant into gold bullion, and we subsequently sold the gold bullion to them for their subsequent sales on the Shanghai Gold Exchange. As such, for each of FY2020, FY2021, FY2022 and 6M2023, we had two customers and our sales derived from Shandong Guoda represented approximately 93.0%, 100.0%, 100.0% and 100.0% of our total revenue, respectively. It appears that our Group's sales were highly concentrated on one of our two customers. According to the F&S Report and our executive Directors believe that our arrangement with Independent

Third Party smelters as our customers is industry specific and it is likely for us to continue with such arrangement in the foreseeable future. Our executive Directors considered that we are capable of maintaining our revenue in the future because of the following reasons:

(i) our gold bullion of Au99.95 is a nationwide homogeneous product tradable on the Shanghai Gold Exchange. According to the market research of Frost & Sullivan, it is industry norm for gold producers such as our Group to sell gold bullion to a few customers, usually less than three. The main reason is that the gold price is highly correlated to the gold price on the Shanghai Gold Exchange and it is not necessary for the gold producers to sell gold bullion to too many customers which may only incur extra administrative costs with no increment of revenue. As such, Frost & Sullivan is of the view that the Group's reliance on only a very limited number of major customers is consistent with the industry norm. As we are not a registered member on the Shanghai Gold Exchange, we sell our gold bullion refined by the relevant smelters, who are our subcontractors, for their subsequent sales on the Shanghai Gold Exchange. As such, our gold bullion will be sold at the Shanghai Gold Exchange eventually, and there is no issue of a lack of demand for our gold bullion. Our Directors consider the smelters, who are also our customers, as just being an intermediary for us to sell our gold bullion out of convenience. It is a matter of our choice and it remains at our absolute discretion as to whether or not we sell the gold bullion through them, or through other companies who are members of Shanghai Gold Exchange, given that the sales price for our gold bullion will be fixed prior to our sales with reference to the prevailing Au (T+D) spot price as quoted on the Shanghai Gold Exchange. According to the F&S Report, gold mining and processing companies mainly engage in ore mining and mineral separation business, and it is a common industry practice for mining companies to outsource, among others, refining services to qualified subcontractors, as well as to sell the finished gold bullion to the same gold smelters due to licensing barrier. In 2022, among the 30 gold producers in Shandong, only the top two producers have their own smelting business. In addition, these two gold producers in Shandong Province have the membership of Shanghai Gold Exchange due to scale and cost advantages. For mining companies who are not a registered member of the Shanghai Gold Exchange, they can only sell the refined gold to registered members or entrust the members of the Shanghai Gold Exchange to sell their refined gold. Therefore, our sales to Shandong Guoda and Shandong Humon are in line with industry practice; and

(ii) according to the F&S Report, there were about 27 gold smelters in the Shandong Province in 2022 and nine of them were also registered members of the Shanghai Gold Exchange, and the top five gold smelters in Shandong Province accounted for approximately 93.2% of Shandong's total gold smelting volume in 2022. As further advised by Frost & Sullivan, it is not an industry norm for gold smelters to enter into exclusive refining arrangements with gold producers even if the gold smelters were owned by the group company of the gold producers. While we have in the past, due to our business decision after due and careful consideration of the shareholding background and financial standing of each of Shandong Guoda and Shandong Humon, to engage them to provide refining services, based on market research and enquiries by Frost & Sullivan as well as fee quotations obtained by our Group, at least four out of the other seven gold smelters in the Shandong Province which are also registered members of the Shanghai Gold Exchange are available to provide their refining services to our Group, and given the fact that there is no exclusive refining arrangement for the gold smelters and gold is a valuable commodity, as well as there were 27 gold smelters in Shandong Province in 2022, our executive Directors believe that there are ample choices of alternatives and there is no material difficulty to engage and sell to other Independent Third Party smelters in the Shandong Province who are also registered members of the Shanghai Gold Exchange. Given that the smelting industry is a relatively mature industry, our Directors consider that there should be no difficulty for us to obtain similar quality of services at similar pricing from other smelters. Based on quotations obtained by our Group from three Independent Third Party smelters as well as the contract for smelting works entered into with Shandong Humon, the smelting charges of these smelters range from RMB220 per tonne to RMB230 per tonne, which are 10% to 15% more than the smelting charges charged by Shandong Guoda in FY2022. Taking into account the fact that our refining subcontracting costs amounted to only approximately RMB5.7 million, RMB4.1 million, RMB13.7 million and RMB5.4 million, representing approximately 3.4%, 3.8%, 6.8% and 5.2% of our cost of sales during the Track Record Period, respectively, such smelting subcontracting costs are not significant part of our cost of sales. Hence, higher smelting charges or any change of smelter would not lead to any material financial impact on our Group.

Having considered the views of the executive Directors and Frost & Sullivan that:

(i) the gold bullion of Au99.95 being a valuable commodity and an actively traded product on the Shanghai Gold Exchange, the gold bullion can be sold on the Shanghai Gold Exchange at a transparent market price;

(ii) it is the industry norm for gold producers to sell gold bullion to a few customers and to outsource refining services to qualified subcontractors;

(iii) our Group may easily find (1) other replacement customers given the demand for gold bullion exceeds its supply in the PRC; and (2) other replacement smelters given the smelting industry is a relatively mature industry and there are ample choices of alternatives of other gold smelters who can provide similar quality of services at similar pricing as elaborated above, hence, any change in our relationship with Shandong Guoda and Shandong Humon will not have any material adverse impact on our business as such exposure can be effectively mitigated by switching to other potential customers or smelters;

(iv) the likelihood of each of Shandong Guoda and Shandong Humon will materially adversely change or terminate their business relationship with our Group is low because both of them have substantial businesses with state-owned interest, hence, they are selective on their business partners. Our Group, as a top five gold producer in the Shandong Province, has established business relationships with each of them for over five years, and we have never had any disputes with them since the commencement of business with them; and

(v) both Shandong Guoda and Shandong Humon are engaged in the business of gold smelting and are subcontractors of our Group for refining services. Our Group, being the third largest gold mining company in the Shandong Province in 2022 with a market share of 2.6% in terms of mine production volume, is one of their important customers for their smelting business in the Shandong Province. As such, our business relationships with each of Shandong Guoda and Shandong Humon are mutually complementary to each other,

the Sole Sponsor concurred with the views of our executive Directors that our high customer concentration would not give rise to our Group's undue reliance on the two Independent Third Party smelters and it is unlikely that they will materially and adversely change or terminate their business relationships with us in the future. Nevertheless, we may selectively diversify our gold bullion sales to other additional high quality customers or smelters in future should the need arise, which we will also carefully select with regard to their demand, creditworthiness, operating scale and reputation. However, we do not see the commercial need to overly diversify our customer base at this stage, which would bring additional administrative burdens.

Salient terms of the framework sales contracts with customers

We signed framework sales contracts with our customers primarily to establish the business relationship and the principal framework for the transactions between the parties. Despite such, both of us and our customers acknowledged and accepted that there are contract terms in the framework sales contracts namely product, transportation, weighing, testing, sampling and arbitration and pricing and settlement are not applicable and hence would not be adopted and the actual transaction practice would be modified based on actual commercial needs of the parties.

Discrepancies between our framework sales contracts with customers and actual transaction practices

We set out below details of, and the circumstances relating to these discrepancies:

(a) while the framework sales contracts set out the minimum quantity for each batch of product to be sold, such limit is not applicable since our customers in practice accept the delivery of gold bullion even if the quantity is less than the minimum quantity;

(b) our Group engages Shandong Humon and Shandong Guoda for smelting gold concentrates into gold bullions. Before the smelting process, relevant weighing, testing, sampling and arbitration procedures for gold grade and other conditions are conducted on our Group's gold concentrates. Since the gold bullion produced through this process is typically sold to the same party, our Group is not required to arrange further transportation and there is no need to repeat the relevant testing procedures of gold grade and other conditions. Therefore, the contract terms for transportation and relevant testing procedures are not applicable and hence not followed;

(c) pricing of gold bullion takes place before delivery and laboratory testing results. This was primarily because (i) the relevant testing procedures are not applicable as mentioned in (b) above; (ii) our Group was satisfied with the prevailing market prices of gold and hence, decided to secure the revenue and profit to be realised by placing the relevant sales orders with sale price of gold fixed at the said market prices; and (iii) such practice is accepted by our customers as a result of successful negotiation with customers. Therefore, the contract term requiring delivery of product or agreement of the results of relevant testing procedures before determining the price is not followed;

(d) the pricing of gold bullion takes place before delivery for the reason as stated in sub-paragraph (c) above, which leads to a longer delivery time for our Group compared to the specified period as stated in the framework sales contract. This extension is a result of successful negotiations with customers given that our Group is one of the largest gold producers in the Shandong Province. For gold smelters, such advance pricing arrangement serves as incentives for gold mining companies to choose a specific smelter and build long-term relationships while any price risk arising from such arrangement could be mitigated by hedge arrangement adopted by the smelters;

(e) as a result of successful negotiation with our customers, the requirement to pay a security deposit and interest expenses for pricing before delivery of gold bullion, as stated in the framework sales contract, was not applicable or not fully applicable; and

(f) our customers settle the sales consideration of gold bullion upon delivery. Since the relevant testing procedures are not applicable as mentioned in (b) above, the contract term requiring our customers to settle after the agreement of the results of relevant testing procedures is not applicable.

Such actual transaction practice has been consistently applied in the Track Record Period and reflected in various transaction documents such as sale orders, delivery notes, settlement statement, etc. On 17 May 2023, we signed memoranda with our customers (the "**Subsequent Memoranda**") to record in writing the modified practice adopted in actual transaction between us and our customer for ease of reference. Hence, the actual transaction procedures between our Group and our customer should be interpreted from the framework sales contracts together with the Subsequent Memoranda, which are also set out in the paragraphs head "Sales and customers" in this section.

Despite our Group's long-standing business practice of using its customer's standardised template for framework sales contracts, to further enhance the corporate governance of our Group, our Group has negotiated with Shandong Guoda and on 24 November 2023, our Group and Shandong Guoda entered into a new framework sales contract which incorporates actual transaction practices and eliminates any non-adopted terms, as well as the addition of customary contract terms such as representations and warranties, confidentiality, force majeure clauses, etc.

Views of the PRC Legal Advisers and the Sole Sponsor

As advised by the PRC Legal Advisers, it is not uncommon for the actual transaction procedures between two enterprises to differ from the terms and conditions as set out in the relevant framework agreements signed between them in the PRC, any amended terms as agreed by both parties to the agreement could be made in written form or mutual understanding if it is an industry trade practice to do so. Pursuant to Article 469 of the Civil Code of the PRC (中華人民共和國國民法典), the parties may conclude a contract in writing, orally, or in other forms. Pursuant to Article 543 of the Civil Code of the PRC, the parties (to the contract) may modify contract upon agreement through negotiation. Therefore, the abovementioned is not illegal for both parties in a framework agreement to amend the transaction terms in practice if they both agree so. Further, pursuant to Article 509 of the Civil Code of the PRC, the parties (to the contract) shall fully perform their respective obligations as contracted. Based on the foregoing, the condition that all of our Group's sales transactions are genuinely transacted and supported by relevant transaction documents and the fact that there have been no disputes or any claims against each other or going to a tribunal for settlement of any disagreements on the amended terms has ever occurred, and Articles 469, 509 and 543 of the Civil Code of the PRC as elaborated above, the PRC Legal Advisers are of the view, and the Sole Sponsor concurs that our Group's framework sales contracts and the Subsequent Memoranda with Shandong Humon and Shandong Guoda are valid and legally enforceable.

As confirmed by our customers, it is their requisite internal review requirement to adopt standardised contract for the framework sales contracts, primarily due to the fact that it is their standard practice as a state-owned enterprise. Additionally, the primary objective of the internal review is to ensure that the parties they engage with are well-established and possess a sound background, and the framework sales contracts they enter into do not create any unexpected legal liabilities. In the case of our Group and the relevant framework sales contracts, these requirements have been satisfactorily met. Further, the routine transactions between our Group and its customers under the framework sales contracts are still subject to the customers' internal review and approval processes. Both our Group and our customers have been trading with the above business practice since before the Track Record Period and no disputes or any claims had arisen against each other.

Furthermore, in order to achieve best business practice, our Group entered into the Subsequent Memoranda with our customers, which confirm the changes made to the key terms of the framework sales contracts. The Subsequent Memoranda also serve as a reference for the actual transaction practices between our Group and our customers, which both parties are expected to follow. Nevertheless, the execution of the Subsequent Memoranda does not bypass the customers' internal review requirement, as routine transactions between our Group and our customers are still subject to their internal review and approval processes. The agreements were received and approved through their internal review process and were consistently upheld. These transactions were acknowledged and approved in accordance with their actual practice. Furthermore, there has been no objections raised by our Group's customers or their internal reviewer, and there was no dispute throughout all these years.

Based on the aforesaid, the PRC Legal Advisers are of the view, and the Sole Sponsor concurs that the entering into of the Subsequent Memoranda would not be considered a circumvention of the requisite internal review requirements of the relevant customers in respect of their framework sales contracts, and it is unlikely that our Group will be subject to any enforcement or disciplinary action by any government authorities.

Comparison to market practice in the PRC

Based on our Executive Directors' understanding from the dominant market players of the PRC gold industry which are listed companies in Hong Kong, and as confirmed by Frost & Sullivan, that it is not uncommon to have differences between framework sales contractual terms and actual transactions terms. While the nature and extent of these differences can vary depending on factors such as the length of the business relationship, bargaining power, and specific commercial needs, the differences can be broadly categorised into "products", "transportation and laboratory testing", "pricing and delivery", "advance payment" and "settlement". However, given that the background of each enterprise differs and their business relationships with customers vary, the nature and extent of differences in each of the aforesaid categories are not comparable among enterprises.

The following summarises the salient terms as set out in the framework sales contracts which are adopted in the transactions between our Group and our customers, being the smelters when read together with the Subsequent Memoranda:

- ***Term***. The framework sales contracts with the smelters are generally for a term of one year. For the framework sales contract entered into with a member of Shandong Guoda group, it will be renewed automatically for a further term of one year if there is no disagreement between the parties.

- ***Product***. Gold bullion of Au99.95 in accordance with the required standard as set out in the contract.

- ***Pricing***. The selling price is generally fixed by us on the date of placing a sale order with reference to the prevailing Au (T+D) spot price quoted on the Shanghai Gold Exchange, after deducting handling fee. The final selling price may be further reduced due to the substandard quality of gold.

- ***Payment and settlement***. The customers generally settle the sales amount two days after the delivery of the inventory of gold bullion to our customers, being the selling division of our gold smelters upon our request for settlement. The amount will generally be settled by way of bank transfer.

- ***Deposits***. In respect of our sales to our customers, in the event that the price is fixed for a committed quantity of gold bullion while the gold bullion is yet to be delivered, our customers will require our Group to pay a security deposits of up to 20% of the market price for the relevant committed quantity of gold bullion. The entire amount of the security deposit will be refunded when we have delivered the agreed volume of gold bullion to our customers and it will settle the sales amount within two business days after delivery of the gold bullion. Certain part of security deposit will also be refunded if the market price of gold bullion decreases to below the agreed gold sales price after the sales were committed but before the delivery of the gold bullion. On the other hand, our customers had the right to (i) obtain additional security deposit if the market price of the gold bullion has increased subsequent to the commitment of sales or (ii) withhold the deposit if our Group fails to deliver the committed gold sales at the agreed date.

- ***Quality***. The gold bullion shall comply with the required gold standard as set out in the contracts and the applicable laws and regulations.

The framework sales contracts do not specify any minimum sales commitment or set out any termination rights of any parties. Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. During the Track Record Period and up to the Latest Practicable Date, our Directors confirmed (a) that we did not experience any breach of the aforementioned framework sales contracts which could cause a material adverse effect on our business, financial condition or results of operations; and (b) save for the framework sales contracts, the abovementioned memoranda, the individual sales order and other sales documents (including the delivery notes, acceptance notes and bank-in slips), there was no side agreement, arrangement, undertaking or fund flow between our Group and its customers. To pursue best practice of corporate governance, a new framework sales contract has been entered into between our Group and Shandong Guoda on 24 November 2023 which has already incorporated actual transaction practice, and eliminated any not-adopted terms in the gold sales transaction between the Group and its customer. Therefore, our Company does not expect that there would be any material deviation between the actual transaction procedures and the new framework sales contract. Further, our Company has the following safeguards to prevent the re-occurrence of Discrepancies:

(i) the Board has formed a review committee headed by Mr. Raymond Lo, an Executive Director of the Company and the chief financial officer who leads two members of the accounting department to monitor every sales, smelting and sulfuric acid compensation transaction of the Group to ensure they are executed in accordance with the new framework sales contract and the smelting contract. Any potential discrepancies are required to be reported to the board of Directors of the Company before continuing the transaction. The board of Directors of the Company would decide whether to cease the relevant transactions, revise the relevant transaction terms in the new framework sales contract or the smelting contract, as the case may be by negotiating with the Group's customer. In addition, the review committee will submit a quarterly report to the Board every quarter to list out whether there are trades that deviate from the new framework sales contract or the smelting contract, as the case may be;

(ii) after Listing, our Company's compliance adviser will perform review on the sales, smelting and sulfuric acid compensation transactions of our Group to ensure there are no discrepancies between our Group's actual transaction procedures and those as set out in aforementioned new framework sales contract and the smelting contract on a quarterly basis throughout the effective period acting as our Company's compliance adviser; and

(iii) our Group has engaged an external independent professional party to review the sales, smelting and sulfuric acid compensation transactions of our Group with Shandong Guoda and to report any discrepancies between our Group's actual transaction procedures and the aforementioned new framework sales contract and the smelting contract on a quarterly basis for a period from the Listing Date until 31 December 2024. Disclosures will be made in the annual report of our Company in respect of the review result of independent professional party in due course.

Gold forward contracts entered into with our customers

In view of the increasing gold spot price in the PRC in 2020, we entered into gold forward contracts with Shandong Humon and Shandong Guoda to capture investment opportunities during the year. We generated investment income amounted to approximately RMB2.7 million in FY2020 from such gold forward contracts. Under the forward contracts, we agreed to buy or sell a certain quantity of gold at an agreed price (being the gold spot price on the day when the forward contract is entered into) between us and our customers with no delivery of gold. In practice, we entered into same amount of forward contracts to close our position and hence, we did not have any open position as at 31 December 2020 and there was no actual physical delivery of gold for these forward contracts. We did not enter into such gold forward contracts in FY2021 and thereafter since our Directors did not intend to and will not engage in such investment activities but to focus on our principal mining business.

Major customers who are also our subcontractors

We sell gold bullion of Au99.95 to our smelters or their subsidiaries who are registered with the Shanghai Gold Exchange, for their subsequent sales on the Shanghai Gold Exchange. As such, Shandong Guoda and Shandong Humon are our customers who are also our subcontractors during the Track Record Period. The table below sets out the percentage of revenue and gross profit generated from our sales to our customers who are also our subcontractors during the Track Record Period:

	FY2020	**FY2021**	**FY2022**	**6M2023**
Shandong Guoda				
Amount paid by Shandong Guoda (as a customer) as a percentage of our revenue *(%)*	93.0	100.0	100.0	100.0
Gross profit *(RMB'000)*	181,575	140,105	218,590	92,382
Gross profit margin *(%)*	54.1	56.5	52.2	47.0
Amount paid to Shandong Guoda (as a subcontractor) as a percentage of our total purchases *(%)*	6.0	7.3	12.2	10.6

	FY2020	FY2021	FY2022	6M2023
Shandong Humon				
Amount paid by Shandong Humon (as a customer) as a percentage of our revenue *(%)*	7.0	—	—	—
Gross profit *(RMB'000)*	13,411	—	—	—
Gross profit margin *(%)*	53.2	—	—	—
Amount paid to Shandong Humon (as a subcontractor) as a percentage of our total purchases *(%)*	0.4	—	—	—

For further details on background information and years of relationship with our customers who are also our subcontractors, please refer to the paragraph headed "Suppliers and subcontractors — Subcontractors" in this section. During the Track Record Period and up to the Latest Practicable Date, there had been no material disputes between our Group and our customers.

As at the Latest Practicable Date, none of our Directors, their respective close associates or any existing Shareholders (who or which, to the knowledge of our Directors own more than 5% of the issued share capital of our Company immediately following the completion of the Global Offering and the Capitalisation Issue) had any interest in any customers during the Track Record Period. There were no material disputes with our customers during the Track Record Period.

SEASONALITY

Our Directors considered that, and as confirmed by Frost & Sullivan, our gold mining and ore processing business is generally not subject to any seasonal fluctuations.

IMPACTS OF THE TEMPORARY SUSPENSION OF MINING OPERATIONS IN FY2021

In early 2021, Qixia Hushan Gold Mine (棲霞市笏山金礦) of Shandong Wucailong Investment Company Limited (山東五彩龍投資有限公司) and Caojiawa Gold Mine (曹家窪金礦) of Zhaoyuan Caojiawa Gold Mine (招遠市曹家窪金礦), two local enterprises which are owned by Independent Third Parties, encountered safety incidents. Immediately after such incidents, in late February 2021, Yantai Municipal Party Committee and Yantai Municipal Government announced "Yantai City's work plan for cleaning-up and rectifying non-coal mines"《煙台市清理整頓非煤礦山工作方案》("**Cleaning-up Work Plan**"), which required, among others, (i) all mines in Yantai City (including ours) to suspend mining operations in order for the government authority to carry out safety inspection (ii) Yantai Municipal Party Committee and Yantai Municipal Government implemented classified policies and comprehensive rectification measures for non-coal mining enterprises in Yantai City, including "Several Regulations of the Municipal Government Safety Committee on further strengthening the safety management of non-coal underground mines"《市政府安委會關於進一步強化非煤地下礦山安全管理的若干規定》("**Safety Regulations**") and "Detailed rules for resumption and acceptance of non-coal underground mines in Yantai (Trial)" 《煙台市非煤地下礦山復工驗收細則(試行)》, banned and required any non-coal mines that fail to meet the prescribed standards in the Safety Regulations to exit in an orderly manner.

Pursuant to the Safety Regulations, among others, (i) it is strictly prohibited to organise production and construction without approval; (ii) the mine operators are required to strengthen the supervision of closed mines; (iii) construction of mines should strictly comply with the pre-approved design of mines and subject to annual review on compliance with the pre-approved design; (iv) there should be centralised and unified management of mine safety, which shall be overseen by key personnel; (v) safety management of subcontracting works shall be strengthened; (vi) the safety education and training of all staff shall be strengthened; (vii) there should be strict management of explosives and hot work; (viii) the mine operator should increase automation in production and improve the communication network; and (ix) the mine operator should establish sound emergency rescue system.

Lower production volume and utilisation rate

In view of the above, both our Songjiagou Open-Pit Mine and Songjiagou Underground Mine have suspended mining operations from February to August 2021 and February to November 2021, respectively while our ore processing plant was required to suspend from March to August 2021 (except for certain test runs for safety inspections as required by the government authorities in April and May 2021) for the government authority to carry out safety inspection (“**Temporary Operation Suspension**”). As part of the safety measures, we obtained our own blasting operation permit and built explosive magazine for each of our Songjiagou Open-Pit Mine and Songjiagou Underground Mine separately in order to resume mining operations. We met the prescribed safety standards under the Cleaning-up Work Plan and the Safety Regulations. Yantai Zhongjia had obtained the blasting operation permit in June 2021 and our Songjiagou Open-Pit Mine had passed the safety inspection, obtained the resumption approvals, and resumed operations in August 2021. Given our Songjiagou Open-Pit Mine has its own explosive magazine, and hence complied with the requirements of strict management of explosives under the Safety Regulations, our Songjiagou Open-Pit Mine was able to obtain the supply of explosives to resume mining operations in August 2021 as soon as the resumption approvals were obtained. However, despite the fact that our Songjiagou Underground Mine has passed the safety inspection in late April 2021 and obtained the resumption approvals in early May 2021, Yantai Zhongjia was required to construct a separate explosive magazine before the supply of explosives was permitted under the Safety Regulations. Hence, our Songjiagou Underground Mine only resumed mining operations in December 2021. There have been no material deficiencies identified by the relevant government authority during the safety inspection of our Songjiagou Open-Pit Mine and Songjiagou Underground Mine in 2021.

In view of the Temporary Operation Suspension as mentioned above, our ore processing plant did not reach its designated production capacity in FY2021 as the utilisation rate was approximately 51.7% as compared to approximately 80.3% in FY2020. The utilisation rate for our ore processing plant only fell approximately 28.6% in FY2021 as compared to FY2020 because we had ore stock pile to support our ore processing operations in February 2021 despite the suspension of mining operations, as well as the test runs in April and May 2021 for safety inspections as required by the government authorities. As a result, our gold production volume during FY2021 was 576.9 kg (or 18,547.8 ounces), representing a decrease of approximately 414.5 kg (or 13,326.5 ounces) or 41.8% as compared to FY2020. Despite the above, except for February and March 2021 which we recorded minimal or no sales of gold bullion, we were able to record monthly sales of gold bullion throughout the most of FY2021. As a result of the abovementioned Temporary Operation Suspension, our revenue decreased by approximately 31.3% and our profit for the year decreased by approximately 48.7% in FY2021 as compared to FY2020.

Carrying out own mining activities

As provided by the Cleaning-up Work Plan and the Safety Regulations, the local government imposed measures on strengthening the management of subcontracting works on mining activities, among others, mining activities shall be performed and/or managed by the mine owner or a main contractor with proper qualification where further outsourcing to subcontractors are prohibited. Prior to February 2021, we outsourced substantially all of the mining works comprising demolition, drilling, blasting and excavation works at our mines to third-party subcontractors. Since we had already terminated substantially all of our mining works subcontractors for the Songjiagou Open-Pit Mine in September 2020 and the Songjiagou Underground Mine in January 2021 in order to reduce cost of mining prior to the Cleaning-up Plan and the Safety Regulations coming into force, and we substantially carried out the mining works comprising demolition, drilling and excavation ourselves, which do not require specific licences or permits to do so, except for blasting works which we continued to outsource until July 2022 as such works require a blasting operation permit, and that both our Songjiagou Open-Pit Mine and Songjiagou Underground Mine have obtained valid production safety permits, we were able to comply with the safety requirements introduced by the local government in early 2021. We also leased the relevant machineries from Independent Third Parties and employed our own personnel to perform mining works. The machineries include four down hole drilling rigs and four air compressors in respect of drilling activities. The personnel employed by us possessed the relevant qualifications, such as mechanical and safety engineering, as required under the relevant laws and regulations. Further as part of the safety measures, we obtained our own blasting operation permit in June 2021 before we resumed mining operations. As advised by our PRC Legal Advisers, as at the Latest Practicable Date we had obtained all licences, permits and certificates for the purpose of operating our business, including those for demolition, drilling, blasting and excavation works at our mines that we previously outsourced to third party subcontractors. Accordingly, there has been no material impact on the introduction of the safety requirements to our business operation and we have complied with such requirements to ensure safety of our mines.

IMPACTS OF THE OUTBREAK OF COVID-19 PANDEMIC ON OUR BUSINESS

Since the end of December 2019, the outbreak of COVID-19 has materially and adversely affected the global economy. To contain the spread of COVID-19, the PRC government implemented mandatory quarantine, closure of work places and facilities, travel restrictions and other relevant measures. We have maintained a sound business performance during most of the time when there was an outbreak of the COVID-19 pandemic in the PRC. Other than the temporary two-weeks suspension of our back office administrative functions after the Chinese New Year holidays in February 2020 during the initial stage of COVID-19 pandemic in the PRC, none of these measures implemented by the PRC government had negatively affected our business operations subsequently. In 2020, our monthly revenue continued to remain stable at approximately RMB26.7 million to RMB33.9 million from March to December 2020, and we achieved a 57.5% year-on-year growth in our annual revenue for FY2020 as compared to the year ended 31 December 2019. Despite the regional outbreak of the Omicron variant which led to temporary lockdown measures implemented by the PRC government in major cities such as Shenzhen and Shanghai in early to mid 2022, similar lockdown measures were not implemented in Muping District of Yantai city of the Shandong Province and hence, our operations have not been affected. On 7 December 2022, the PRC government announced the nationwide relaxation of COVID-19 restrictions and with effect from 8 January 2023, the quarantine requirements for both COVID-19 patients and inbound travellers were abolished. During the Track Record Period and up to the Latest Practicable Date, trading activities on the Shanghai Gold Exchange had not been suspended and were not affected by the temporary lockdown measures implemented by the PRC government.

Subsequent to the relaxation of COVID-19 restrictions on 7 December 2022 as announced by the PRC government, our Group began to have suspected or confirmed COVID-19 cases among our employees. Despite the fact that our infected employees were not required to be quarantined according to latest government policies, we recommended our employees to work from or stay at home until they showed no symptoms of COVID-19. Nevertheless, during the Track Record Period and up to the Latest Practicable Date, including the period subsequent to the relaxation of COVID-19 restrictions, the business operations of our Group have not been materially and adversely affected as a result of COVID-19. We will closely monitor and ensure our Group's compliance in the latest policies from the PRC government in relation to the COVID-19.

Based on current situation, up to the Latest Practicable Date, our Directors were of the view that the COVID-19 pandemic or the recurrence of which will not have a material adverse impact on the financial position of our Group having considered the following factors:

(i) according to the F&S Report, the outbreak of COVID-19 has mainly affected the gold mining industry in terms of reduced working days as a result of delayed resumption of production by gold mining companies and the restricted supply of raw materials and products, such as explosives, support materials and filing materials due mainly to the traffic control imposed by the PRC government. As a result, gold production in the first quarter of FY2020 in China has fallen by approximately 10.9% or approximately 10.1 tonnes to approximately 82.6 tonnes as compared to the same period in 2019. However, according to the F&S Report, the outbreak of COVID-19 has led to the rise in gold price. The gold mining industry had accelerated their production after their resumption of operation in order to capture high price and profit, driving the increase in gold production in the following months. Besides, the increase in production capacity of gold mining companies attributable to technology improvement and equipment upgrading also drove the increase of the gold production in China after the first quarter of FY2020. Therefore, according to the F&S Report, the overall gold production in China has only declined slightly by approximately 3.9% from approximately 380.2 tonnes in 2019 to approximately 365.3 tonnes in 2020;

(ii) our mining and processing operations continued to operate smoothly and properly during the outbreak of COVID-19 and the gold trading system of the Shanghai Gold Exchange continued to be running smoothly and orderly during this period;

(iii) there had been no loss of our major customers and suppliers since the outbreak of COVID-19 up to the Latest Practicable Date; and

(iv) our supply of raw materials used for our production was not materially affected, and we had not encountered any material supply chain disruption in FY2020 and subsequent to the Track Record Period and up to the Latest Practicable Date. In any event, we generally maintain current inventory level of raw materials to fulfil our ore processing operations for the next 30 days. We will replenish our inventories according to our inventory control and management policy, and we will also closely monitor and assess the situation and make prompt and regular enquiries with our major suppliers. We purchased raw materials and consumables from around 40 suppliers in FY2020, which we maintained a list of suppliers comprising multiple suppliers for the same supply of raw materials to ensure we always have available alternative sources of supplies. In the event that there were any disruptions to the supply of raw materials, we will reach out to other local suppliers for the purchase of the relevant raw materials that are required for our production during the interim period.

Going forward, we do not believe there is other material impact on our business operations and growth and expansion plans. However, there are many uncertainties related to the COVID-19 pandemic, such as the eventual spread of the virus, the severity and duration of the pandemic and possible further action by governments around the world to contain the virus, and the extent that the COVID-19 directly or indirectly affect our business, results of operation, cash flow and financial condition will also depend on highly unstable and unpredictable future developments. See "Risk factors — Risks relating to the business operations of our Group — Our business operations may be affected by the COVID-19 pandemic and other outbreak of diseases."

COMPETITION

According to the F&S Report, the gold mining industry in the PRC is relatively fragmented as it is dominated by small and medium-sized gold mines. However, the gold mining industry in the Shandong Province is concentrated to five largest gold mining companies. Shandong Province is the largest gold producing province in the PRC with gold mine production volume of approximately 41.4 t, which accounted for approximately 14.0% of the total gold mine production volume in China in 2022, while Yantai city, accounted for more than 90% of the gold mine production of the Shandong Province in 2022. The top ten PRC gold companies by domestic gold mine production volume collectively accounted for approximately 48.5% of the total gold mine production volume in the PRC in 2022 while the top five gold producers in Shandong Province by gold mine production volume accounted for approximately 84.7% of the total gold mine production in Shandong Province in 2022. According to the F&S Report, our annual gold mine production volume was approximately 1.1 t in 2022, making us the third largest gold mining company in the Shandong Province with a market share of 2.6% in terms of mine production volume but the top two players have an aggregated market share of approximately 78.3% in terms of gold mine production volume.

According to the F&S Report, the gold industry is, among others, (i) subject to extensive regulations such as mining licence, safety production licence and environmental protection regulations; and (ii) a capital-intensive industry that requires significant investment for a large number of equipment, land resources, compliance with stringent requirements for safety production and environmental protection; to adopt resource exploration, recycle procedure and merger and acquisition activities to ensure sustainable and sufficient mine reserves; and to invest in advanced technology to cope with the rising difficulty and complexity of gold mining procedure due to the decrease in gold grade and the increase in mining depth. For more information, please refer to the section headed "Industry overview — Entry barriers" in this prospectus.

Since gold is a well-established commodity actively traded on spot and derivative markets, the price of gold is typically determined as a function of the markets as a whole and is not substantially differentiated by products and brands. Therefore, we do not face competition in terms of price differentiation. We primarily compete with nationwide leading gold producers and regional large and medium-sized gold producers in the PRC in terms of our ability to obtain more gold resources and reserves, which is dependent on our financial conditions, technical ability, equipment and machinery and management experience. For more information of our competitive strengths, please refer to the paragraph headed "Competitive strengths" in this section.

SUPPLIERS AND SUBCONTRACTORS

During the Track Record Period, our suppliers and subcontractors of goods and services which were specific to our business and were required on a regular basis to enable us to continue to carry on our business principally included: (i) suppliers of raw materials and consumables such as explosives, steel grinding balls and chemical reagents used in our ore processing operation; (ii) electricity supplier; (iii) suppliers of parts and replacements of machinery; (iv) subcontractors for carrying out mining works comprising demolition, drilling, blasting and excavation works for our Songjiagou Open-Pit Mine and Songjiagou Underground Mine prior to February 2021; (v) subcontractors for carrying out smelting work to refine our gold concentrate into gold bullion of Au99.95; (vi) logistics subcontractors for transportation of ore; and (vii) equipment leasing subcontractors for the leasing of certain drilling equipment. A number of our suppliers and subcontractors during the Track Record Period were individuals, which is common in the industry according to the F&S Report. These individual suppliers and subcontractors are mostly villagers residing near our mining and operations sites who are mainly traders of raw materials and ore transportation service providers, respectively. We have developed more than three years of business relationships with most of these individual suppliers and subcontractors. As these individual suppliers and subcontractors are residing near our mining and operation sites, we can ensure timely delivery of raw materials and services without incurring additional travelling expenses that may be charged by the suppliers and subcontractors.

Our total purchases include purchases of raw materials, utilities, mining subcontracting services, logistics subcontracting services and refining subcontracting services. The following table sets out a breakdown of our total purchases by type of materials or services during the Track Record Period:

	FY2020		FY2021		FY2022		6M2023	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Suppliers								
Raw materials	31,205	35.5	23,634	42.2	52,393	46.8	24,046	47.4
Utilities	30,042	34.2	19,477	34.8	33,831	30.3	17,149	33.8
Subtotal	61,247	69.7	43,111	77.0	86,224	77.1	41,195	81.2
Subcontractors								
Mining subcontracting	13,725	15.6	1,544*(Note)*	2.7	631	0.6	—	—
Logistics	7,229	8.2	4,964	8.9	9,054	8.1	3,763	7.4
Refining subcontracting	5,706	6.5	4,067	7.3	13,655	12.2	5,382	10.6
Equipment leasing subcontracting costs	—	—	2,286	4.1	2,268	2.0	390	0.8
Subtotal	26,660	30.3	12,861	23.0	25,608	22.9	9,535	18.8
Total	**87,907**	**100.0**	**55,972**	**100.0**	**111,832**	**100.0**	**50,730**	**100.0**

Note: This amount included an under-provision of subcontracting fees approximately RMB519,000 in relation to services provided by Liaoyuan Zhuoli in FY2020 despite the mining subcontracting arrangement with it had been terminated since September 2020 arising from prolonged settlement mainly caused by the Temporary Operation Suspension. Save for this incident, there were no other under-provisions of subcontracting costs during the Track Record Period.

Please refer to the section headed "Financial information — Sensitivity analysis" in this prospectus for a discussion of the fluctuation in our purchases from our suppliers and subcontractors during the Track Record Period.

Apart from compensation of defective products, we generally do not require our suppliers to provide any after-sales warranty except for spare parts for equipment and machinery, which our suppliers generally provide us with product warranties for a term of six months. We usually settle payments to a majority of our suppliers within 30 to 90 days from the date of invoices.

Raw materials

While the principal raw materials for our operation is the ore extracted from our Songjiagou Open-Pit Mine and Songjiagou Underground Mine, we procure raw materials and consumables, which mainly include explosives used in our mining operations and steel grinding balls and chemical reagents used during our ore processing operation. All of these materials and consumables are sourced from suppliers in the PRC. During the Track Record Period, our costs of purchases of raw materials and consumables amounted to approximately RMB31.2 million, RMB23.6 million, RMB52.4 million and RMB24.0 million, respectively, accounted for approximately 35.5%, 42.2%, 46.8% and 47.4%, of our total cost of purchases, respectively. We require the quality of our raw materials and consumables to meet industry and national standards. Our suppliers generally deliver raw materials and consumables to our designated locations.

The following summarises the salient terms of the purchase contracts with our suppliers for the purchase of raw materials and consumables:

- ***Contract price and payment***. The products shall be sold at the agreed unit price as set out in the contract. Payments for the purchases shall be settled within a period ranging from 30 to 60 days from the date of the relevant invoices by way of bank transfer or bank drafts.
- ***Term***. Generally for a fixed term of one year.
- ***Scope***. The suppliers shall provide raw materials and consumables in accordance with the required standards as set out in the contract.
- ***Suppliers' obligations***. The raw materials and consumables shall meet the agreed quality standards as set out in the contract and the applicable industry regulations. The suppliers shall deliver the raw materials and consumables to us at their own delivery costs.
- ***Warranty & indemnity***. For defective products, the suppliers are generally required to compensate us with the same kind of raw materials and consumables.
- ***Termination***. No provision on termination rights of either parties is set out in the contract.
- ***Renewal***. The contract does not set out any renewal clause.

Utilities

We entered into an agreement with Supplier A, a local electricity supplier, to procure electricity for our operations. Our Directors consider that the price is comparable to the market rates that the electricity supplier charges other electricity users. The contract is for a term of five calendar years. For further details, please refer to the paragraph headed "Our operations — Power supply" in this section.

Parts and replacements of machinery

We have sourced parts and replacements of machinery for our mining and ore processing operations from Independent Third Party suppliers in the PRC for maintenance of our production machinery and equipment at market prices. For details of our mining and production equipment, please refer to the paragraph headed "Our operations — Production machinery and equipment" in this section.

Major suppliers

We maintain an approved supplier list and make procurements only through the suppliers that are on our list. Pursuant to our procurement policy, we invite qualified suppliers to submit tenders and all tenders must be submitted in writing. The tender documents, including tenders' business licences as well as specifications and selection of their products, are examined by our management and procurement officers. Our management and procurement officers consider various factors including the suppliers' qualifications, track record, quality, service and costs, among other factors. During the Track Record Period and up to the Latest Practicable Date, all of our supplies were sourced locally in the PRC.

We seek to maintain long-term business relationships with suppliers, many of whom have business relationships with us for over four years. For further details on background information of our five largest suppliers during the Track Record Period, please see the paragraph headed "Background information of our top five suppliers during the Track Record Period" in this section. To effectively manage our risks associated with the price fluctuations of our raw materials, consumables, parts and replacements of machinery, we analyse the consumption and other data of major raw materials, consumables, parts and replacements of machinery, carry out research on market trends, and prepare annual procurement budgets. We endeavour to strictly implement the tendering process in our procurement system and optimise the level of our inventories, which in turn improves our cost management and efficiency. Most of the raw materials, consumables, parts and replacements of machinery used by us are readily available from multiple suppliers and can be sourced at competitive market prices. Therefore we do not rely on any particular supplier for any particular item. During the Track Record Period, we did not encounter any material disruption to our business as a result of shortage or delay in the supply of raw materials, consumables, utilities, parts and replacements of machinery.

For each of FY2020, FY2021, FY2022 and 6M2023, purchases from our five largest suppliers amounted to approximately RMB45.5 million, RMB29.7 million, RMB57.5 million and RMB31.0 million, respectively, accounted for approximately 51.8%, 53.1%, 51.4% and 61.1% of our total purchases. Purchases from our largest supplier amounted to approximately RMB29.6 million, RMB19.2 million, RMB33.5 million and RMB16.9 million, respectively, for the same period, accounted for approximately 33.7%, 34.3%, 30.0% and 33.4% of our total purchases.

The tables below set forth the breakdown of our purchases from our five largest suppliers in each of year/period during the Track Record Period:

For the year ended 31 December 2020

Rank	Supplier	Business relationship since year	Products supplied to us	Credit term and payment method	Purchase	Approximate % of our Group's total purchases
					RMB'000	*%*
1	Supplier A	2015	Electricity	15 days from the end of the calendar month and bank transfer	29,582	33.7
2	煙台曼之瑞國際貿易有限公司 (Yantai Manzhirui International Trading Co., Ltd*) ("**Yantai Manzhirui**")	2019	Crushing equipment	Ten days from the end of the calendar month and bank transfer and bank acceptance bills	6,103	6.9
3	煙台市瑞合金屬製品有限公司 (Yantai Ruihe Metal Product Co., Ltd*) and its associated companies ("**Yantai Ruihe Group**")	2016	Steel grinding balls	Two months from the date of invoice and bank transfer and bank acceptance bills	4,502	5.1
4	安徽省當塗縣鋼球廠 (Anhui Dangtu Steel Grinding Balls Factory*) ("**Anhui Dangtu**")	2017	Steel grinding balls	Two months from the date of invoice and bank transfer and bank acceptance bills	3,311	3.8
5	Supplier B	2019	Diesel	Upon delivery and bank transfer	2,004	2.3
	Total				45,502	51.8

For the year ended 31 December 2021

Rank	Supplier	Business relationship since year	Products supplied to us	Credit term and payment method	Purchase	Approximate % of our Group's total purchases
					RMB'000	*%*
1	Supplier A	2015	Electricity	15 days from the end of the calendar month and bank transfer	19,222	34.3
2	Yantai Manzhirui	2019	Crushing equipment	Ten days from the end of the calendar month and bank transfer	3,034	5.4
3	山東魯豐石油有限責任公司 (Shandong Lufeng Petroleum Co., Ltd.*) ("**Shandong Lufeng**")	2021	Diesel	Upon delivery and bank transfer	2,933	5.2
4	Yantai Ruihe Group	2016	Steel grinding balls	Payment upon the receipt of invoice and bank transfer	2,547	4.6
5	山東聖世達化工有限責任公司 (Shandong Shengshida Chemical Co., Ltd.*) ("**Shandong Shengshida**")	2021	Explosives	Two months from the date of delivery and bank transfer	1,997	3.6
	Total				29,733	53.1

For the year ended 31 December 2022

Rank	Supplier	Business relationship since year	Products supplied to us	Credit term and payment method	Purchase	Approximate % of our Group's total purchases
					RMB'000	
1.	Supplier A	2015	Electricity	15 days from the end of the calendar month and bank transfer	33,526	30.0
2.	Yantai Manzhirui	2019	Crushing equipment	Ten days from the end of the calendar month and bank transfer	6,642	5.9
3.	Shandong Shengshida	2021	Explosives	Two months from the date of delivery and bank transfer	6,415	5.7
4.	Shandong Lufeng	2021	Diesel	Upon delivery and bank transfer	6,029	5.4
5.	濰坊龍海民爆有限公司 (Weifang Longhai Civil Blasting Co., Ltd.*)	2022	Explosives	Two months from the delivery and bank transfer	4,928	4.4
	Total				57,540	51.4

For the six months ended 30 June 2023

Rank	Supplier	Business relationship since year	Products supplied to us	Credit term and payment method	Purchase *RMB'000*	Approximate % of our Group's total purchases
1.	Supplier A	2015	Electricity	15 days from the end of the calendar month and bank transfer	16,930	33.4
2.	青島豐利石油能源有限公司(Qingdao Fengli Petroleum Energy Co., Ltd)	2022	Diesel	Payment before delivery and bank transfer	5,839	11.5
3.	Shandong Shengshida	2021	Explosives	Two months from the date of delivery and bank transfer	3,693	7.3
4.	馬鞍山明聖磨料商貿有限公司(Maonshan Mingsheng Abrasive Trading Co., Ltd.*)	2020	Steel grinding balls	Three months from the date of delivery and bank transfer	2,536	5.0
5.	Yantai Ruihe Group	2016	Steel grinding balls	Payment upon the receipt of invoice and bank transfer	1,968	3.9
	Total				30,966	61.1

Background information of our top five suppliers during the Track Record Period

Supplier A, a branch of a collectively-owned enterprise established in the PRC in November 1991, which is primarily engaged in the business of electricity supply. As at the Latest Practicable Date, Supplier A was wholly-owned by a state-owned enterprise based in the Shandong Province, which has 135 subordinate organisations in the Shandong Province and supplied electricity to approximately 53.5 million customers in the PRC.

Yantai Ruihe Group comprises 煙台市瑞合金屬製品有限公司 (Yantai Ruihe Metal Product Co. Ltd.*) ("**Yantai Ruihe**") and its associated companies, 煙台市牟平區百瑞礦產品銷售有限公司 (Yantai Muping Bairui Mining Supplies Sales Co. Ltd.*) ("**Yantai Bairui**") and 牟平區寶能礦山機械配件經銷處 (Muping Baoneng Mining Machinery Accessories Sales Centre*) ("**Muping Baoneng**"). Yantai

Ruihe is a limited liability company established in the PRC in May 2015 with a registered capital of RMB0.1 million, is primarily engaged in the business of processing, wholesale and retail of steel grinding balls. Yantai Bairui is a limited liability company established in the PRC in February 2020 with a registered capital of RMB100,000, which is principally engaged in the sale of mining supplies. Muping Baoneng is an individual industrial and commercial household established in the PRC in August 2019, which is principally engaged in the sale of mining machinery accessories, hardware products and mechanical and electrical equipment. As at the Latest Practicable Date, Yantai Ruihe Group was ultimately controlled by Jiang Zhengli (姜正利), an Independent Third Party.

Yantai Manzhirui, a limited liability company established in the PRC in December 2018 with a registered capital of RMB1.0 million, is primarily engaged in the sales of mining and construction machinery and other machinery and equipment. As at the Latest Practicable Date, Yantai Manzhirui was wholly-owned by 葛允海 (Ge Yunhai) an Independent Third Party individual.

Anhui Dangtu a collectively-owned enterprise established in the PRC in August 1989 with a registered capital of RMB0.3 million, is primarily engaged in the business of processing, manufacturing, and sales of ordinary carbon steel balls, castings, and casting of alloy steel balls. As at the Latest Practicable Date, it was wholly-owned by Chawan Town Council of Dangtu County of the PRC.

馬鞍山明聖磨料商貿有限公司 (Maonshan Mingsheng Abrasive Trading Co., Ltd.*), a limited liability company established in the PRC in November 2014 with a registered capital of RMB0.5 million, is primarily engaged in the sales of steel balls, steel shot, castings and wear-resistant materials. It is a successor of Anhui Dangtu which operates the factory of Anhui Dangtu. As at the Latest Practicable Date, it was wholly-owned by Shen Ming (沈明), an Independent Third Party individual.

Supplier B is a limited liability company established in the PRC in August 2000 with a registered capital of RMB150.0 million, which is primarily engaged in the production and operation of hazardous chemicals, refining of oil and manufacturing of special equipment for chemical production, petroleum products and lubricants. As at the Latest Practicable Date, Supplier B was owned as to approximately 40% by an Independent Third Party individual, 26.7% by a corporate shareholder (a limited liability company established in the PRC which is principally engaged in the production and sales of polypropylene and related products and owned by five Independent Third Party individuals), and the remaining equity interests of 33.3% by four Independent Third Party individuals.

Shandong Lufeng is a limited liability company established in the PRC in December 2019 with a registered capital of RMB10.0 million, which is primarily engaged in the wholesale of diesel, fuel, industrial white oil, crude white oil, asphalt and light circulating oil. As at the Latest Practicable Date, it was owned as to 99.0% by Du Jie (都杰) and the remaining 1.0% by Zhang Wei (張偉), two Independent Third Party individuals.

青島豐利石油能源有限公司 (Qingdao Fengli Petroleum Energy Co., Ltd*) is a limited liability company established in the PRC in March 2000 with a registered capital of RMB50.0 million, which is primarily engaged in the wholesale of crude oil and refined oil, operation of hazardous chemical products, inter-provincial general cargo ship transportation, intra-provincial ship transportation, port operations, domestic ship management services and sales of petroleum products. As at the Latest

Practicable Date, it was owned as to 99.0% by Du Jie (都杰) and the remaining 1.0% by Wang Yuanming (王源明), both were Independent Third Parties. Du Jie is the controlling shareholder of both Shandong Lufeng and Qingdao Fengli Petroleum Energy Co., Ltd*.

山東聖世達化工有限責任公司 (Shandong Shengshida Chemical Co., Ltd.*) is a limited liability company established in the PRC in March 2000 with a registered capital of RMB31.4 million, which is primarily engaged in the manufacturing and the sales of hardware products, plastic products, mining machineries, the production and sale of explosives and the operation of hazardous chemical business. As at the Latest Practicable Date, it was owned as to approximately 99.7% by 深圳市金奧博科技股份有限公司 (Shenzhen Jianobo Technology Co. Ltd.*), a company whose shares are listed on the Shenzhen Stock Exchange and approximately 0.3% by Bai Yunfeng (白雲峰) an individual, both were Independent Third Parties.

濰坊龍海民爆有限公司 (Weifang Longhai Civil Blasting Co., Ltd.*) is a limited liability company established in the PRC in October 2000 with a registered capital of RMB53.6 million, which is primarily engaged in the production and sales of civilian explosives. As at the Latest Practicable Date, it was owned as to 55.3% by Zhong Qingguo (鐘慶國) and the remaining 44.7% by various Independent Third Party individuals.

All of our major suppliers during the Track Record Period were Independent Third Parties. During the Track Record Period and up to the Latest Practicable Date, none of our Directors, their close associates or any Shareholder who, to the knowledge of our Directors, owned more than 5% of our issued share capital, had any interest in any of our five largest suppliers. To the best of our Directors' knowledge, information and belief, having made all reasonable enquiries, save for the purchase contracts for the supply of raw materials entered into by us with all of our major suppliers in the ordinary course of business as described in paragraph headed "Suppliers and subcontractors — Suppliers" in this section, there were no other past or present relationships or dealings (including family, business, employment, trust, fund flow, financing or otherwise) between our Group and each of our major suppliers during the Track Record Period, their respective shareholders, directors or senior management, and any of their respective associates. Our Directors confirmed that there was no side agreement, arrangement, undertaking or fund flow between our Group and our major suppliers during the Track Record Period and up to the Latest Practicable Date.

During the Track Record Period, we had not experienced any material shortage or delay of service supply due to defaults of supplies from our suppliers. Our Directors confirmed that none of our suppliers was our customer during the Track Record Period.

Subcontractors

In line with the industry practice in the PRC, we outsource refining and logistics to qualified subcontractors, as well as lease certain drilling equipment from equipment leasing subcontractor to support our mining operations. Prior to February 2021, we also outsourced a substantial portion of our mining works comprising demolition, drilling, blasting and excavation works to qualified subcontractors. Engagement of subcontractors enables us to achieve better cost controls, reduce our capital expenditures and operating cash costs and minimise our exposure to operational risks associated with labour and safety. We believe that the services provided by our subcontractors are common in the market, and it would not be difficult for us to find alternative subcontractors to provide similar services on terms comparable with those between our existing subcontractors and us.

The table below sets forth the number of our subcontractors by major activities as at the dates indicated:

	As at 31 December			As at 30 June
	2020	2021	2022	2023
Mining activities	2	3	1	—
Refining	2	1	1	1
Logistics	63	71	65	43
Equipment leasing	—	1	2	2
Total	67	76	69	46

The fluctuation in the number of subcontractors engaged by us during the Track Record Period was mainly due to the increase in the number of logistics service providers, who are mostly individuals or local villagers, to cater to our increase in demand for ore and waste rocks transportation services as a result of the resumption of our mining activities in late August 2021 (for our Songjiagou Open-Pit Mine) and in December 2021 (for our Songjiagou Underground Mine) after the Temporary Operation Suspension, which required more logistic service providers to transport ore and waste rocks as our effort to resume normal production volume.

For each of FY2020, FY2021, FY2022 and 6M2023, purchases from our five largest subcontractors amounted to approximately RMB19.7 million, RMB8.0 million, RMB17.2 million and RMB6.2 million, respectively, accounted for approximately 22.4%, 14.4%, 15.4% and 12.2% of our total purchases. Purchases from our largest subcontractor amounted to approximately RMB9.0 million, RMB4.1 million, RMB13.7 million and RMB5.4 million, respectively, for the same period, accounted for approximately 10.2%, 7.3%, 12.2% and 10.6% of our total purchases.

Mining activities

Prior to February 2021, we outsourced substantially all of our mining works comprising demolition, drilling, blasting and excavation works to two mining subcontractors in the Shandong Province, namely Liaoyuan Zhouli and Shandong Zhangjian to provide mining works at our Songjiagou Open-Pit Mine and Songjiagou Underground Mine, respectively. We require these subcontractors to be a qualified mine construction company holding the requisite production safety licences. During FY2020, we decided to carry out the mining works ourselves, seeking to reduce our cost of mining. As such, we have terminated the mining subcontracting arrangement with Liaoyuan Zhouli in September 2020 and Shandong Zhangjian in January 2021, respectively. In 2021 and until July 2022, we subcontracted blasting engineering works in respect of our Songjiagou Underground Mine to an Independent Third Party. Thereafter and up to the Latest Practicable Date, we conducted such blasting engineering works ourselves.

Salient terms of the contracts with subcontractors in respect of mining works

A. Mining works

The following summarises the salient terms of the contracts with our subcontractors in respect of mining works prior to February 2021:

- ***Contract price and payment***. Agreed charges ranging from RMB4.2 per tonne to RMB4.8 per tonne in relation to our Songjiagou Open-Pit Mine and an agreed fixed charge of approximately RMB100 per tonne in relation to our Songjiagou Underground Mine, subject to adjustment according to the grade of ore extracted. The charges are paid on a monthly basis.

- ***Term***. Fixed term, generally for one to three years.

- ***Scope***. The subcontractor shall provide, among other things, demolition, drilling, blasting and excavation works in accordance with the relevant PRC laws and regulations. In general, our subcontractors are responsible for purchasing explosive materials required for blasting works.

- ***Subcontractors' obligations***. The mining works must meet our quality standards and the subcontractor must comply with the standards and requirements as set out in the contract. The performance and conduct of the subcontractor is also subject to the supervision of our personnel. The subcontractor shall be responsible for all risks and losses associated with any accidents and quality issues arising from the works carried out by the subcontractor.

- ***Warranty and indemnity***. The subcontractor shall compensate us for any losses suffered by us due to any quality issues of the subcontracting works.

- ***Termination***. We may terminate the contract by serving prior written notice to the subcontractor.

- ***Renewal***. The contract does not set out any renewal clause.

B. Blasting engineering works

The following summarises the salient terms of the contract with the subcontractor, an Independent Third Party, who provided blasting engineering works in respect of our Songjiagou Underground Mine from December 2021 to July 2022. Thereafter and up to the Latest Practicable Date, we conducted such works ourselves.

- ***Contract price and payment.*** Monthly charges are calculated based on the actual number of days requiring blasting engineering works in our Songjiagou Underground Mine, which comprise: (i) management fee in the total amount of RMB43,000 per month; (ii) explosive blasting fee of RMB11,205 per tonne of explosives used; (iii) blasting fee ranging from RMB4.96 to RMB13.37 per detonator used; (iv) blasting fee of RMB4.62 per metre of detonating cord used; and (vi) RMB15,000 per month for each blasting technician engaged.

- ***Payment method and period.*** Fees are payable on a monthly basis and payment shall be made within 3 days upon receipt of the invoice from the subcontractor by depositing into the bank account designated by the subcontractor.

- ***Term.*** Valid from 7 December 2021 to 10 July 2022

- ***Scope.*** The subcontractor shall carry out blasting works in our Songjiagou Underground Mine in accordance with our schedule. The subcontractor may make suggestions on the type and number of technicians to provide the blasting engineering works, which shall be agreed by us in writing before implementation.

- ***Subcontractor's obligations.*** The subcontractor shall provide regular technical and safety trainings to technicians working in our Songjiagou Underground Mine. The subcontractor shall ensure it and the workers employed by it have valid licences to carry out blasting works.

- ***Termination.*** The subcontractor shall be entitled to unilaterally terminate the contract in the event that we do not pay the charges in accordance with the contract.

Refining works

During the Track Record Period, we have engaged two Independent Third Party subcontractors, namely Shandong Guoda and Shandong Humon for the smelting and refining of gold concentrate produced by us into gold bullion of Au99.95. It usually takes around one day to refine gold concentrate into gold bullion of Au99.95.

Salient terms of the contracts with subcontractors in respect of refining works

The following summarises the salient terms of the contracts with our subcontractors in respect of refining works:

- ***Contract price and payment***. Prior to October 2021, the agreed processing charges ranging from RMB100 per tonne to RMB150 per tonne of gold concentrate for processing, subject to adjustments due to impurities found in our gold concentrate. Such processing charges were determined after considering, among other factors, gold grade and recovery rate of gold concentrate, as well as the value of by-products (such as sulfuric acid in gold concentrate) generated during the smelting process which will not be separately accounted for. From 10 October 2021 to 15 March 2022, in view of the significant increase in price of sulfuric acid, we renegotiated with our refining subcontractors to receive a separate compensation for sulfuric acid generated during the smelting process at RMB140 per tonne to RMB150 per tonne of gold concentrate processed. At the same time, the refining processing charges have been revised to RMB200 per tonne to RMB220 per tonne. From 16 March 2022, the compensation for sulfuric acid was further revised to (i) if the external selling price of sulfuric acid by our refining subcontractors exceeds RMB400 per tonne, to be 35% of their selling price minus RMB400 per tonne, plus RMB100 per tonne of gold concentrate processed; (ii) if the external selling price of sulfuric acid by our refining subcontractors equals to or below RMB400, to be RMB100 per tonne of gold concentrate processed; or (iii) if the external selling price of sulfuric acid by our refining subcontractors exceeds RMB1,000 per tonne, then the compensation for sulfuric acid will be renegotiated by the parties. As from 10 October 2022, the refining processing charges have been revised to RMB200 per tonne.

- ***Term***. Valid for an indefinite period until terminated.

- ***Scope***. The subcontractors shall refine the gold concentrate produced by us in accordance with the gold recovery rate as set out in the contract. The subcontractors shall bear the delivery cost of delivering the gold concentrate from our ore processing plant to the gold smelters.

- ***Subcontractors' obligations***. Both parties shall take a sample from each batch of gold concentrate being delivered to the subcontractors for refining with an extra sample being kept for a third-party assessment, the result of which shall, in case of any material discrepancies in the gold content of our gold concentrate, be final and conclusive. The refining work of the subcontractors must meet the gold recovery rate according to the gold content of our gold concentrate as set out in the contract. With effect from 6 January 2023, the subcontractors shall complete the abovementioned assessment and the relevant refining services within 30 days of delivery of gold concentrate in order to enable settlement (whether by cash or gold bullion) to be completed within the same period.

- ***Warranty and indemnity***. No warranties or indemnities are provided in the contract.

- ***Termination***. No provision on termination rights of either parties is set out in the contract.

- ***Renewal***. No renewal clause is set out in the contract.

During the Track Record Period, our subcontractors for refining works had never failed to meet the gold recovery rate according to the gold content of our gold concentrate as set out in the contracts. In respect of our arrangement with Shandong Guoda regarding the charge of smelting fees and the compensation for sulfuric acid, we understand from Shandong Guoda that they have the similar arrangements and terms with their other customers and it is the normal market practice for smelters to provide separate compensation for sulfuric acid when the market price of sulfuric acid is high. Frost & Sullivan also confirmed that such compensation for sulfuric acid is not uncommon in the mining industry in China.

Logistics works

During each year of the Track Record Period, we engaged up to around 80 Independent Third Party subcontractors, who are mostly individuals or local villagers in the Shandong Province for the provision of transportation services to transport ore and waste rocks from our Songjiagou Open-Pit Mine and Songjiagou Underground Mine to our ore processing plant. Since 2021, we also engaged an Independent Third Party subcontractor for the provision of transportation services to transport explosives from our suppliers to our mines. We did not engage logistics contractors for transporting gold concentrate from our ore processing plant to the smelters as the smelters are responsible for such transportation.

Salient terms of the contracts with subcontractors in respect of logistics works

The following summarises the salient terms of the contracts with our subcontractors for the logistics works:

A. ***Ore and waste rocks transportation***

- ***Contract price and payment***. Agreed fixed charges of RMB4.0 per tonne. The charges are paid on a monthly basis by way of bank transfers.
- ***Term***. Generally for a fixed term of one year.
- ***Scope***. The subcontractors shall transport the ore and waste rocks extracted from our mining sites to our ore processing plant or other designated location.
- ***Subcontractors' obligations***. The subcontractors shall ensure the logistics works are carried out in a safe and lawful manner and they shall be responsible for over-loadings, traffic accidents, administrative proceedings, safety accidents, personal injuries and loss of properties.
- ***Warranty and indemnity***. No warranties or indemnities are provided in the contract.
- ***Termination***. No provision on termination rights of either parties is set out in the contract.
- ***Renewal***. Automatically renewed upon expiry of the contract.

B. ***Explosives transportation***

- ***Contract price and payment.*** Agreed fees of RMB12,000–18,000 per vehicle per month and RMB4,360 per driver per month. The charges are paid on a monthly basis by way of bank transfers.
- ***Term.*** Generally for a fixed term of one year.
- ***Scope.*** The subcontractor shall provide two prescribed vehicles with two qualified drivers.

- ***Subcontractors' obligations.*** The subcontractor shall ensure it has the relevant licences or permits and insurance, as well as compliance with the relevant laws and regulations for the delivery of dangerous items.

- ***Warranty and indemnity.*** No warranties or indemnities are provided in the contract.

- ***Termination.*** The contract will be terminated if there is any change in government policy or force majeure event, or due to the subcontractor no longer having the relevant licences or permits to deliver dangerous items or any reasons caused by our Group that render contract cannot be performed one month after the date of execution of the contract.

- ***Renewal.*** No provision on renewal of contract after the fixed term of one year.

Equipment leasing

Since 2021, we have leased drilling equipment from an Independent Third Party equipment leasing subcontractor to support our mining operations.

Salient terms of the contract with equipment leasing subcontractor

The following summaries the salient terms of the contract with our equipment leasing subcontractor for the leasing of drilling equipment:

- ***Contract price and payment.*** Agreed fees of RMB29 per metre drilled. The charges are paid on a monthly basis by way of bank transfers.

- ***Term.*** Generally for a fixed term of one year.

- ***Scope.*** The subcontractor shall lease the whole set of the drilling equipment and provide regular maintenance services for wear and tear.

- ***Subcontractors' obligations.*** The subcontractor shall be responsible to replace any spare parts and bear the fuel costs to ensure the drilling equipment can function normally. The subcontractor shall provide technician to guide and supervise the usage of such drilling equipment.

- ***Warranty and indemnity.*** No warranties or indemnities are provided in the contract.

- ***Termination.*** No provision on termination rights of either parties is set out in the contract.

- ***Renewal.*** Our group shall give first right of refusal to renew the contract upon expiry based on same terms and conditions.

Our Group considers the market for such third party logistics subcontractors to be competitive, which can be replaced with other third party subcontractors in the market offering similar services at similar terms and fees.

Selection and management of subcontractors

In general, we select subcontractors through a selective tendering process taking into account the subcontractors' competence, qualification, expertise and experience. We require candidates to provide their licencing record and information on their previous engagement in the relevant works, enabling us to evaluate their technical know-how, management competence and financial condition to determine whether they are able to perform the outsourced works. Based on the review of the candidates and the materials submitted by them, we negotiate commercial terms with them and make the final decision.

All of our subcontractors must possess the requisite qualifications for undertaking the works for which they are commissioned. During the Track Record Period and up to the Latest Practicable Date, to the best knowledge of our Directors, each of our subcontractors held all necessary qualifications for them to provide the relevant services to us.

We assign technical personnel to conduct daily on-site supervision of our subcontractors, which ranges from reviewing engineering quality and quantifying mineral losses and depletion to supervising and managing the process, ensuring that they operate in accordance with the technical specifications of our project and industry standards. We require our subcontractors to comply with the applicable laws and regulations in respect of safety and environmental protection and to hold the requisite permits and licences. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material disputes with our subcontractors or any suspension or delay of operations as a result of subcontractors' safety issue.

In the event we find deficiencies in our subcontractors' work or safety management, we would provide rectification directives to such subcontractors and require them to take corrective measures. In the event that we discover any significant safety hazards in the safety management of our subcontractors, we are entitled to suspend their work and require them to pay penalties for breaching our internal control policies. In addition, we require our subcontractors to purchase insurances for their employees and properties and to provide physical check-ups for their employees.

We have more than three years of relationship with majority of our subcontractors. For further details on background information of our five largest subcontractors for each of FY2020, FY2021, FY2022 and 6M2023, please see the paragraph headed "Background information of our top five subcontractors during the Track Record Period" in this section. Our Directors confirmed that we had not experienced any material dispute with our subcontractors or any suspension or delay of operations as a result of subcontractors' safety issue during the Track Record Period and up to the Latest Practicable Date.

The tables below set forth the breakdown of our purchases from our five largest subcontractors in each of year/period ended during the Track Record Period:

For the year ended 31 December 2020

Rank	Subcontractor	Business relationship since year	Services provided to us	Credit term and payment method	Purchases	Approximate% of our Group's total purchases
					RMB'000	%
1	Shandong Zhangjian	2017	Mining works at our Songjiagou Underground Mine	Ten days from the end of the calendar month and bank transfer	8,992	10.2
2	Shandong Guoda	2017	Refining services	Prepayment and bank transfer and bank acceptance bills	5,317	6.0
3	Liaoyuan Zhuoli	2018	Mining works at our Songjiagou Open-Pit Mine	7 days from the date of invoice and bank transfer	4,733	5.4
4	Shandong Humon	2008	Refining services	Ten days from the date of delivery and bank transfer	389	0.4
5	Wang Qingsong (王青松)	2017	Logistics services	60 days from the end of month and cheque	281	0.3
	Total				19,712	22.4

For the year ended 31 December 2021

Rank	Subcontractor	Business relationship since year	Services provided to us	Credit term and payment method	Purchases	Approximate% of our Group's total purchases
					RMB'000	%
1	Shandong Guoda	2017	Refining services	Prepayment and bank transfer	4,067	7.3
2.	煙台海泰機械租賃有限公司 (Yantai Haitai Machinery Leasing Co., Ltd.*) ("**Yantai Haitai**")	2021	Drilling equipment rental services	7 days from the date of invoice and bank transfer	2,286	4.1
3	Shandong Zhangjian	2017	Mining works at our Songjiagou Underground Mine	Ten days from the end of the calendar month and bank transfer	809	1.4
4	Liaoyuan Zhuoli	2018	Mining works at our Songjiagou Open Pit Mine	7 days from the date of invoice and bank transfer	519	0.9
5	河南八達平安運輸有限公司 (Henan Bada Pingan Transportation Co., Ltd.*) ("**Henan Bada**")	2020	Transportation services of explosives	10 days from the end of month and bank transfer	366	0.7
	Total				8,047	14.4

For the year ended 31 December 2022

Rank	Subcontractor	Business relationship since year	Products supplied to us	Credit term and payment method	Purchase *RMB'000*	Approximate % of our Group's total purchases
1.	Shandong Guoda	2017	Refining services	Prepayment and bank transfer	13,655	12.2
2.	Yantai Haitai	2021	Drilling equipment rental services	7 days from the date of invoice and bank transfer	1,514	1.4
3.	煙台旺金機械租賃有限公司 (Yantai Wangjin Machinery Leasing Co., Ltd.*)	2022	Drilling equipment rental services	7 days from the date of invoice and bank transfer	754	0.7
4.	煙台市牟平區東方爆破工程有限公司 (Yantai Muping Dongfang Blasting Engineering Co., Ltd.*)	2021	Blasting engineering works	3 days upon receipt of the invoice and bank transfer	631	0.6
5.	Qu Dapeng (曲大鵬)	2020	Logistics services	60 days from the end of month and bank transfer	597	0.5
	Total				17,151	15.4

For the six months ended 30 June 2023

Rank	Subcontractor	Business relationship since year	Products supplied to us	Credit term and payment method	Purchase *RMB'000*	Approximate % of our Group's total purchases
1.	Shandong Guoda	2017	Refining services	Prepayment and bank transfer	5,382	10.6
2.	Yantai Haiti	2021	Drilling equipment rental services	7 days from the date of invoice and bank transfer	265	0.5
3.	Henan Bada	2020	Transportation services of explosive	10 days from the end of month and bank transfer	206	0.4
4.	牟平區鵬源運輸服務隊 (Muping Pengyuan Transportation Services Team*)	2023	Logistics services	60 days from the end of month and bank transfer	178	0.4
5.	牟平區自超運輸服務部 (Muping Zichao Transportation Services Department*)	2022	Logistics services	60 days from the end of month and bank transfer	174	0.3
	Total				6,205	12.2

Background information of our top five subcontractors during the Track Record Period

Shandong Zhangjian, a limited liability company established in the PRC in June 2006 with a registered capital of approximately RMB66.0 million, is primarily engaged in the business of underground and open-pit mining works, mining construction, earthmoving, tunnelling, culvert engineering in accordance with qualifications; sales of mineral products; development of mining technology, enterprise management consulting services; and engineering of mechanical and electrical installation for construction. As at the Latest Practicable Date, Shandong Zhangjian was owned by Jian Shousheng (簡守省) and Zhang Huacan (章華燦), two Independent Third Party individuals.

Liaoyuan Zhuoli, a limited liability company established in the PRC in October 2001 with a registered capital of RMB17.0 million, is primarily engaged in manufacturing of emulsified explosives; manufacturing of chemical products (excluding dangerous chemical articles that are flammable or explosive); manufacturing of packaging products; and design and construction. As at the Latest

Practicable Date, Liaoyuan Zhuoli is owned as to 80% by 中國葛洲壩集團易普力股份有限公司 (China Gezhuoba Group Yipuli Co., Ltd.*), which in turn is a subsidiary of 中國葛洲壩集團股份有限公司 (China Gezuoba Group Co., Ltd.), a company that was listed on the Shanghai Stock Exchange (stock code: 600068.SS) prior to its cancellation of listing upon the completion of a share swap and merger with China Energy Engineering Corporation Limited (a joint stock company listed on the Stock Exchange (stock code: 3996.HK) and the Shanghai Stock Exchange (stock code: 601868.SS)), and 20% by 遼源礦業(集團)有限責任公司 (Liaoyuan Mining Group Co., Ltd.*) which is indirectly wholly owned by the State-Owned Assets Supervision and Administration Commission of the PRC of Jilin Province and the Department of Finance of Jilin Province.

Wang Qingsong (王青松) is an Independent Third Party individual subcontractor for transportation of ore based in the PRC.

Yantai Haitai is a limited liability company established in the PRC in October 2021 with a registered capital of RMB700,000, which is primarily engaged in the leasing of construction machineries and equipment and earthwork construction. As at the Latest Practicable Date, it was wholly-owned by Ren Junxin (任俊新) and Ren Suying (任素英), two Independent Third Party individuals.

Henan Bada is a limited liability company established in the PRC in November 2006 with a registered capital of RMB1.0 million, which is primarily engaged in the provision of road transportation services. As at the Latest Practicable Date, it was wholly-owned by Chen Qiang (陳強) and Suo Shouyu (鎖守玉), two Independent Third Party individuals.

煙台市牟平區東方爆破工程有限公司 (Yantai Muping Dongfang Blasting Engineering Co., Ltd.*) is a limited liability company established in the PRC in February 2004 with a registered capital of RMB1.2 million, which is primarily engaged in the business of urban controlled blasting engineering, mine blasting, soil blasting engineering construction works. As at the Latest Practicable Date, it was wholly-owned by Zhu Duanxiang (祝端香) and Li Guo (李國), two Independent Third Party individuals.

Qu Dapeng (曲大鵬) is an Independent Third Party individual subcontractor for transportation of ore based in the PRC.

牟平區鵬源運輸服務隊 (Muping Pengyuan Transportation Services Team*) is a sole proprietorship which was established by Ms. Chen Cuicui (陳翠翠), an Independent Third Party individual in the PRC in June 2022. It is primarily engaged in road cargo transportation, general cargo storage services and loading and unloading services. Ms. Chen Cuicui is the wife of Mr. Qu Dapeng and the sole proprietorship was established to be the successor of Mr. Qu Dapeng to provide transportation services to the Group.

煙台旺金機械租賃有限公司 (Yantai Wangjin Machinery Leasing Co., Ltd.*) Yantai Wangjin is a limited liability company established in the PRC in July 2022 with a registered capital of RMB1.0 million, which is primarily engaged in the leasing of construction machineries and equipment and earthwork construction. As at the Latest Practicable Date, it was owned as to 90% by Li Meng (李猛) and 10% by Li Qinming (李欽明), two Independent Third Party individuals.

牟平區自超運輸服務部 (Muping Zichao Transportation Services Department*) is a sole proprietorship which was established by Wang Zichao (王自超), an Independent Third Party individual in the PRC in December 2021. It is primarily engaged in road cargo transportation, general cargo storage services and loading and unloading services. Such proprietorship was established to be the successor of Mr. Wang Zichao to provide transportation services to the Group.

All of our major subcontractors during the Track Record Period were Independent Third Parties. During the Track Record Period and up to the Latest Practicable Date, none of our Directors, their close associates or any Shareholder who, to the knowledge of our Directors, owned more than 5% of our issued share capital, had any interest in any of our five largest subcontractors. Please also refer to the paragraph headed "Sales and customers — Our relationships with Shandong Guoda and Shandong Humon" in this section for the background information of Shandong Guoda and Shandong Humon. Save for (i) the contracts for provision of services entered into by us with all of our major subcontractors in the ordinary course of business as described in paragraph headed "Suppliers and subcontractors — Subcontractors" in this section; (ii) the sales of gold bullion to Shandong Guoda and Shandong Humon who were also our customers in the ordinary course of business during the Track Record Period, details of which are disclosed in the paragraph headed "Sales and customers — Our relationships with Shandong Guoda and Shandong Humon" in this section; (iii) the gold forward contracts entered into by us with Shandong Guoda and Shandong Humon in 2020, details of which are disclosed in the paragraph headed "Sales and customers — Gold forward contracts entered into with our customers" in this section; (iv) the guarantee in favour of bank provided by Shandong Humon prior to 2020 for the bank borrowings of Yantai Zhongjia, all of which had been released since April 2020; and (v) the bank acceptance bills agreements entered into by Yantai Zhongjia with Shandong Humon prior to the Track Record Period, for the purpose of obtaining bank acceptance bills, to the best of our Directors' knowledge, information and belief, having made all reasonable enquiries, there were no other past or present relationships or dealings (including family, business, employment, trust, fund flow, financing or otherwise) between our Group and each of our major subcontractors during the Track Record Period, their respective shareholders, directors or senior management, and any of their respective associates. Our Directors confirmed that there was no side agreement, arrangement, undertaking or fund flow between our Group and our major subcontractors during the Track Record Period and up to the Latest Practicable Date.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material shortage or delay of supply due to defaults of our subcontractors. Please see the section headed "Risk factors — Risks relating to the business operations of our Group — Our operations may face risks in relation to production delays and increased production costs resulting from design defects, production safety and occurrence of accidents" in this prospectus for further details. Save as disclosed in the paragraph headed "Sales and customers — Major customers who are also our subcontractors" in this section, our Directors confirmed that none of our subcontractors was our customer during the Track Record Period.

INVENTORY MANAGEMENT

Our inventories mainly include gold concentrate, ore stockpile and raw materials. We manage our inventories by monitoring the inventory levels by expected demand and our production plan. Our production manager maintains perpetual records for all major types of supplies to facilitate the obsolescence provision analysis and coordinates physical inventory counts. Our mining manager reconciles sub-ledgers of the inventory records to the general ledger on a monthly basis, and calculates the provision for obsolescence on a quarterly basis.

To manage our raw ore, we require our mine operations to maintain perpetual inventory records. Our chief geologist or engineer determines the grade in raw ore to enable a net realisable value calculation. Our site controller ensures that all direct and mining department costs are properly allocated to raw ore and that all inventory-related transactions are completely and accurately reported. Our site controller also completes impairment tests on raw ore quarterly and our financial manager reviews and approves impairment adjustments.

We transfer the gold concentrates produced from our processing plant to our smelting subcontractors for refining them into gold bullion. Since our gold concentrates are processed at the smelters in bulk together with the gold concentrates from other of their customers in line with industry norm, the smelters are unable to confirm with us the amount and volume of gold bullion that was solely refined from our gold concentrates but not from other of their customers. As such, our gold concentrates are considered to be refined into gold bullion upon delivery to and acceptance by our customers, which is also the time when we recognise revenue from sales of gold bullion. Further, we do not require the smelters to transfer back the gold bullion to us after refining because of security concern and also due to the fact that, in practice, we would also sell our gold bullion to our smelters. As a result, during the period since the receipt of gold concentrates by our smelters to the delivery of gold bullion to and the acceptance by our customers, our gold concentrates are incidentally kept at our smelters.

To monitor and control our inventory kept at our smelters, we maintain a record of each batch of gold concentrates sent to our smelters, with parameters including weight and gold grade of the gold concentrates and the applicable gold recovery rate. These parameters enable us to calculate the theoretical amount of gold bullion to be produced from our gold concentrates. These parameters are also recorded by our smelters and are captured in the monthly smelting reports provided by the smelters to us. We will then cross-check our records with the monthly smelting reports to identify any material discrepancies which will be followed up and resolved with our smelters. As such, despite the fact that our smelters are unable to confirm with us the amount and volume of gold bullion that was solely refined from our gold concentrates, our smelters can confirm the amount of our gold concentrates and gold bullion produced and to be produced on their account based on the monthly smelting reports. We also regularly communicate, cross-check and reconcile with our smelters regarding the amount of gold bullion produced or to be produced from our gold concentrates or available for delivery and settlement.

QUALITY CONTROL

As a gold mining and production company, quality control is crucial to our operations. We have established a stringent quality control system to ensure the quality of our products throughout the mining and ore processing stages. To ensure our refining subcontractors deliver quality works, we take a sample from each batch of gold concentrate being delivered to them for refining with an extra sample being kept for a third-party assessment, the result of which shall, in case of any material discrepancies in the gold content of our gold concentrate, be final and conclusive. They have also contractually agreed that their refining works must meet the gold recovery rate according to the gold content of our gold concentrate as specified by us in the refining services agreement. During the Track Record Period and up to the Latest Practicable Date, we did not receive any material complaints due to quality issues of our products.

With respect to mining and ore processing, we implement a comprehensive quality control system to monitor the quality at each key stage of mining and ore processing. We establish specific guidelines for the size of ore mined and the mining process to manage the quality of ores mined. Ores mined from each of our Songjiagou Open-Pit Mine and Songjiagou Underground Mine are sample-tested at our laboratories to monitor the grade of the ore. We designate competent and experienced managerial personnel to supervise our mining and ore processing activities.

We provide quality and technical specifications to suppliers and generally require suppliers to provide warranty for the supplies we procure. We inspect the physical conditions and the quantities received of each shipment of raw materials, consumables, parts and replacement before accepting the shipments into our inventory. We engage subcontractors for certain parts of the operation and we require all these subcontractors to meet our qualification requirements and conduct their operations in accordance with our internal standards, industry standards and the relevant PRC laws and regulations. We routinely supervise and regularly inspect their works to ensure their works are undertaken in accordance with our quality standards. We conduct quality inspections when they have completed the works before we accept their works.

AWARDS AND RECOGNITIONS

The following table sets out our achievements over the years:

Award/recognition	Year/period	Issuer
Advanced Taxpayer Enterprise of the Region in 2012 (2012年度全區納稅先進企業)	February 2013	Government authority of Muping District in Yantai city
Advanced Taxpayer Enterprise of the Region in 2013 (2013年度全區納稅先進企業)	February 2014	Government authority of Muping District in Yantai city
The Advanced Unit in Production Safety at the District Level (年度區級安全生產工作先進單位)	February 2014	Government authority of Muping District in Yantai city

Award/recognition	Year/period	Issuer
Advanced Taxpayer Enterprise of the Region in 2014 (2014年度全區納稅先進企業)	February 2015	Government authority of Muping District in Yantai city
Advanced Taxpayer Enterprise of the Region in 2015 (2015年度全區納稅先進企業)	February 2016	Government authority of Muping District in Yantai city
Advanced Taxpayer Enterprise of the Region in 2017 (2017年度全區納稅先進企業)	February 2018	Government authority of Muping District in Yantai city
Outstanding Taxpayer Enterprise of the Region in 2018 (2018年度全區納稅優秀企業)	February 2019	Government authority of Muping District in Yantai city
Advanced Taxpayer Unit (納稅先進單位)	February 2019	Government authority of Wanggezhuang Town
Outstanding Taxpayer Enterprise of the Region in 2019 (2019年度全區納稅優秀企業)	March 2020	Government authority of Muping District in Yantai city
High-tech Enterprise (高新技術企業)	December 2020	Department of Science and Technology of Shandong, Department of Finance of Shandong and Tax Department of Shandong
Star Taxpayer Enterprise of the Region in 2020 (2020年度全區納稅明星企業)	March 2021	Government authority of Muping District in Yantai City
2022 Top Ten Enterprises (2022年度十強企業)	May 2023	Committee of Muping District in Yantai City, People's Government of Muping District, Yantai City

RESEARCH AND DEVELOPMENT

During the Track Record Period, we carried out a number of research and development projects ourselves, and we engaged an Independent Third party company to conduct research to improve our ore processing efficiency by preventing blockage during ore processing and to design screening plates to improve the efficiency of screening. Our research and development projects mainly focus on improving our production process, ore concentrate processing efficiency, precision of ore selection to reduce production cost and to improve safety protection to reduce safety risks at our mining facilities and equipment.

Our research and development projects are mainly carried out by our technical team, comprised three mining operations engineers and six geologists as at the Latest Practicable Date, the majority of whom hold a bachelor's degree. On average, our technical team members have over 15 years of experience in mining related industries. During the Track Record Period, our technical team had developed a number of mining related softwares such as blasting supervision dynamic control software, 3D scene reproduction and visualisation management system, online safety monitoring and controlling system of our tailings dam, open truck digital dispatching system and 3D mine surveying integrated information management software, and a number of devices for use in our mines, such as devices for precise measurement of tailings, strengthening the stability of rocky slopes, monitoring of rockfalling in an open-pit mines and testing of filling materials in underground mines. Due to the research and development efforts of our technical team, we have successfully developed 3 inventions and 26 utility models. As at the Latest Practicable Date, we had filed and registered these softwares, invention and utility models in the PRC. For further details, please see the section headed "Statutory and general information — B. Further information about our business — 2. Intellectual property rights of our Group" in Appendix V to this prospectus. FY2020, FY2021, FY2022 and 6M2023, we have recognised research and development expenses of approximately RMB4.9 million, RMB5.0 million, RMB9.2 million and RMB3.2 million, respectively. Our research and development costs are charged to our statements of profit and loss as incurred.

During the Track Record Period, our research and development expenses in our statements of profit or loss primarily included salaries, wages and employment benefits of our technical team and service fees paid to Independent Third Party company for or attributable to research and development purpose. In FY2020, we scaled up our research and development activities by engaging the Independent Third Party to conduct research for us and separately recorded the costs of our technical team attributable to research and development activities. As a result, we began to recognise research and development expenses separately in our statements of profit or loss starting from FY2020.

INSURANCE

As at the Latest Practicable Date, we maintained the following insurance policies:

(a) property insurance;

(b) machinery and equipment insurance;

(c) employer liability insurance; and

(d) work safety liability insurance.

We maintain insurance policies that are required under the PRC laws and regulations as well as based on our assessment of our operational needs and industry practice. Our Directors consider that our existing insurance coverage is sufficient for our present operations and in line with the industry practice in the PRC.

During the Track Record Period, our total insurance expenses amounted to approximately RMB0.4 million, RMB0.5 million, RMB0.6 million and RMB0.1 million, respectively. During the Track Record Period and up to the Latest Practicable Date, no material claims had been made in respect of any insurance policies maintained by members of our Group.

INTELLECTUAL PROPERTIES

As at the Latest Practicable Date, we had registered one trademark in the PRC and four trademarks in Hong Kong, and registered three patents for invention, 26 patents for utility models, seven software copyrights and one art copyright in the PRC. We had also registered two domain names www.persistenceresource.com and www.zj-mining.cn, and applied for registration of one trademark each in the PRC and Hong Kong. For further details, please see the section headed "Statutory and general information — B. Further information about our business — 2. Intellectual property rights of our Group" in Appendix V to this prospectus.

During the Track Record Period and up to the Latest Practicable Date, we were not involved in any dispute or infringement of intellectual properties. As at the Latest Practicable Date, we were not aware of any material infringements (i) by us of any intellectual property rights owned by third parties; or (ii) by any third parties of any intellectual property rights owned by us and we were also not aware of any pending or threatened claims against us or any of our subsidiaries in relation to the material infringement of any intellectual property rights of third parties that would have a material and adverse effect on our business.

PROPERTIES

Owned land and buildings

As at the Latest Practicable Date, we owned one parcel of land in the PRC covering a site area of approximately 3,306.6 sq.m. (the "**Owned Land**"), six buildings with an aggregate GFA of approximately 504.5 sq.m. for administrative use and 15 buildings constructed on the Owned Land (collectively, the "**Owned Buildings**") with a total GFA of approximately 2,737.3 sq.m. for the mining and production operations and ancillary activities of our Songjiagou Underground Mine. As at the Latest Practicable Date, details of the land use right in respect of the Owned Land and the usages of the Owned Buildings are set out in the tables below:

Owned Land

Owner	Location	Total site area *(sq.m.)* *(approximately)*	Nature	Expiry date of land use right
Yantai Zhongjia	South of Tanjia Village Shandong Province, PRC (中國山東省譚家村南)	3,306.6	Mining	25 August 2069

Owned Buildings

As at the Latest Practicable Date, we owned 21 buildings, of which six buildings with an aggregate GFA of approximately 504.5 sq.m. had ownership certificates, and 15 buildings erected on our Owned Land, with an aggregate GFA of approximately 2,737.3 sq.m., did not have ownership certificates ("**Defective Owned Buildings**"). These buildings were used by us for administrative purpose, including office, dormitory and staff canteen, and for ancillary mining activities, including maintenance plant, car wash and water holding facility, winding tower and air compressor room among others.

Leased land and buildings

As at the Latest Practicable Date, we leased (i) 16 parcels of collectively-owned land, of which 14 parcels are rural land collectively owned by villagers (the "**Collectively-owned Rural Land**") and two parcels are construction land collectively owned by villagers (the "**Collectively-owned Construction Land**"), for our Songjiagou Open-Pit Mine site ancillary mining operations and administrative use, details of which are set out in the table below:

No.	Location	Total site area/GFA *(sq.m.)* *(approximately)*	Lessor	Land nature	Rental	Usage by our Group	Lease period
Leased land							
1.	Southwest of Fayunkuang Village, Shandong Province, PRC (中國山東省發雲夼村西南山小馬後夼地段) *(Note 1)*	206,667.7	Dahedong	Collectively-owned Rural Land	A one-off payment of RMB8,990,000	Mining area of Songjiagou Open-Pit Mine	September 2007 to September 2027 *(Note 2)*
2.	South and southeast of Songjiagou Village, Shandong Province, PRC (中國山東省宋家溝村南及東南山地段) *(Note 1)*	106,667.2	Dahedong	Collectively-owned Rural Land	A one-off payment of RMB3,744,000	Mining area of Songjiagou Open-Pit Mine	September 2007 to September 2027 *(Note 2)*
3.	West of Qiansongjiao Village, Shandong Province, PRC (中國山東省前松椒村西土地)	667.0	Qiansongjiao Village Committee of Wanggezhuang Town, an Independent Third Party	Collectively-owned Construction Land	An annual rental fee of RMB20,000 *(Notes 3 and 6)*	Office	August 2012 to July 2032 *(Note 2)*

No.	Location	Total site area/GFA *(sq.m.)* *(approximately)*	Lessor	Land nature	Rental	Usage by our Group	Lease period
4.	Southeast of Dahedong Village, Shandong Province, PRC (中國山東省大河東村東南地帶)	270,001.4	Dahedong Village Committee of Wanggezhuang Town, an Independent Third Party	Collectively-owned Rural Land	RMB18,630,000 (paid in two instalments)	Tailings dam	March 2010 to February 2030 *(Note 2)*
5.	Northeast of Jincheng Village, Shandong Province, PRC (中國山東省金城村東北地帶)	214,001.1	Jincheng Village Committee of Wanggezhuang Town, an Independent Third Party	Collectively-owned Rural Land	RMB14,766,000 (paid in two instalments)	Tailings dam	March 2010 to February 2030 *(Note 2)*
6.	Northwest of Wangezhuang Village, Shandong Province, PRC (中國山東省萬格莊村西北地帶)	221,334.4	Wangezhuang Village Committee of Yazi Town, an Independent Third Party	Collectively-owned Rural Land	RMB15,272,000 (paid in two instalments)	Tailings dam	March 2010 to February 2030 *(Note 2)*
7.	Southeast of Qiansongjiao Village, Shandong Province, PRC (中國山東省前松椒村東南地帶)	294,668.1	Qiansongjiao Village Committee of Wanggezhuang Town, an Independent Third Party	Collectively-owned Rural Land	RMB20,332,000 (paid in two instalments)	Tailings dam	March 2010 to February 2030 *(Note 2)*
8.	Southwest of Fayunkuang Village, Shandong Province, PRC (中國山東省發雲夼村西南)	146,667.4	Fayunkuang Village Committee of Wanggezhuang Town, an Independent Third Party	Collectively-owned Rural Land	A one-off payment of RMB10,120,000	Waste rock dump	February 2011 to February 2031 *(Note 2)*

No.	Location	Total site area/GFA *(sq.m.)* *(approximately)*	Lessor	Land nature	Rental	Usage by our Group	Lease period
9.	Northwest of Songjiagou Village, Shandong Province, PRC (中國山東省宋家溝村西北)	456,669.0	Songjiagou Village Committee of Wanggezhuang Town, an Independent Third Party	Collectively-owned Rural Land	A one-off payment of RMB31,510,000	Waste rock dump	February 2011 to February 2031 *(Note 2)*
10.	South of Dahedong Village, Shandong Province, PRC (中國山東省大河東村南) *(Note 4)*	6,667.0	Dahedong	Collectively-owned Construction Land	The rental fee is included in the rental fee of the leased building and related facilities erected thereon *(Note 4)*	Ore processing	December 2011 to December 2031 *(Note 2)*
11.	Housongjiao Village, Shandong Province, PRC (中國山東省後松椒村)	103,760.5	Housongjiao Village Committee of Wanggezhuang Town, an Independent Third Party	Collectively-owned Rural Land	A one-off payment of RMB1,572,660 *(Note 5)*	Rubble dump	September 2019 to September 2039
12.	Huangyanghou Village, Shandong Province, PRC (中國山東省黃陽後村)	2,666.7	Huangyanghou Village Committee, an Independent Third Party	Collectively-owned Rural Land	A one-off payment of RMB65,000	Tailing dam (reserve)	August 2022 to August 2042 *(Note 2)*
13.	Huangyanghou Village, Shandong Province, PRC (中國山東省黃陽後村)	23,333.5	Huangyanghou Village Committee, an Independent Third Party	Collectively-owned Rural Land	A one-off payment of RMB35,000	Tailing dam (reserve)	August 2022 to August 2042 *(Note 2)*

No.	Location	Total site area/GFA *(sq.m.)* *(approximately)*	Lessor	Land nature	Rental	Usage by our Group	Lease period
14.	Fayunkuang Village, Shandong Province, PRC (中國山東省發雲夼村)	866.7	Fayunkuang Village Committee of Wanggezhuang Town, an Independent Third Party	Collectively-owned Rural Land	A one-off payment of RMB39,500	Mining area of Songjiagou Underground Mine (reserve)	December 2022 to December 2042
15.	Huangyanghou Village, Shandong Province, PRC (中國山東省黃陽後村)	2,000.0	Huangyanghou Village Committee, an Independent Third Party	Collectively-owned Rural Land	A one-off payment of RMB59,060	Tailing dam (reserve)	February 2023 to February 2043 *(Note 2)*
16.	Huangyanghou Village, Shandong Province, PRC (中國山東省黃陽後村)	3,666.7	Huangyanghou Village Committee, an Independent Third Party	Collectively-owned Rural Land	A one-off payment of RMB83,880	Tailing dam (reserve)	February 2023 to February 2043 *(Note 2)*
Leased buildings							
1.	West of Qiansongjiao Village, Shandong Province, PRC (中國山東省前松椒村西土地)	518.0	Qiansongjiao Village Committee of Wanggezhuang Town, an Independent Third Party	Collectively-owned Construction Land	RMB2,076,029.53 *(Note 6)*	Office building	December 2014 to December 2034 *(Note 7)*
2.	West of Qiansongjiao Village, Shandong Province, PRC (中國山東省前松椒村西土地)	2,430.0	Qiansongjiao Village Committee of Wanggezhuang Town, an Independent Third Party	Collectively-owned Construction Land	RMB29,563,515 *(Note 6)*	Office building	December 2012 to December 2032 *(Note 7)*

No.	Location	Total site area/GFA (sq.m.) (approximately)	Lessor	Land nature	Rental	Usage by our Group	Lease period
3.	South of Dahedong Village, Shandong Province, PRC (中國山東省大河東村南)	7,075.3	Dahedong	Collectively-owned Construction Land	RMB54,695,541.04 *(Note 4)*	Ore processing plant and related facilities	December 2011 to December 2031 *(Note 2)*
4.	South of Dehedong Village, Shandong Province, PRC (中國山東省大河東村南)	764.1	Dahedong	Collectively-owned Construction Land	RMB1,676,311.60 *(Note 6)*	Dormitory	September 2021 to September 2041 *(Note 2)*
5.	Southwest of Fayunkuang Village, Shandong Province, PRC (中國山東省發雲夼村西南地段)	196.6	Fayunkuang Village Committee of Wanggezhuang Town, an Independent Third Party	Collectively-owned Rural Land	RMB3,289,239.81 *(Note 6)*	Explosive storage	December 2014 to December 2034 *(Note 7)*
6.	Southwest of Fayunkuang Village, Shandong Province, PRC (中國山東省發雲夼村西南地段)	177.4	Fayunkuang Village Committee of Wanggezhuang Town, an Independent Third Party	Collectively-owned Rural Land	RMB2,575,268.30 *(Note 6)*	Explosive storage and power distribution room	September 2020 to September 2037 *(Note 7)*
7.	Northeast of Jincheng Village, Shandong Province, PRC (中國山東省金城村東北)	179.7	Jincheng Village Committee of Wanggezhuang Town, an Independent Third Party	Collectively-owned Rural Land	RMB719,991 *(Note 6)*	Dormitory and warehouse	July 2021 to December 2040 *(Note 7)*

Notes:

1. These parcels of land and buildings had been sub-leased throughout the Track Record Period by our Group from Dahedong, which had in turn entered into separate lease agreements with the relevant villager committees.

2. The respective lessors agreed to sign an agreement to renew the relevant lease for a further 10 years upon the expiry of the relevant lease period.

3. As Yantai Zhongjia paid for the construction costs in relation to the office building erected on such parcel of land, it has been agreed between the lessor and Yantai Zhongjia that the annual rental fee of such parcel of land would be adjusted from RMB20,000 to nil during the entire lease period.

4. Such land, building and related facilities are leased by Yantai Zhongjia from Dahedong, a minority shareholder of Yantai Zhongjia and a connected person of our Company. Dahedong is the holder of building certificate and land use right certificate for such land and building. Both our Group and Dahedong understand that, under the PRC laws, it is not permissible for our Group to register the building certificate of the ore processing plant and hence, agree that our Group would lease the processing plant instead. As advised by the PRC Legal Advisers, pursuant to the Measures for Building Registration (房屋登記辦法, which was then applicable when the ore processing plant was constructed) and the Operating Procedure for the Real Estate Registration (Trial) (不動產登記操作規範(試行), which is still in effect), the ownership registration of a building shall be consistent with the land use right where the building was constructed, and especially for buildings constructed on the collectively owned construction land, i.e. the ownership of such buildings shall be registered under the name of the land use right holder. As Dahedong is the holder of the land use right of the relevant land parcel where the ore processing plant and related facilities and the dormitory are constructed, the ownership of the relevant buildings have been or shall be registered under the name of Dahedong, notwithstanding the fact that the constructions of relevant buildings and facilities were funded by our Group. As such, our Group could only obtain the right of use of these buildings and facilities by entering into leasing arrangements with Dahedong.

   As confirmed by Dahedong, they considered the land use right of the relevant land parcel as an important asset for their long-term investment. Upon completion of our Group's mining activities in Songjiagou area, we understand from Dahedong that they will consider applying for change of the nature of land use right for other investment purposes if they are permitted to do so under the then relevant laws and regulations. Further, our Group and Dahedong mutually agreed that the land was leased solely for the operation of our mines and therefore, there is no commercial need for Dahedong to sell and our Group to purchase the land. It was agreed at the outset that no rental is payable throughout the duration of the lease period because Dahedong is the minority shareholder of Yantai Zhongjia and to support the business development of Yantai Zhongjia as the rental will be set-off against the construction costs paid by Yantai Zhongjia. Such funding and leasing arrangements were at first agreed between our Group and Dahedong. Further, since (1) the relevant construction costs were paid by our Group to the contractors directly, (2) the relevant infrastructures could be retained to and used by Dahedong after the use of our Group (i.e. after the life of mine of the Songjiagou Open-Pit Mine and Songjiagou Underground Mine) and (3) the ownership of the relevant buildings and facilities can only be registered under the name of Dahedong, our Group in essence constructed these buildings and facilities for and paid the relevant constructions costs on behalf of Dahedong and hence, Dahedong agreed to lease these buildings and facilities to our Group at cost of construction which offset the relevant construction costs. Such arrangement was subsequently confirmed in writing pursuant an agreement entered into between our Group and Dahedong. Accordingly, the construction costs of approximately RMB54.7 million (or RMB7,731 per sq.m.) for the processing plant and related facilities and approximately RMB1.7 million (or RMB2,225 per sq.m.) for the dormitory were set-off against the rental for the lease period. Our Directors confirmed that we directly engaged the third party contractors, including building construction companies, building material suppliers, foundation contractors, etc. for the construction of the ore processing plant and related facilities and the dormitory, and the terms of payment were negotiated between us and the building contractors on an arms' length basis. Based on the quotation obtained from another qualified Independent Third Party building contractor, the construction costs incurred by our Group on the said properties fell within the range of the quoted price and were therefore reasonable.

   Based on the substance of the lease arrangement, leased properties are recorded as right-of-use assets in the Accountants' Report. As such, we did not incur any rental charges during the Track Record Period, but we have incurred amortisation expenses in respect of the rights of use for such land and building for ore processing plant of approximately RMB2.7 million, RMB2.8 million, RMB2.8 million and RMB1.4 million, respectively. The amortisation expense of our right-of-use assets was calculated using the straight-line basis over the shorter of the lease term and the estimated useful lives of the buildings of 20 years. As the straight-line basis and estimated useful lives adopted for calculating the amortisation expenses were the same as the calculation for depreciation of the Group's buildings, our Directors considered that such bases of determination of the amortisation expenses are reasonable. Please refer to Note 2.4 of the Accountants' Report in Appendix I to this prospectus for the summary of significant accounting policies. Such amount of amortisation expenses are comparable to the rental quotation obtained by us for processing plants in close proximity to our mines. The relevant lease liabilities were set off against the construction cost according to the arrangement between the parties. Given that construction cost paid by Yantai Zhongjia was set off by rental fee according to the arrangement between the counterparties, there were no lease liabilities for relevant leased properties.

5. Pursuant to the lease agreement, Yantai Zhongjia is required to pay an annual management fee of RMB20,000 commencing from 2020 to the end of the lease period.

6. Yantai Zhongjia paid for the respective construction costs of these buildings, which were used to set off the respective rental fees of these buildings during the respective lease periods.

7. Pursuant to the respective lease agreements of these leased buildings, Yantai Zhongjia has a right of pre-emption to renew the lease upon the expiry of the respective lease periods.

Land use right and our Group's lease arrangement with Dahedong

In January 2011, Dahedong applied to Yantai Land and Resources Bureau, Muping Branch (煙台國土資源局牟平分局) for, and paid for, the relevant taxes of RMB170,008.5 in accordance with the relevant PRC law effective and applicable at that time, and was registered as the initial land use right holder of the Collectively-owned Construction Land for the ore processing plant and obtained the Collectively-owned Land land use right certificate (集體土地使用證). There was no consideration but only tax payment was required for initial registration of the Collectively-owned Land land use right pursuant to the Measures for Land Registration (土地登記辦法) which was effective as of 1 February 2008 and expired on 29 December 2017, as such procedure was not regarded as a transfer of land, which was only applicable to acquire state-owned land use rights under the PRC legal framework with respect to land resources at that time. As advised by our PRC Legal Advisers, Dahedong was not required to pay any further consideration for initial land use right registration for the ore processing plant pursuant to the Interim Regulation on Real Estate Registration (不動產登記暫行條例), which came into force on 1 March 2015 and revised on 24 March 2019, and the Detailed Implementation Rules of the Interim Regulation on Real Estate Registration (不動產登記暫行條例實施細則), which came into force on 1 January 2016 and revised on 24 July 2019. The above two regulations confirmed that all real estate ownership certificates issued and real estate registration in accordance with law before they came into force shall remain valid and effective. Since the land use right for the ore processing plant is valid until 25 December 2061, our Directors are of the view that it is unnecessary to request Dahedong to renew the land use right for the ore processing plant at this juncture.

As confirmed by Dahedong, they were optimistic about the prospect of the gold mining business in Songjiagou area and in particular, it had the intention to cooperate with Yantai Zhongjia in the long run when it was introduced to our Group by Yantai Mujin back in 2009. In the event that Dahedong were not the shareholder of Yantai Zhongjia or ceased cooperation with the Group, Dahedong advised that they might consider renting out the land to other gold mining companies or applying to change the nature of the land-use right for further investment purpose.

During the Track Record Period and up to the Latest Practicable Date, we leased from Dahedong:

(i) two parcels of Collectively-owned Rural Land (being leased land numbered 1 and 2) as mining area of our Songjiagou Open-Pit Mine which we paid one-off rental payment of RMB8,990,000 and RMB3,744,000 respectively. Such leases were sub-leased by us from Dahedong, which had in turn leased by Dahedong from the relevant villager committees;

(ii) one parcel of Collectively-owned Construction Land (being leased land numbered 10) for ore processing plant, which rental fee is included in the rental fee of the leased building and related facilities erected thereon as discussed below;

(iii) one building as ore processing plant and related facilities constructed on the Collectively-owned Construction Land (being leased building numbered 3), of which the relevant rental of RMB54,695,541.04 for the lease period was set-off by the construction costs paid by Yantai Zhongjia; and

(iv) one building as dormitory constructed on the Collectively-owned Land (being leased building numbered 4), of which the relevant rental of RMB1,676,311.60 for the lease period was set-off by the construction costs paid by Yantai Zhongjia.

Please refer to the tables on leased land and leased buildings in the paragraph headed "Properties — Leased land and buildings" in this section of the prospectus above for further details of the salient terms of the abovementioned leases from Dahedong.

The leases for the Collectively-owned Rural Land for our Songjiagou Open-Pit Mine will expire in September 2027 while the leases for the Collectively-owned Construction Land and the buildings constructed thereon for ore processing plant and related facilities will expire in December 2031. Dahedong had agreed by signing a letter of undertaking that all of such leases will be renewed for a further 10 years upon expiry of the lease periods, i.e., until September 2037 and December 2041, respectively. In September 2022, Dahedong further undertook in writing to our Group that it would not terminate the lease arrangement for the whole duration of the lease period or the extended lease period, and to give our Group the priority to use the ore processing exclusively. Dahedong must also reserve sufficient capacity to our Group for ore processing as an alternative. If the lease arrangement is terminated by Dahedong, Dahedong must give at least 12 months' advance written notice of termination to our Group and must during the notice period completely assist Yantai Zhongjia in identifying another ore processing plant. If Dahedong terminates the lease arrangement with our Group, Dahedong must pay compensation to our Group calculated based on the remaining number of years in the relevant lease period times RMB2.8 million per year, being the average amount of our lease expense during the Track Record Period.

Business risks of termination of leases

In the unlikely event that Dahedong decides not to lease the abovementioned land and buildings to us, our mining operations will be materially and adversely interrupted as we will not be able to access our Songjiagou Open-Pit Mine, which contributed over 90% of our ore mined volume during the Track

Record Period, to carry on our mining activities and will not be able to process ore concentrate at the ore processing plant. Even if we are able to lease an ore processing plant in the nearby area to process ore mined from our Songjiagou Underground Mine, given the permitted annual production volume from our Songjiagou Underground Mine is only 10% of our Songjiagou Open-Pit Mine, our financial condition and results of operations will be materially and adversely affected if we are not able to access to our Songjiagou Open-Pit Mine to carry on our mining activities.

The risk of early termination of leases is remote

Our Executive Directors are of the view that the risk of early termination or non-renewal upon expiry of the lease period of the abovementioned leases by Dahedong is remote because of the following reasons:

(i) The leases were entered into with Dahedong by our principal subsidiary, Yantai Zhongjia, which is a sino-foreign joint venture entity, of which Dahedong held 25% equity interest as at the Latest Practicable Date. Dahedong has vested economic interest to ensure Yantai Zhongjia remains operational and profitable to generate returns to its shareholders (which include Dahedong) by way of profit distribution in terms of dividends. In FY2020 and FY2021, Dahedong received dividend of RMB5.0 million and RMB40.0 million, respectively.

(ii) Each of the leases is valid for the next five or nine years, as the case may be, and it has been agreed that it will be renewed for a further ten years each. Pursuant to the lease agreement dated 15 July 2008 and the confirmation letters from the relevant village committees as the respective land owners in respect of the Collectively-owned Rural Land, the lease period of the Collectively-owned Rural Land is from 30 September 2007 until 30 September 2027, and further agreed to be renewed for another 10 years. Pursuant to the lease agreement dated 1 January 2012, the lease period of the ore processing plant is until 31 December 2031, and further agreed to be renewed to 31 December 2041. As such, we are able to lease the relevant land and building from Dahedong for the entire duration of our mining licences which will expire in February 2031 and May 2031, respectively. If there are any legal and financial disputes in relation to Yantai Zhongjia's usage of the land and buildings, Dahedong shall be liable and be responsible to resolve the disputes. As such, Dahedong cannot terminate the leases under the lease agreement as it will be a contractual breach of the lease agreement for which Dahedong will be subject to liabilities arising from claims by us.

(iii) The Natural Resources Bureau has provided a written confirmation that the Collectively-owned Rural Land for our Songjiagou Open-Pit Mine that was sub-leased by us from Dahedong and the Collectively Collectively-owned Construction Land on which our ore processing plant is constructed have been categorised as mining land pursuant to the Third National Land Survey. We, via Yantai Zhongjia, held the only mining licence to the Songjiagou Open-Pit Mine. Therefore, there is no commercial reason for Dahedong to terminate the leases to Yantai Zhongjia as Dahedong will not be able to operate the Songjiagou Open-Pit Mine without a mining licence and it can have no other usages over such land and extract no commercial values out of it if it terminates the lease arrangements.

(iv) In September 2022, Dahedong further undertook in writing to us that it would not terminate the lease arrangement with our Group for the whole duration of the lease period or the extended lease period, and to give our Group the priority to use the ore processing exclusively. Dahedong must also reserve sufficient capacity to our Group for ore processing as an alternative. If the lease arrangement is terminated by Dahedong, Dahedong must give at least 12 months' advance written notice of termination to our Group and must during the notice period completely assist Yantai Zhongjia in identifying another ore processing plant. If Dahedong terminates the lease arrangement with our Group, Dahedong must pay compensation to our Group calculated based on the remaining number of years in the relevant lease period times RMB2.8 million per year, being the average amount of our lease expense during the Track Record Period.

(v) The Collectively-owned Rural Land for our Songjiagou Open-Pit Mine was sub-leased by us from Dahedong, which in turn was leased by Dahedong from the relevant villager committees. In addition, most of our employees are local villagers who live in the surrounding area, and some local villagers are also our logistics service providers for the provision of transportation services to transport ore and waste rocks from our mine to our ore processing plant. If Dahedong terminates the lease arrangements with us which results in suspension of our mining operations, the villagers will lose their jobs, and will lead to further disputes with Dahedong.

(vi) Pursuant to the joint venture agreement entered into between Dahedong and Majestic Yantai BVI, Dahedong is prohibited to carry out businesses that compete with our Group in the Songjiagou area. If Dahedong does not lease the land and buildings to us, it cannot use such land and buildings for itself as it is restricted from carrying out mining and ore processing businesses in Songjiagou area under the joint venture agreement.

Alternative plan for ore processing plant in the event of lease termination

Despite the above, if Dahedong decides to terminate the lease arrangements of the land and buildings on which our ore processing plant is located, our Executive Directors are of the views that there are no difficulties for us to lease other ore processing plants for continuation of our operations. Our Executive Directors were aware that, and as supported by Frost & Sullivan, there are at least 13 ore processing plants owned by Independent Third Parties located within the proximity of 40 k.m. available for leasing to us or providing ore processing services to us. As at the Latest Practicable Date, we have entered into one letter of intent with one Independent Third Party ore processing plant owner, which has agreed to lease its plant or land to us for us to construct the plant.

Properties with defective titles

As at the Latest Practicable Date, our Defective Owned Buildings and certain of our leased buildings (all of our leased buildings except for the ore processing plant) were with defective titles ("**Defective Leased Buildings**"). Our Directors confirmed that there has been no claims or disputes due to title defects of any of our owned and leased properties during the Track Record Period and up to the Latest Practicable Date.

During the Track Record Period and up to the Latest Practicable Date, (i) Yantai Zhongjia had not obtained valid ownership certificates (不動產權證) for the Defective Owned Buildings; and (ii) the lessors of Defective Leased Buildings had not obtained valid ownership certificates. This was due to the failure to obtain the construction work planning permits (建設工程規劃許可證), the construction work commencement permits (建築工程施工許可證), the construction work completion inspection certificates (建設工程竣工驗收備案文件), and hence, in breach of the Urban and Rural Planning Law of the PRC (2019 Amendment) (《中華人民共和國城鄉規劃法》(2019年修正)) and the Construction Law of the PRC (2019 Amendment) 《中國人民共和國建築法(2019修正)》. For details, please refer to the section headed "Risk factors — Risks relating to the business operations of our Group — We and some of our lessors have not obtained title certificates for certain properties owned, used or leased by us, and we leased collectively-owned rural land for non-agricultural purposes, which could materially and adversely affect our right to use such properties" of this prospectus.

(i) *Reasons for non-compliance*

The reason for the non-compliance in respect of the Defective Owned Buildings and the Defective Leased Buildings was due to the lack of comprehensive understandings of the relevant regulatory requirements in respect of the construction and leasing of buildings by our responsible staff at the relevant time.

(ii) *Primary use of the Defective Owned Buildings and the Defective Leased Buildings*

During the Track Record Period and up to the Latest Practicable Date, Yantai Zhongjia uses the Defective Owned Buildings as staff dormitory, staff canteen, offices, and other areas for ancillary mining activities including shaft and winding towers, equipment room, power distribution room and mine water reservoirs with an aggregate GFA of approximately 2,737.3 sq.m.

During the Track Record Period and up to the Latest Practicable Date, we used the Defective Leased Buildings as our office, canteen, dormitories, explosives and other storage areas, power distribution room with an aggregate GFA of approximately 6,056 sq.m.

(iii) *Applicable laws, maximum penalty and potential legal impact*

Pursuant to the Urban and Rural Planning Law of the PRC (2019 Amendment) (《中華人民共和國城鄉規劃法》(2019年修正)), a construction work planning permit must be obtained from the relevant authority before the commencement of construction in the urban and rural areas, the failure of which may lead to the urban and rural planning authorities of the PRC government at or above the county level ordering for corrective measures to dismantle the relevant buildings within a specified time frame and subject to a maximum penalty of 10% of the construction cost. Further, pursuant to the Measures for the Administration of Construction Permits for Construction Projects (2021 Amendment), a maximum penalty of 2% of the construction cost will be imposed for failure to obtain a construction work commencement permit prior to commencement of construction for buildings with construction value exceeding RMB300,000 or construction area exceeding 300 square metres.

Based on the above applicable laws and as advised by our PRC Legal Advisers, the aggregate maximum penalty that Yantai Zhongjia may be subject to in respect of the Defective Owned Buildings for its failure to obtain construction work planning permits and construction work commencement permits before construction of the Defective Owned Buildings and to make the necessary filing with the relevant authority amounted to approximately RMB370,000, which we had made a full provision as at 30 June 2023 for the penalty in respect of the Defective Owned Buildings with defective titles. Further, we may be subject to the business risk of relocation if these buildings are required by the local authorities to be demolished. In relation to Defective Leased Buildings, although Yantai Zhongjia is the lessee and may not be subject to penalties as such penalties may be imposed on the lessors (if any), Yantai Zhongjia may be required to relocate if any of the Defective Leased Buildings are required to be demolished.

(iv) ***Remedial actions***

In respect of the Defective Owned Buildings, as advised by our PRC Legal Advisers, Yantai Zhongjia must obtain the construction work planning permits, followed by the construction work commencement permits and construction work completion inspection certificates in order to proceed with its application for the ownership certificates to rectify the defective titles. As at the Latest Practicable Date, Yantai Zhongjia had obtained the construction land planning permit (建設用地規劃許可證) in respect of the Defective Owned Buildings. Our Directors will, with the cooperation of Yantai Municipal Housing and Urban-Rural Development Bureau Muping Branch* (煙台市牟平區住房和城鄉建設局) (the "**Housing Bureau**"), use their best endeavours to complete the relevant rectification procedures to obtain the other relevant permits and certificates in respect of the Defective Owned Buildings as soon as practicable.

In respect of Defective Leased Buildings, while it is not our primary obligations to do so, we have communicated with and will endeavour to procure the relevant lessors to make supplemental applications to obtain the construction work planning permits, construction work commencement permits, construction work completion inspection certificates and ownership certificates.

We have engaged 山東屹立工程檢測監定有限公司 (Shandong Yili Engineering Inspection and Appraisal Co. Ltd.*) (the "**Inspection Institution**"), an Independent Third Party, to examine the structures of all Defective Owned Buildings and the Defective Leased Buildings including cement foundation, walls, indoor components and outdoor appearance, respectively. According to the reports issued by the Inspection Institution, all Defective Owned Buildings and the Defective Leased Buildings are in conformity of the relevant safety requirements in material respects under the applicable PRC laws and regulations and can be used safely under the applicable PRC laws and regulations. In addition, our Songjiagou Open-Pit Mine and Songjiagou Underground Mine have passed the safety inspection conducted by the government in relation to the Temporary Operation Suspension.

In the meantime, our Controlling Shareholder has provided an irrevocable indemnity in our favour against all claims, actions, demands, costs, charges, fees, expenses and fines suffered or incurred or to be suffered or incurred by us due to the title defects of our properties.

(v) *Views of our PRC Legal Advisers and Directors*

Defective Owned Buildings

To assess the possible legal risks and consequences for the title defects of the Defective Owned Buildings, we have conducted interviews with the Housing Bureau and were confirmed, among other things, that (a) on the basis that Yantai Zhongjia has promptly carried out the rectification procedures for the title defects and conducted safety inspection on the Defective Owned Buildings, the Housing Bureau did not consider the title defects to be material non-compliance, and Yantai Zhongjia may continue to use the Defective Owned Buildings; (b) the Housing Bureau would not impose any penalty on Yantai Zhongjia; and (c) the Housing Bureau would cooperate with Yantai Zhongjia to complete its rectification procedures.

Our PRC Legal Advisers confirmed that the Housing Bureau is the competent authority to give the above confirmation, and based on the results of the interviews with the Housing Bureau, our PRC Legal Advisers are of the view that: (a) Yantai Zhongjia may continue to use the Defective Owned Buildings as it has been working with the Housing Bureau to complete the relevant rectification procedures; (b) the possibility of Yantai Zhongjia being required to dismantle the Owned Buildings or penalties to be imposed on Yantai Zhongjia is remote; and (c) there is no material legal impediment to obtain ownership certificates for the Defective Owned Buildings after obtaining the aforesaid permits and certificates from relevant government authorities.

Further, the Yantai People's Government has, in its policy of "Three-year actions plan for promoting the listing of companies" issued in July 2021, indicated that it would, among others, grant timely supports and guidance in assisting companies seeking listing in resolving any historical land and other legal issues, and prior notification to the working group that promotes listing of companies is required prior to taking any enforcement actions. On the basis that (a) our Group, being identified by the Yantai People's Government as one of the key target companies for listing, would benefit under such policy to be prioritised in seeking assistance from the relevant government authority in our rectification measures in a timely manner and protection against enforcement actions; (b) the Housing Bureau has confirmed, among other things, that (i) Yantai Zhongjia may continue to use the Defective Owned Buildings, (ii) the abovementioned historical non-compliances did not constitute material non-compliances, (iii) the Housing Bureau would not impose any penalties on Yantai Zhongjia, and (iv) the Housing Bureau would cooperate with Yantai Zhongjia to complete its rectification procedures; and (c) our PRC Legal Advisers are of the view that there is no material legal impediment for Yantai Zhongjia to rectify the title defects, our Directors believe that the title defects and non-compliances in respect of all of the Defective Owned Buildings, individually or collectively, would not have a material and adverse effect on the results of our operations or business.

Defective Leased Buildings

While it is not our primary obligations to rectify the title defects in respect of the Defective Leased Buildings, to assess the possible impacts on Yantai Zhongjia, we have obtained a written confirmation from Yantai Municipal Muping District Natural Resources Bureau* (煙台市牟平區自

然資源局) (the "**Natural Resources Bureau**") that (i) the land that Yantai Zhongjia had been occupying for its operations were categorised as mining areas under the Third National Land Survey (as defined below in this section) which was consistent to the current land usage of Yantai Zhongjia, as such Yantai Zhongjia could continue to occupy the relevant land and the buildings erected thereon, which included the Defective Leased Buildings; and (ii) Yantai Zhongjia had not been and will not be investigated or penalised in any form for the use of relevant buildings, including the Defective Leased Buildings. Further, we conducted an interview with the Housing Bureau and were confirmed that (i) based on the result of the national land survey, the Defective Leased Buildings did not violate any planned use of land and the fact that Yantai Zhongjia conducted safety inspection on the Defective Leased Buildings, Yantai Zhongjia may continue to use the Defective Leased Buildings; (ii) the Housing Bureau would not impose any penalty on Yantai Zhongjia; and (iii) the Housing Bureau would cooperate with the village committees for the rectification procedures.

Our PRC Legal Advisers are of the view that the Natural Resources Bureau and the Housing Bureau are the competent authorities to give the above confirmation based on the confirmation from the Natural Resources Bureau and the interview with the Housing Bureau, the risk of Yantai Zhongjia being required to relocate from the Defective Leased Buildings is remote.

On the basis of (i) our Group being identified by the Yantai People's Government as one of the key target companies for listing would benefit under Yantai People's Government's policy of "Three-year actions plan for promoting the listing of companies" issued in July 2021 to be prioritised in seeking assistance from the government to rectify the non-compliance; (ii) the confirmations obtained from the relevant government authorities; and (iii) the opinion of our PRC Legal Advisers, our Directors are of the view that any enforcement actions including a corrective order or a penalty are unlikely and remote, and the title defects and the lack of the permits and certificates required to be obtained by the relevant lessors in respect of the Defective Leased Buildings, individually or collectively, would not have a material and adverse effect on our business.

(vi) ***Enhanced internal control measures***

To prevent the reoccurrence of the above non-compliances in the future, we have enhanced our internal control measures including: (a) having our internal audit department to check whether all necessary permits and certificates have been obtained before the commencement of any construction works, otherwise the construction should be strictly prohibited; (b) seeking legal advices from legal advisers qualified under the PRC laws when it is unclear whether any permits and certificates must be obtained before construction; (c) obtaining written approval from the management of our Group before construction; (d) conducting internal audit department meeting regularly to discuss and monitor whether the required permits and certificates have been obtained; and (e) providing ongoing training to managers regularly to keep them abreast of the latest legal requirements.

We leased Collectively-owned Rural Land for non-agricultural purposes

As at the Latest Practicable Date, out of the 16 parcels of leased land, 14 parcels are Collectively-owned Rural Land leased from eight villages, nine parcels of which had been used by us for non-agricultural purposes for our mining operations and ancillary activities for our Songjiagou Open-Pit Mine in breach of the Land Administration Law. The remaining five parcels of Collectively-owned Rural Land were not in use and for reserve only as at the Latest Practicable Date, hence, not in breach of the Land Administrative Law. On the other hand, the remaining two parcels of leased land are Collectively-owned Construction Land, which we are allowed to use for our operations in compliance with the relevant PRC laws.

(i) ***Reasons for non-compliance***

The non-compliance was mainly caused by the unfamiliarity with the relevant regulatory requirements of our responsible staff at the relevant time.

(ii) ***Primary use of the properties***

During the Track Record Period and up to the Latest Practicable Date, Yantai Zhongjia had been leasing two parcels of Collectively-owned Rural Land with an aggregate site area of approximately 313,334.9 sq.m. as the mining area of our Songjiagou Open-Pit Mine, nine parcels of Collectively-owned Rural Land with an aggregate site area of approximately 1,707,101.9 sq.m. as tailings dam, waste rock dumps and rubble dump and the remaining four parcels of Collectively-owned Rural Land with an aggregate site area of approximately 31,666.9 sq.m. and one parcel of collectively-owned Rural land with site area of approximately 866.7 sq.m. as reserve land for tailings dam and mining area of our Songjiagou Underground Mine, respectively, in the future.

(iii) ***Applicable laws and potential legal impact***

Pursuant to the Land Administration Law, a parcel of Collectively-owned Rural Land must not be used for non-agricultural purposes without the permission of the relevant PRC government authority, whether through assignment, reassignment or lease. In the event that any unlawful use of such land is in violation of the provisions of the general plans for the utilisation of land, namely the overall plan for land utilisation (土地利用總體規劃) (the "**Overall Plan for Land Utilisation**"), the natural resources authorities of the PRC government at or above county level may order for corrective action, such as an order for dismantling buildings or other facilities illegally built on the land, returning and restoring such land to the original state, within a specified period, confiscation of the construction and impose a penalty. As such, if an order is issued to dismantle the properties and other facilities on the Collectively-owned Rural Land, we must stop the operation of our Songjiagou Open-Pit Mine on the agricultural land.

Further, pursuant to the Land Administration Law and its implementation rules, occupying farmland for non-agricultural purposes, such as mining, without authorisation, and damaging the conditions for growing crops or causing desertification and salinisation due to land development in breach of the Land Administration Law, the natural resources authorities, the agriculture and rural affairs authorities, and other authorities of the PRC government at and above the county level may order for correction or improvement within a prescribed time limit and impose a penalty.

(iv) ***National spatial planning (國土空間規劃) is underway***

To support the planning of sustainable economic developments and the use of land in urban and rural areas, the PRC had conducted two national wide land surveys before 2018, which resulted in the implementation of the Overall Plan for Land Utilisation for the periods from 1996 to 2005 and 2006 to 2020, respectively. With the Overall Plan for Land Utilisation expiring in 2020, the State Council has officially announced the commencement of third national land survey (the "**Third National Land Survey**") in September 2018. Similar to the national wide land surveys, the Third National Land Survey is a fundamental investigation of the status of natural resources in the PRC conducted in a unified manner by the PRC government in preparation for an overall national spatial planning (the "**National Spatial Planning**") for the next decades, which will replace the Overall Plan for Land Utilisation for 2006 to 2020. In August 2021, the Office of the Leading Group for the Third National Land Survey of the State Council (國務院第三次全國國土調查領導小組辦公室), the MNR and the National Bureau of Statistics jointly released the key data results of the Third National Land Survey.

Under the Overall Plan for Land Utilisation for 2006 to 2020, nine parcels of Collectively-owned Rural Land currently leased by us for our operations are categorised as agricultural use. However, pursuant to the results of the Third National Land Survey, all nine parcels of Collectively-owned Rural Land including the land parcels for our mining area (namely, our Songjiagou Open-Pit Mine) have been categorised as land for mining. We have obtained confirmations from and conducted interviews with the Natural Resources Bureau to confirm the details of the Third National Land Survey and the National Spatial Planning and the relevant impact on us. According to the Natural Resources Bureau, the result of the Third National Land Survey would be adopted as the National Spatial Planning.

As further confirmed by the Natural Resources Bureau, prior to the finalisation of the National Spatial Planning, the Overall Plan for Land Utilisation which was effective from 2006 to 2020 will continue to be valid; however, it will not require Yantai Zhongjia during the transitional period (when the National Spatial Planning is underway and before it becomes effective) to rectify the use of land in respect of the nine parcels of Collectively-owned Rural Land according to the Overall Plan for Land Utilisation as the Third National Land Survey had indicated such land as mining land.

(v) ***Remedial actions***

Pursuant to the Natural Resources Bureau, all 11 parcels of Collective-owned Rural Land (including those two parcels currently not in use but for reservation only) would be categorised as mining land eventually under the National Spatial Planning which conformed to our current usage of the relevant land and no enforcement actions would be taken during the interim, it was not necessary for us to conduct any remedial actions in respect of our use of the relevant land.

(vi) ***Views of our PRC Legal Advisers and Directors***

To assess the possible penalty and legal consequence, we have obtained written confirmations from and conducted interview with the supervisor of the Natural Resources Bureau. Such interview was attended by the Sole Sponsor, its legal advisors and the PRC Legal Advisers. Pursuant to the aforementioned written confirmations and interview, we were confirmed, among other things, that (i) the land use of the collectively-owned land (including Collectively-owned Rural Land and Collectively-owned Construction Land) leased by us was categorised as mining use upon the Third National Land Survey, which would be included in the National Spatial Planning; (ii) it would not make a corrective order or impose a penalty on Yantai Zhongjia for using the Collectively-owned Rural Land for non-agricultural purposes and Yantai Zhongjia may continue to use the Collectively-owned Rural Land for its mining and production activities during the transition period; (iii) it was not necessary for us to carry out any rectification procedures for our current use of land. We were further confirmed by the Natural Resources Bureau in writing that (i) the supervisor of the Muping District Natural Resources Bureau has the authority to represent the Natural Resources Bureau in the interview; and (ii) the Natural Resources Bureau is responsible for, among others, undertaking the work of the central, provincial and municipal departments to implement the central government's major guidelines and policies on natural resources and territorial space planning (excluding urban and rural planning), decision-making and deployment, and to monitor and manage activities such as natural resources and territorial space development and utilisation, with full authority to investigate and deal with the development and utilisation of natural resources, land and space planning (excluding urban and rural planning) and illegal surveying and mapping cases.

According to the Land Administration Law of the PRC, MNR is responsible for the administration and supervision of land nationwide while the setup and functions of department of natural resources above the county level shall be decided by the people's government at the same level. Pursuant to the Organization Law of the PRC for Local People's Congresses at All Levels and Local People's Governments at All Levels (《中華人民共和國地方各級人民代表大會和地方各級人民政府組織法》), working departments of the people's governments of counties, cities or municipal districts shall be under the direct leadership of the respective people's government and operational guidance or leadership of the competent departments of the people's governments at higher level in accordance with laws and regulations. According to the Measures for Land and Resources Administrative Penalties (《國土資源行政處罰辦法》"**Measures**"), (1) cases concerning land and resources shall be governed by the bureau of natural resources at the county level where the land or mineral resources are located; (2) bureau of natural resources at the provincial or municipal level has the jurisdiction over major and complex illegal cases of land and resources within their respective administrative areas; and (3) MNR has jurisdiction over major and complex cases of land and resource violations nationwide, which means cases involving land and resources under the jurisdiction of the MNR as required by the State Council, cases across provincial administrative regions, other cases that the MNR deems to fall under its jurisdiction. Under the following circumstances, the department of natural resources of higher level has the right to exercise jurisdiction over cases under the jurisdiction of a competent department in land and resources at the lower level: (1) a case that should have been filed and investigated by a competent department in land and resources at the lower level, but the competent department in land and resources at the lower level fails to do so; and (2) a complicated case with serious circumstances and significant impacts. The PRC

Legal Advisers have also anonymously consulted the Department of Natural Resources of Shandong Province, which confirmed that for cases concerning natural resources and land within the Shandong Province, local bureau of natural resources shall be the competent authority to investigate and impose penalty, and supervision against such actions shall be carried out by the people's government or the supervisory committee at the same level.

Based on the above and the written confirmations from the Natural Resources Bureau, our PRC Legal Advisers are of the view that (a) the Natural Resources Bureau is the competent authority to give the above confirmations in relation to the nine parcels of leased land which are located in the Muping District; (b) Muping District Natural Resources Bureau is under the direct management of the people's government at the same level and enjoy operational guidance of the Yantai Municipal Natural Resources Bureau; (c) any order and/or penalty to be imposed by the Natural Resources Bureau causing a material adverse effect on Yantai Zhongjia for its continuous use of such Collectively-owned Rural Land and buildings constructed thereon for its current mining and production activities is remote; (d) there are no matters they are aware of that could have a material adverse effect on Yantai Zhongjia for using the Collectively-owned Rural Land for its operations; (e) so far, the PRC Legal Advisers are not aware of any incident implying that Yantai Municipal or Provincial Natural Resources Departments will take over jurisdiction of the nine parcels of leased land, thus the possibility of the aforesaid confirmation issued by the Muping District Natural Resources Bureau being challenged by higher level of natural resources authorities is remote; and (f) the interviewee was duly authorised to represent the Natural Resources Bureau in making the aforesaid confirmations.

Based on (i) the written confirmation from the Natural Resources Bureau confirming that the supervisor of the Natural Resources Bureau has the authority to represent the Natural Resources Bureau in the interview; and (ii) the views of the PRC Legal Advisers as stated above, the Sole Sponsor concurred with the PRC Legal Advisers that (a) the possibility of the confirmations from the Natural Resources Bureau being challenged by higher-level authorities is remote; and (b) the supervisor of Natural Resources Bureau was duly authorised to represent the Natural Resources Bureau in the interview.

Our Directors are of the view that, given (i) the results of the Third National Land Survey; (ii) and the confirmations from the Natural Resources Bureau confirming that all those 11 parcels of Collective-owned Rural Land would be categorised as mining area eventually under the National Spatial Planning; and (iii) our Group being identified by the Yantai People's Government as one of the key target companies for listing, our use of Collectively-owned Rural Land for non-agricultural use would not have a material and adverse impact on the results of our operations or business.

(vii) ***Enhanced internal control measures***

To prevent the reoccurrence of the above non-compliances in the future, we have enhanced our internal control measures concerning the leasing of Collectively-owned Rural Land including: (a) designating a responsible staff for making the necessary applications to the relevant government authorities to change the land use nature of any Collectively-owned Rural Lands to be leased by our

Group; (b) conducting inspections regularly by the internal audit department to ensure compliance with the PRC laws; and (c) providing ongoing training to managers regularly to keep them abreast of the latest legal requirements.

Property valuation

As at the Latest Practicable Date, we had no single property with a carrying amount of 15% or more of our total assets, and on this basis, we are not required by Rule 5.01A of the Listing Rules to include in this prospectus any valuation report. Pursuant to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of our interests in land or buildings.

LITIGATION

We may be involved in legal proceedings, disputes or administrative proceedings in the ordinary course of our business from time to time, including claims primarily relating to disputes arising from agreements with third party contractors and suppliers. We were involved in the following legal proceedings of material importance during the Track Record Period.

Legal proceedings relating to a corporate guarantee

In 2019, in consideration of 山東東方海洋集團有限公司 (Shandong Eastern Ocean Group Co., Ltd*) ("**Shandong Eastern**"), an Independent Third Party, providing a corporate guarantee in the principal amount of RMB50 million in favour of a bank from which Yantai Zhongjia obtained certain bank facilities since September 2018, at the request of Shandong Eastern, Yantai Zhongjia entered into a corporate guarantee in favour of a financial institution (the "**Shandong Eastern Corporate Guarantee**"), pursuant to which Yantai Zhongjia guaranteed the repayment obligations of Shandong Eastern in respect of its loan in the principal amount of RMB50 million (the "**Shandong Eastern Loan**"). Such arrangement was established on the basis that (1) our Group intended to increase its cash reserve for the commencement of operation of Songjiagou Underground Mine in 2019; and (2) the principal amount guaranteed by Yantai Zhongjia under the Shandong Eastern Corporate Guarantee was the same as the principal amount guaranteed by Shandong Eastern in respect of the bank loan of Yantai Zhongjia as described above. The Shandong Eastern Loan was also secured by a pledge of shares by Shandong Eastern in a listed company owned by Shandong Eastern and a pledge of certificate of deposit of RMB50 million provided by an Independent Third Party. According to the F&S Report, it is an industry practice for companies in Shandong Province, especially private companies, to obtain banking facilities by seeking third-party companies to provide corporate guarantees for bank, and vice versa. Following the defaults by Shandong Eastern under the Shandong Eastern Loan, the financial institution filed a law suit against Yantai Zhongjia and the other co-guarantors at the Beijing City Second Intermediate People's Court (the "**Second Intermediate Court**") claiming for the outstanding sums owed by Shandong Eastern together with the relevant interests, penalties and costs. In August 2019, the Second Intermediate Court issued a civil mediation paper (the "**Civil Mediation Paper**") and confirmed the arbitration mediation paper issued by the Beijing Arbitration Committee, pursuant to which (i) the financial institution as the lender shall have the priority to dispose the pledged shares and receive the proceed of such disposal; (ii) Yantai Zhongjia and the co-guarantors are jointly and severally liable for the repayment obligations under the Shandong Eastern Loan; and (iii) Yantai Zhongjia and the other co-guarantors shall have the right to recover from Shandong Eastern after performing their respective payment obligations under the Shandong Eastern Corporate Guarantee.

Subsequently, in March 2021, the financial institution sold and transferred its debts under the Shandong Eastern Loan to another company, which is an Independent Third Party. In August 2021, the Independent Third Party has fully released and discharged Yantai Zhongjia from all liabilities and obligations under the Shandong Eastern Corporate Guarantee. As confirmed by our PRC Legal Advisers, Yantai Zhongjia has been fully released and discharged from all liabilities and obligations under the Shandong Eastern Corporate Guarantee, and the matter is now concluded.

Our Directors confirmed that, during the period from August 2019 and up to 29 August 2021, being the date when Yantai Zhongjia was fully released and discharged from the Shandong Eastern Corporate Guarantee, Yantai Zhongjia was not notified or requested to make any repayment under the Shandong Eastern Corporate Guarantee pursuant to the Civil Mediation Paper. Therefore, no provision for loss in connection with the aforementioned was made by our Group during the Track Record Period. In addition, Shandong Eastern and its group of companies have separately entered into back-to-back agreements with Yantai Zhongjia in December 2019 to indemnify us against all losses suffered or incurred by us as a result of or in connection with the Civil Mediation Paper, including the repayment obligations under the Shandong Eastern Corporate Guarantee together with the relevant interests, penalties and costs.

During the Track Record Period, our Group has obtained several loans from four banks for our working capital and operations that were guaranteed by third party companies (including Dahedong and Baiheng). As at the Latest Practicable Date, our Group only had one bank loan outstanding and there was no corporate guarantee outstanding that was provided by our Group in favour of bank for the benefit of third party companies. For further details of such corporate guarantees, please refer to the section headed "Financial information — Indebtedness — Interest-bearing bank borrowings" and "Financial information — Indebtedness — Contingent liabilities — Guarantees issued" in this prospectus.

We have in place a set of internal control and risk management procedures to address various potential operational, financial and legal risks identified in relation to our operations, including our Group's exposure of counterparty risk under the cross guarantee arrangement and performing ongoing evaluations of our guaranteed parties' financial condition. Our Directors are of the view that our current internal control measures in this connection are adequate and effective.

Saved as disclosed above, during the Track Record Period and up to the Latest Practicable Date, no member of our Group was engaged in any claim, litigation, arbitration or administrative proceedings of material importance and no claim, litigation, arbitration or administrative proceedings of material importance was known to our Directors to be pending or threatened against any member of our Group. As at the Latest Practicable Date, none of our Directors or senior management was involved in any material litigation, arbitration or administrative proceedings.

COMPLIANCE WITH LAWS AND REGULATIONS

As at the Latest Practicable Date and save as disclosed in this prospectus, we had, in all material aspects, complied with all the relevant and applicable PRC laws and regulations and we had obtained all licences, permits and certificates for the purpose of operating our business.

Based on the confirmation letters issued by the relevant PRC government authorities, our Directors confirmed that, with the support of the legal opinion of our PRC Legal Advisers, during the Track Record Period and up to the Latest Practicable Date, we have complied with all of the relevant PRC laws and regulations in all material respects, and we had obtained all of the approvals, licences and permits from appropriate regulatory authorities that are material for our business operations.

Non-compliant bill arrangements

Overview

From January 2020 and up to May 2020, our principal operating subsidiary, Yantai Zhongjia obtained bank acceptance bills without being supported by underlying trade or debt transactions, which were not in compliance with Article 10 of the PRC Negotiable Instruments Law (the "**Non-compliant Bill Arrangements**") from the purchases of bank acceptance bills from Dahedong and Qingjia with cash equivalent to the face value of the bills, which have ceased since May 2020.

Each of Dahedong and Qingjia is a connected person of our Company for the purpose of the Listing Rules. As at the Latest Practicable Date:

(i) Dahedong was owned as to 50% by Mr. Kong Fanbo, a director of our subsidiary, Yantai Zhongjia, with the remaining equity interests held in equal share of approximately 16.67% by each of Mr. Kong Fanzhong, Mr. Wang Lei (王磊) and SDZJ. Mr. Kong Fanbo and Mr. Kong Fanzhong are brothers and Mr. Wang Lei is their brother-in-law, and SDZJ is a connected person of our Company by virtue of the aggregate interests of approximately 77% held directly and indirectly by Mr. Kong Fanbo and Mr. Kong Fanzhong as at the Latest Practicable Date; and

(ii) Qingjia was wholly-owned by Mr. Kong Fanqiang (孔凡強), who is the brother of Mr. Kong Fanbo and Mr. Kong Fanzhong.

Subsequently, Yantai Zhongjia used such bank acceptance bills to settle payments for purchases from its vendors, suppliers and subcontractors in the ordinary course of business supported by underlying trade transactions, which was in compliance with the PRC Negotiable Instruments Law.

The table below sets forth a breakdown of transactions involving bank acceptance bills obtained from non-compliant sources in FY2020:

	FY2020
	(RMB'000)
	Settlement of purchases from vendors/suppliers/ subcontractors
Purchased from Dahedong	10,000
Purchased from Qingjia	200
Total	10,200

Our Group has not received bank acceptance bills from customers for sales of gold bullion. On the other hand, during FY2020, we acquired certain bank acceptance bills from compliant sources, primarily from Dahedong in relation to the lease of tailings dam in compliance with the PRC Negotiable Instruments Law, which amounted to approximately RMB2.0 million.

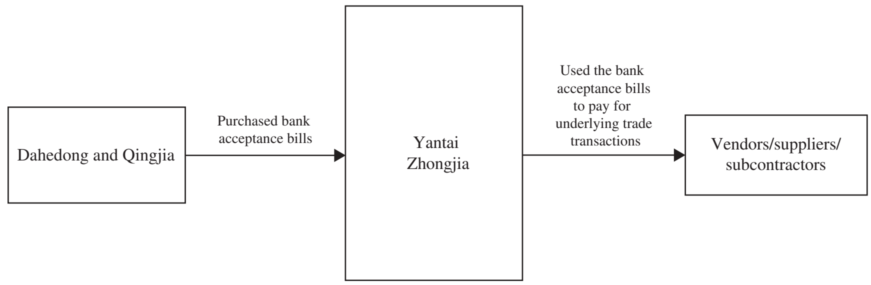
Background facts

Bank acceptance bills purchased by us from Dahedong and Qingjia

From January 2020 and up to May 2020, Yantai Zhongjia purchased bank acceptance bills from Dahedong and Qingjia by cash for the equivalent value, which were not in compliance with the PRC Negotiable Instruments Law as they were not supported by underlying trade or debt transactions.

The total amount of bank acceptance bills involved in the Non-compliant Bill Arrangements amounted to approximately RMB10.2 million in FY2020. Yantai Zhongjia used most of these bank acceptance bills to pay for purchases from its 18 vendors, suppliers and subcontractors (of which four of them were our major suppliers and subcontractors in FY2020) in its ordinary course of business in the total amount of approximately RMB10.2 million in FY2020. All of the vendors, suppliers and subcontractors are Independent Third Parties.

The following diagram illustrates the flow of bank acceptance bills in the Non-compliant Bill Arrangements, which have ceased since May 2020:



Yantai Zhongjia has ceased all the Non-compliant Bill Arrangements and fully settled all such bank acceptance bills since May 2020.

Reasons for engaging in the Non-compliant Bill Arrangements

Our Directors confirmed that the purchases of bank acceptance bills from Dahedong and Qingjia by Yantai Zhongjia were conducted at their requests to facilitate their need of working capital and due to a lack of understanding of the laws and regulations in the PRC by our personnel involved, which led to such inadvertent breach of the Law on Negotiable Instruments. In essence, the purchases of bank acceptance bills from Dahedong and Qingjia for cash is similar in nature to inter-group transaction between our Group and our related parties (e.g. amount due to/due from related parties).

Immaterial impacts on our business operation and financial condition

Our Directors confirmed that the Non-compliant Bill Arrangements and the cessation thereof did not materially affect our Group's financial performance for FY2020. Such Non-compliant Bill Arrangements have ceased for more than 12 months since May 2020 and up to the Latest Practicable Date:

(a) ***The use of bank acceptance bills was not essential to our Group's treasury management.*** As mentioned above, the acquisitions of bank acceptance bills by our Group under the Non-compliant Bill Arrangements were primarily due to maintaining good relationships among the relevant parties namely, Dahedong and Qingjia. Nevertheless, the cessation of the Non-compliant Bill Arrangements has not had any impact on the business relationship between Yantai Zhongjia and the relevant parties. As such, the cessation of the Non-compliant Bill Arrangements did not materially affect the financial performance of our Group;

(b) ***The use of bank acceptance bills under the Non-compliant Bill Arrangements did not improve the liquidity position of our Group.*** During the Track Record Period, Yantai Zhongjia utilised most of the bank acceptance bills acquired from Dahedong and Qingjia to settle its purchases from vendors, suppliers and subcontractors in the ordinary course of business. Our Group did not obtain financing or additional cash from such Non-compliant Bill Arrangements;

(c) ***Our Group has not incurred nor saved interests or financing costs in respect of the Non-compliant Bill Arrangements.*** Our Group has not incurred any interest expenses or other finance costs or received any income or gain arising from the Non-compliant Bill Arrangements. On the other hand, our Group has not saved any interest nor finance costs under the Non-compliant Bill Arrangements since our Group has obtained no financing from the arrangement;

(d) during the Track Record Period, we did not recognise any revenue and cost of sales beyond the actual sales and trade purchases; and

(e) the Non-compliant Bill Arrangements had no effect on our cash flow or financial position or brought any cost saving or benefits to us financially, as demonstrated by our operating results and cash flow in FY2020 (being more than seven months after we ceased the Non-compliant Bill Arrangements in May 2020). We were equally able to carry out operations and maintain a healthy liquidity position without the Non-compliant Bill Arrangements.

Legal implications

Applicable laws, maximum penalty and potential legal impact

Pursuant to Article 10 of the PRC Negotiable Instruments Law, the issuance, obtaining and transfer of bank acceptance bills must be supported by underlying trade or debt transactions. As such, the obtaining and purchase of bank acceptance bills by Yantai Zhongjia from the aforementioned source without underlying trade or debt transactions, was in breach of the PRC Negotiable Instruments Law. However, there are no express provisions in the PRC Negotiable Instruments Law which impose penalties and other legal consequences on our PRC subsidiary, Yantai Zhongjia, its legal representative, directors and senior management for engaging in such Non-compliant Bill Arrangements. All bank acceptance bills issued and transferred remained valid and recognised by the relevant banks that issued the same (as regards to those bank acceptance bills purchased) for payment at the relevant maturity dates.

Confirmations from the relevant government authorities

We have obtained a confirmation via an interview with the Vice President and the Head of Financial Services Management of the Yantai Muping branch of PBOC ("**PBOC Muping**") attended by the Sole Sponsor, its legal advisers and the PRC Legal Advisers on 5 January 2021 confirming, among other things, that (i) no administrative penalty was promulgated in relation to the Non-compliant Bill Arrangements under the current PRC laws and regulations, and it had not conducted any investigation nor imposed any administrative penalties nor taken any legal actions against Yantai Zhongjia, its shareholders, directors or senior management; and (ii) the Non-compliant Bill Arrangements (a) did not constitute a material non-compliance; (b) did not involve any economic benefits, including rebate, fee or commission to Yantai Zhongjia, its shareholders, directors or senior management; and (c) did not involve any fraudulent acquisition of bank acceptance bills nor money laundering. Subsequent to the interview conducted with PBOC Muping where the Non-compliant Bill Arrangements were discussed, we obtained written confirmations from PBOC Muping on 5 January 2022, 13 May 2022 and 15 August

2022 confirming that, among others, (i) Yantai Zhongjia has not been investigated or punished in any form; (ii) the interviewees in respect of the aforementioned interview on 5 January 2021 were duly authorised to represent the PBOC Muping in making the aforesaid confirmations. Further, based on the enquiries made with the Jinan branch of PBOC, being a higher-level authority of PBOC Muping, the Jinan branch of PBOC confirmed that PBOC Muping is the competent authority to be consulted and issue regulatory confirmations in respect of activities relating to the usage of bank acceptance bills.

Our PRC Legal Advisers confirmed that according to the PRC People's Bank of China Law (2003 Amendment) (《中華人民共和國中國人民銀行法(2003修正)》), the Procedures on Administrative Penalties of the People's Bank of China (《中國人民銀行行政處罰程序規定》) and the Implementation Measures for the Administration of Negotiable Instruments (2011 Revision) 《票據管理實施辦法(2011修訂)》, the PBOC Muping is the competent authority for the administration of negotiable instruments and anti-money-laundering management in financial industry, and its branches are responsible for investigation and punishment over illegal financial activities conducted by financial institutions, entities and individuals within their jurisdiction. Based on the written confirmation obtained from PBOC Muping that the interviewees were duly authorised to represent the PBOC Muping in making confirmations during the interview; and the result of the aforementioned enquiries with the Jinan branch of PBOC that PBOC Muping is the competent authority to be consulted and issue regulatory confirmations in respect of activities relating to the usage of bank acceptance bills, our PRC Legal Advisers are of the view, and the Sole Sponsor concurred that (i) the PBOC Muping is the competent authority for the supervision of activities relating bank acceptance bills; (ii) the Vice President and the Head of Financial Services Management of PBOC Muping are duly authorised to provide confirmations on behalf of PBOC Muping; and (iii) the possibility of confirmation provided by PBOC Muping that could be challenged by higher-level authorities is remote.

Opinion of our PRC Legal Advisers

As advised by our PRC Legal Advisers, the Non-compliant Bill Arrangements were not in compliance with the PRC Negotiable Instruments Law which provides that bank acceptance bills must be issued, acquired or transferred based on underlying trade or debt transactions. Our PRC Legal Advisers also advised that no administrative penalty or legal liability is promulgated under the PRC Negotiable Instruments Law for the Non-compliant Bill Arrangements in breach of Article 10 of the PRC Negotiable Instruments Law.

Our PRC Legal Advisers are of the view that the risk of penalty to be imposed by the relevant governmental competent authorities taking legal actions against Yantai Zhongjia for breach of contract due to the Non-compliant Bill Arrangements are remote, based on the following:

(i) there was no dispute between Yantai Zhongjia and Dahedong and/or Qingjia, being the counterparties who sold bank acceptance bills relating to the Non-compliant Bill Arrangements;

(ii) there are no express provisions in the PRC Negotiable Instruments Law imposing penalties and other legal consequences our PRC subsidiary, Yantai Zhongjia, its legal representative, directors and senior management for engaging in such Non-compliant Bill Arrangements;

(iii) Yantai Zhongjia has ceased all such Non-compliant Bill Arrangements since May 2020; and

(iv) the confirmation of PBOC Muping confirming among other things, that such Non-compliant Bill Arrangements did not constitute a material non-compliance, nor involved obtaining bank acceptance bills fraudulently, nor violating the laws and regulations of the PRC relating to money laundering.

Views of our Directors

Our Directors confirmed that:

(a) all the transactions under the Non-compliant Bill Arrangements were executed and approved by Mr. Kong Fanzhong, who was a former director and former legal representative of Yantai Zhongjia, in his capacity as legal representative of Yantai Zhongjia. Mr. Kong Fanzhong was then responsible to oversee our day-to-day operations including the approval of the Non-compliant Bill Arrangements with Dahedong and Qingjia. Despite Mr. Kong Fanzhong was then full time employee of Yantai Zhongjia, he is also a minority shareholder of Dahedong holding approximately 16.67% direct interests. Mr. Kong Fanzhong is the brother to Mr. Kong Fanbo, who is the major shareholder of Dahedong. Qingjia is a company owned by a brother of Mr. Kong Fanzhong and Mr. Kong Fanbo. At the time when the Non-compliant Bill Arrangements were entered into, Mr. Kong Fanzhong was aware that such kind of arrangement was not uncommon in the PRC, he was not adequately advised by professionals on matter pertaining to the PRC Negotiable Instruments Law and was not aware that the Non-compliant Bill Arrangements did not comply with the relevant PRC laws. He had no intention and no financial incentive to breach the relevant rules and regulations and/or did not obtain any direct and personal benefit from it. The reasons for him to enter into the Non-compliant Bill Arrangements were due to working capital needs of companies held among his family members.

(b) our Board members only became aware of such transactions did not comply with the relevant PRC laws in or prior to May 2020 when they were informed by the Sole Sponsor and our PRC Legal Adviser in the course of our preparation for the Listing;

(c) no fraudulent, bribery or other illegal activities under the PRC Negotiable Instruments Law were involved in the obtaining and using of bank acceptance bills involved in the Non-compliant Bill Arrangements as there was no connotation of unethical behaviour or lack of integrity by Mr. Kong Fanzhong in his capacity as legal representative of Yantai Zhongjia in procuring and approving the Non-compliant Bill Arrangements given that this kind of arrangement was not uncommon in the PRC;

(d) none of our Directors, senior management of our Group or any of their respective associates received any rebates, commissions or benefits in connection with the Non-compliant Bill Arrangements and they had no intention to obtain and had not obtained any personal benefit directly or indirectly from the Non-compliant Bill Arrangements;

(e) Yantai Zhongjia has ceased all Non-compliant Bank Acceptance Arrangements since May 2020 and will not have similar arrangements on bank acceptance bills with any other relevant parties going forward;

(f) as soon as our Directors became aware of the Non-compliant Bill Arrangements, we had notified and circulated to all of our Directors, management and relevant employees involved in finance and audit functions that all transactions involving bank acceptance bills without underlying trade or debt transactions are strictly prohibited and that no one is allowed to approved such transactions. Our Directors gave instructions and training to the staff of Yantai Zhongjia to cease the Non-compliant Bill Arrangements; and

(g) we had strengthened our internal control measures as elaborated in the paragraph headed "Enhanced internal control measures" below, especially on the approval, supervision and monitoring of the use of any banking facilities including bank acceptance bills and any other kind of payment method, to prevent future reoccurrence of any Non-compliant Bill Arrangements. As part of our efforts to strengthen our internal control management, we have also restructured our senior management composition at the level of Yantai Zhongjia in May 2021 including the change of our legal representative following the resignation of Mr. Kong Fanzhong and to segregate the line of reporting in relation the execution and supervision of our day-to-day business operations.

Views of the Sole Sponsor

In view of the above, our Directors are of the view, and the Sole Sponsor concurs, that as none of our Directors was involved in the Non-compliant Bill Arrangements, there was no issue on our Directors' integrity or suitability as required under Rules 3.08 and 3.09 of the Listing Rules.

Enhanced internal control measures

We have ceased all Non-compliant Bill Arrangements and have fully settled all such bank acceptance bills in May 2020. We have engaged Avista Risk Advisory Limited (the "**Internal Control Consultant**") to perform a detailed review of our internal control and risk management system, including the obtaining and use of bank acceptance bills by our Group, to identify deficiencies in our internal control system, and to furnish recommendations to enhance our internal control measures. To prevent the reoccurrence of the Non-compliant Bill Arrangements in the future, we have implemented the following enhanced internal control measures:

(i) in July 2020, we have implemented and enhanced our internal approval guidelines and policies for approving, reporting and monitoring all financing transactions, which we required Directors and senior management to review, check and verify all financial transactions before approving any financial transactions. We have designated responsible officers, being our Chief Financial Officer, deputy general manager and finance manager to approve, supervise and monitor all financing activities, including the use of bank acceptance bills without underlying trade or debt transactions. In the event of any financing transactions involving related entities and/or personal interests and/or their close associates, the relevant responsible officer must not involve in the approval and review process;

(ii) in July 2020, we notified and circulated to all of our Directors, management and relevant employees involved in finance and audit functions that all transactions involving bank acceptance bills without underlying trade or debt transactions are strictly prohibited and that no one is allowed to approve such transactions and have implemented a policy that management and employees entering into or approve any transactions involving bank acceptance bills in violation of the prohibition will be subject to various disciplinary actions, including financial and legal responsibilities;

(iii) in July 2020, our Directors gave instructions and training to the staff of Yantai Zhongjia in relation to the Non-compliant Bill Arrangements;

(iv) our finance department shall be responsible to maintain a register to record all bank acceptance bills to be received by our Group and the finance manager is required to conduct a monthly compliance check against the record of bank acceptance bills, including whether or not the amount of the bank acceptance bills exceeds the purchase amount, the validity of the bills and whether the bank acceptance bills are supported by underlying transactions, and record the result of the periodic check in a report to be submitted to our chief financial officer and deputy general manager for a further review;

(v) designated our chief financial officer and deputy general manager to review the monthly report prepared by the finance manager, and to conduct periodic checks on underlying supporting documents to ensure the bank acceptance bills are used by our Group in a compliant manner;

(vi) established an disciplinary mechanism and a report mechanism whereby a suspected violation of the enhanced internal control policy on bank acceptance bills will be reported to our chief financial officer and a confirmed violation should be escalated to our Board immediately;

(vii) required our chief financial officer, deputy general manager and finance manager to seek legal advice from Hong Kong legal advisers and PRC legal advisers on the PRC regulations about all transactions involving bank acceptance bills prior to entering into the same; and

(viii) established the Audit Committee comprising three independent non-executive Directors to oversee and review our internal control system, including the effectiveness of such system in controlling the use of bank acceptance bills in our financial activities.

The Internal Control Consultant conducted follow-up reviews on our enhanced internal control measures in respect of the obtaining and use of bank acceptance bills, for the period from 1 June 2020 to 31 December 2021. They were not aware of any significant deficiencies in the design and implementation (save for (viii), which will be implemented upon Listing) of the enhanced internal control measures in respect of our bank acceptance bills activities.

Considering that the Non-compliant Bill Arrangements has never occurred after May 2020 and the result of the follow-up review conducted by the Internal Control Consultant, our Directors are of the view, and the Sole Sponsor concurs, that such enhanced internal control measures are adequate and effective to prevent the occurrence of Non-compliant Bill Arrangements activities in the future.

We will engage Internal Control Consultant for at least 12 months after Listing to conduct periodic review and assessment of our internal control measures, report the results of such assessment to our Directors and the Audit Committee and propose additional measures for improvement (if any). We will also disclose in our first annual report after Listing whether there are any further bank acceptance bills activities identified by our Directors, senior management, Audit Committee and/or the Internal Control Consultant.

Indemnity from our Controlling Shareholder

Our Controlling Shareholder has provided us with an irrevocable indemnity to fully indemnify us from and against all liabilities, claims, actions, demands, costs, charges, fees, expenses and fines suffered or incurred or to be suffered or incurred by us arising from the Non-Compliant Bill Arrangements.

Non-compliance incidents

During the Track Record Period and up to the Latest Practicable Date, we had experienced certain non-compliance incidents in the PRC in relation to (i) properties with defective titles; and (ii) entering into Non-compliant Bill Arrangements. For more details, please refer to the paragraphs headed "Properties — Properties with defective titles" and "Compliance with laws and regulations — Non-compliant bill arrangements" in this section. We had also experienced other non-compliance incidents during the Track Record Period and up to the Latest Practicable Date, details of which are set out in the table below:

Non-compliance incidents	Reasons for non-compliance	Legal consequence and potential maximum penalties	Remedies and rectification and internal control measures taken to prevent future breach and ensure on-going compliance	Potential impact on our operations and financial condition
Under contribution of social insurance fund and housing provident fund				
In the five months ended 31 May 2020, we had not fully complied with the relevant regulations on payment of social insurance fund contribution for our employees, with an estimated under contribution amount of approximately RMB96,000. Further, in the four months ended 30 April 2020, we had not fully complied with the relevant regulations on payment of housing provident fund contribution for our staff, with an estimated under contribution amount of approximately RMB230,000.	The breach was not wilful and was caused by the unintentional oversight of the PRC laws and regulations by our human resources department.	According to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》), if an employer fails to pay its social insurance contribution, the competent authority may demand that the employer to pay all outstanding social insurance contributions within a prescribed time limit. If the employer fails to make such payment within the prescribed time limit, the relevant authority may apply to the relevant administrative department at county level for a decision to make a transfer of payment from the employer's bank account for the outstanding amount. The employer may also be subject to a fine at a daily rate of 0.2% on the outstanding amount, accruing from when the social insurance funds are due. According to the Administrative Regulations on the Housing Provident Fund (《住房公積金管理條例》), a newly established entity shall, within 30 days of its establishment, register at the housing provident fund management centre, and shall, within 20 days from the date of registration, open a housing provident fund account for its employees at an entrusted bank with the approval documents of the housing provident fund management centre. The housing provident fund management centre may order an entity to make registration and open a bank account within a time limit if an entity fails to do so, and if the entity fails to make registration and open the relevant bank account within the prescribed time limit, a fine in the amount between RMB10,000 and RMB50,000 may be imposed. Further, if an employer fails to pay housing provident funds, the regulator has the power to order the employer to make contribution within a prescribed time limit and if the employer fails to act accordingly, an application of	As for the non-compliance relating to social insurance fund, Yantai Zhongjia has completed the necessary rectification actions to comply with the relevant laws and regulations in the PRC concerning the payment of social insurance fund. Since June 2020, Yantai Zhongjia has made contribution payment for the social insurance fund in full in accordance with the relevant laws and regulations in the PRC. Since then, there has been no non-compliance in this aspect. Further, we have obtained a confirmation from Muping Branch of Yantai Municipal Human Resources and Social Insurance Bureau* (煙台市牟平區人力資源和社會保障局), confirming that Yantai Zhongjia had no record of administrative penalties due to breach of any laws or regulations related to social insurance. As for the non-compliance relating to housing provident fund, Yantai Zhongjia has registered with the housing provident fund management centre in June 2020, and has made payment for the housing provident fund in full in accordance with the relevant laws and regulations in the PRC since May 2020. We have accrued the estimated under contribution amount for the four months ended 30 April 2020 in our accounts for FY2020. Further, we have obtained a confirmation from Muping Management Division of Yantai Municipal Housing Provident Fund Management Centre* (煙台市住房公積金管理中心牟平管理部) confirming that Yantai Zhongjia has made contribution to housing provident fund for its employees since May 2020. We have also conducted interview with the relevant authority and confirmed among other things, that (i) on the basis that no employee would file a complaint in respect of the underpayment of housing provident fund, Muping Management Division of Yantai Municipal Housing Provident Fund Management Centre* (煙台市住房公積金管理中心牟平管理部) would not request Yantai Zhongjia to pay outstanding housing	Our PRC Legal Advisers are of the view that (i) Muping Branch of Yantai Municipal Human Resources and Social Insurance Bureau* (煙台市牟平區人力資源和社會保障局) and Muping Management Division of Yantai Municipal Housing Provident Fund Management Centre* (煙台市住房公積金管理中心牟平管理部) are competent authorities to issue the respective confirmations; and (ii) In light of the confirmations by competent authorities and on the basis that no employee would file a complaint in respect of the underpayment of social insurance fund and housing provident fund, the risk of penalty to be imposed by the relevant authorities is remote. Our Directors confirm that as at the Latest Practicable Date, Yantai Zhongjia has not received any complaint from any of the employee in relation to the social insurance and housing provident fund contribution, and in case of any relevant complaints from employees received by Yantai Zhongjia, Yantai Zhongjia will rectify the issue timely, including but not limited to make adequate social insurance and housing provident fund contribution as required by then relevant laws and policy. We have adopted internal control procedures to prevent the recurrence of the non-compliance incidents. Our Controlling Shareholder has provided an irrevocable indemnity against all claims, actions, demands, costs, charges, fees, expenses and fines suffered or incurred or to be suffered or incurred by us due to the underpayment of social insurance fund and housing provident fund.

Non-compliance incidents	Reasons for non-compliance	Legal consequence and potential maximum penalties	Remedies and rectification and internal control measures taken to prevent future breach and ensure on-going compliance	Potential impact on our operations and financial condition
		compulsory enforcement can be made the People's Court of the PRC.	provident fund; and (ii) Yantai Zhongjia has no record of complaint filed against it. We have formalised a set of procedures to prevent the recurrence of failure to make social insurance and housing provident fund contributions in full, including: • designating our finance department and administration department to supervise whether our human resources department has implemented the relevant procedures to make social insurance and housing provident funds contributions according to the relevant laws and regulators for our employees; • providing training to our staff in the human resources department when the relevant laws and regulations relating to social insurance and housing provident fund have been amended; • implementing procedures to calculate and pay social insurance and housing provident funds for our employees; and • reviewing the implementation of the policies on social insurance and housing provident funds by our human resources department regularly to ensure they have been properly implemented in accordance with the PRC laws and regulations.	Based on the foregoing, we are of the view that non-compliance incident does not have any material effect on the operations and financial condition of our Group.

Our Directors believe that the foregoing non-compliance incidents have not caused or will not cause any material and adverse financial or operational impact on us, as our Controlling Shareholder had irrevocably undertaken to fully indemnify us for all losses, claims, penalties, fines and expenses as a result of such non-compliances.

INTERNAL CONTROL AND RISK MANAGEMENT

We are subject to various risks during our operations. For further details, please see the section headed "Risk factors" in this prospectus. We have established internal control and risk management systems and relevant policies and procedures which we consider suitable for our business operation. Our Directors are responsible for formulating and overseeing the implementation of internal control measures and the effectiveness of our risk management system, which are designed to provide reasonable assurance regarding the achievement of objectives relating to our operations, reporting and compliance. Our policies and procedures are aimed at managing our mining and production operations, monitoring our business performance and minimising risk exposure.

In December 2019, we have appointed the Internal Control Consultant to perform a detailed review of our internal control and risk management systems, and to conduct follow-up reviews. The scope of work of the Internal Control Consultant included the reviewing of our internal control systems on control environment, risk assessment and monitoring, corporate governance, environmental and social governance, information disclosure system, financial reporting, income and procurement management, production process, inventory management, anti-fraud procedures, human resources and remunerations, treasury, taxation and general control on information technology.

The Internal Control Consultant has identified the following deficiencies in our internal control system and recommended certain measures to be implemented by our Group:

(i) we failed to make full contributions of social insurance and housing provident funds for our employees in 2020. Please refer to the paragraph headed "Compliance with laws and regulations — Non-compliance incidents — Under contribution of social insurance fund and housing provident fund" in this section for details of the internal control measures adopted by us;

(ii) Yantai Zhongjia did not hold the necessary permits and certificates in respect of 15 Defective Owned Buildings on its Owned Land and had been leasing Collectively-owned Rural Land and buildings for non-agricultural use. Please refer to the paragraphs headed "Properties — Properties with defective titles" in this section for details of such internal control deficiencies and the respective enhanced internal control policies and measures adopted by us;

(iii) from January 2020 to May 2020, Yantai Zhongjia has engaged in certain Non-compliant Bill Arrangements in breach of the PRC Negotiable Instruments Laws. Please refer to the paragraph headed "Compliance with laws and regulations — Non-compliant bill arrangements" in this section for details of such internal control deficiency and the enhanced internal control policy and measures adopted by us; and

(iv) in FY2020, our Group has provided corporate guarantees in favour of banks in the PRC in respect of banking facilities obtained by third parties, for details please refer to the section headed "Financial Information — Indebtedness — Contingent liabilities — Guarantees issued" in this prospectus. Further, during the Track Record Period, certain of our bank borrowings have been cross guaranteed by such third parties. We intend to utilise internal resources to repay certain bank loan or utilise net proceeds from the Global Offering amounting to approximately 12.6% or HK$33.6 million (RMB30.0 million) and such guarantees will be released upon repayment of the bank loans, for details please refer to the section headed "Future plans and use of proceeds — Use of proceeds" in this prospectus. Going forward, we intend to end all cross-guarantee arrangements after the loans have been fully repaid.

Our Directors confirmed that none of such deficiencies has caused material adverse effect on, or serious disruption to, the business operations and finance of our Group.

Our Internal Control Consultant conducted reviews and follow-up reviews and concluded that we had implemented (or will implement no later than the Listing) all of the recommendations made by our Internal Control Consultant and no further internal control deficiencies were identified during the follow-up review. We have implemented various policies and procedures to ensure effective risk management at each aspect of our operations, including the production and sales of products, administration of daily operations, financial reporting and recording, compliance procedures with applicable laws and regulations on safety, environmental protection and maintenance of required licences, permits and certificates, which shall be reviewed regularly by the Audit Committee of our Board after Listing. In addition to corporate governance related policies that we will adopt prior to the Listing, we have also put in place various written policies in accordance with the Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. We cannot guarantee that our internal control measures will be effective in protecting us against various risks in our business. For further details, please see the sections headed "Risk factors — Risks relating to the business operations of our Group — We may not be able to detect and prevent fraud, bribery or other misconduct committed by our employees, customers or other third parties" and "Risk factors — Risks relating to the business operations of our Group — Our internal control and risk management systems may not fully protect against various risks inherent in our business" in this prospectus.

CORPORATE GOVERNANCE

To further enhance the quality of our corporate governance, our Group has adopted or intended to adopt the following measures:

- our legal advisers as to Hong Kong laws have conducted training sessions to our Directors in June 2020 and February 2022, and provided to them training materials regarding ongoing obligations, duties and responsibilities of directors of publicly listed companies under the Companies (Miscellaneous Provisions) Ordinance, the Companies Ordinance, the SFO and the Listing Rules;

- we have appointed Dr. Shao, our executive Director, Chairman and Chief Executive Officer, who will act as the principal channel of communication between members of our Group and our Company in relation to legal, regulatory and financial reporting compliance matters of our Group as well as the chief coordinator to oversee the internal control procedures in general. Details of Dr. Shao's qualifications and experience are set out in the section headed "Directors and senior management" in this prospectus;

- our Company has appointed Innovax Capital as our compliance adviser to advise our Group on compliance matters upon Listing in accordance with Rule 3A.19 of the Listing Rules; and

- we have established an Audit Committee with written terms of reference in accordance with Appendix 14 to the Listing Rules to review the internal control system and procedures for compliance with the requirements of the Listing Rules, the Companies Ordinance and other applicable laws, rules and regulations.

Our Group aims to ensure that our operations are in compliance with the applicable laws, rules and regulations with respect to our business operations in the PRC. Our relevant senior management will continue to review and enhance our internal control system to ensure regulatory compliance in our business operations in the PRC and recommend remedial proposals on any internal control deficiency to our audit committee, which will then advise our Board. Any proposal approved by our Board will be implemented and closely monitored. Progress and effectiveness of any remedial plan will be reported to the audit committee. Any material internal control failing, weakness or deficiency identified during the review process and the relevant follow up or remedial measures (if applicable) taken by our Group will be disclosed in our annual report after Listing.

ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE

Governance structure of our Group for environmental, social and governance matters

Our Directors consider that as a responsible mining company and employer, establishing and implementing sound environmental, social and governance ("**ESG**") principles and practices are essential to our Group, and meanwhile it can increase the sustainable investment value of our Group and provide long-term returns to our Shareholders. In order to integrate ESG into our daily decision-making and operation more effectively, we have established an ESG working group (the "**ESG Working Group**") and an energy conservation and emission reduction leading group (the "**Emission Reduction Leading Group**"), and formulated a series of ESG policies. Our Group's ESG policies and procedures manual provide guidance on our Group's ESG governance, which set out (i) the ESG functions and roles of our Board, the ESG Working Group and the Emission Reduction Leading Group; and (ii) the detailed policies and related measures for each of the ESG scope. The ESG-related measures specified in this policy cover energy management, efficient use of resources (including but not limited to energy, water resources, other raw materials), waste management, green procurement, climate change response, labor standards, occupational health and safety, supply chain management, product quality and anti-corruption, to integrate ESG elements into the daily operations of our Group.

Our Board is responsible for formulating and supervising overall ESG strategies of our Group and determining the ESG-related risks. Our ESG Working Group and Emission Reduction Leading Group comprise many employees from different departments, and each of the groups is headed by the deputy general manager of Yantai Zhongjia. The ESG Working Group is responsible for assisting the formulation of ESG strategies and implementing the ESG policies and measures across all departments. It is also responsible for regularly identifying and reviewing the ESG issues and risks and putting forward improvement suggestions. In order to achieve the long-term emission reduction goals, Emission Reduction Leading Group is established to primarily focus on matters relating to energy consumption and emission. They will supervise and check the energy management of all departments, formulate the relevant management systems and work plans, and regularly conduct energy calculation for the production units, so as to continuously improve the energy utilisation efficiency of our Group. Emission Reduction Leading Group will organise annual meetings, summarise the work for the year and set the work goal for the next year, while the ESG Working Group will also supervise and check the relevant work progress. Both groups will report to our Board.

In addition to our internal operating environment, we also value the environmental and social risk management in the supply chain. We have formulated the environmental and social risk policies for the supply chain management, and encourage all the suppliers to proactively promote the environment protection and improve the employee benefits protection, so as to reduce the environmental and social risks in the supply chain.

Metrics and targets

In order to effectively evaluate and manage the ESG-related risks, we have adopted the following metrics and targets:

(i) in respect of greenhouse gas emissions, the metrics mainly include the amount of the energy indirect (Scope 2) greenhouse gas emissions calculated based on the CO_2-equivalent (tonnes). We plan to reduce the amount of greenhouse gas emissions produced in the course of operation;

(ii) in respect of energy use, the metrics mainly include the amount of energy consumption with the unit of megawatt hour (MWh). We plan to improve the energy efficiency and reduce the unnecessary energy consumption; and

(iii) in respect of resource utilisation, the metrics mainly include the volume of water consumed with the unit of cubic metre. Our target is to use water resource more effectively in our business operations and to save water resource.

We will strive to reduce the greenhouse gas emissions, improve the efficiency in the use of energy and other resources, and practically protect the environment. To advance our ESG performance, we have set a reduction target of 1% for each of our metrics: greenhouse gas emissions, energy consumption, and water consumption by the end of the year ending 31 December 2025, as compared to their corresponding levels in FY2022.

A. Environment

Emissions management

Our Group's emissions and wastes are generated mainly from our mining activities and ore processing activities, which mainly include waste rocks and tailings, solid waste, wastewater, dust and noise. Our Group formulates different emission management depending on relevant government policies and environmental factors. Our production wastewater and solid waste treatment procedures specify the procedures of production wastewater reuse and the procedures of transportation, reuse and collection of solid waste, to ensure the proper treatment of emissions and waste, and we also establish the Environmental Management System, to provide guidelines on the detection and treatment procedures of waste, waste gas, waste water, noise and other emissions generated in the operation process. We strictly comply with and implement the requirements of environmental laws and regulations of the PRC, including but not limited to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), the Mineral Resources Law of the

PRC (《中華人民共和國礦產資源法》) and the Law on Environmental Impact Assessment of the PRC (《中華人民共和國環境影響評價法》), and has developed relevant policies and measures to effectively manage emissions and ensure operational compliance. For further details, please refer to the section headed "Regulatory overview — Laws and regulations on environmental protection" in this prospectus. Our Directors are of the opinion that our Group's operations do not generate significant emissions and wastes which would significantly pollute the environment, and we have conducted the Registration of Solid Waste Sources with the PRC government and obtained a Water Extraction Permit issued from the PRC government.

The environmental protection policies and procedures in respect of the emissions and wastes generated from our operations are summarised below:

	Emissions and wastes	**Major environmental protection measures adopted**
1.	Waste rocks and tailing management	All waste rocks generated from mining could be used as the construction materials for roads, tailing dams, retaining walls and swales. As such, during the Track Record Period, we supplied the waste rocks generated to external recycler for further utilisation. In respect of the tailings produced during our ore processing activities, part of which will be used in the backfilling the stopes in our Songjiagou Underground Mine. To do so, cements are added to dry tailings to produce cement slurry, which can be directly used for backfilling the stopes in our Songjiagou Underground Mine. During the Track Record Period, we supplied surplus tailings to third parties, who recycles such tailings as construction materials, so as to minimise the impact on the environment.
2.	Solid waste management	In respect of each type of waste, including scrap metals and municipal solid waste, there are designated collection and storage locations around the work area. For example, scrap iron are collected and stored in various designated locations before being sold for recycling. Domestic solid wastes are collected and processed centrally by government environmental health departments.

	Emissions and wastes	Major environmental protection measures adopted
3.	Wastewater treatment	We are committed to recycling water to reduce the use of fresh water and the volume of wastewater discharged. The mine water from our Songjiagou Open-Pit Mine and our Songjiagou Underground Mine is collected and processed through desilters. The processed water can be reused for mining and dust control. We also collect and treat the water from the upper level of tailing dams which will be reused in our processing plant. We have built drainage ditches around our Songjiagou Open-Pit Mine to prevent precipitation from entering the mine. When excessive mine water is discharged during rainy seasons, the mine water will be processed in the desilter before being discharged into the environment. There are existing domestic wastewater treatment units on the construction site, and the treated domestic wastewater is reused for irrigation in site and farmland. We have also engaged a third-party testing company to regularly test wastewater. Consumption of water is one of our key performance indicators ("**KPI(s)**") in respect of our emissions and waste management and resource usage management. For details, please see the paragraph headed "Management of use of resources" below.
4.	Dust control	The main sources of dust emission are blasting, mining, loading, ore processing, waste rock storage and treatment and movement of vehicles and equipment. We formulate various measures including: (i) collecting dusts and installing vacuum cleaners in the processing plant; (ii) deploying carts to splash water in the mining area, waste rock loading area and roads to reduce dust emission; and (iii) engaging qualified companies to test dust particles.

Emissions and wastes	Major environmental protection measures adopted
5. Noise control	The noise emission mainly comes from blasting, jackdrill, loaders, ore processing equipment, air compressors and other noise-making equipment and machinery. We are committed to reducing the impact of noise on the environment by installing processing equipment in the closed rooms. We take various measures to minimise the noise produced during our operations, such as the use of damping and noise reduction device, installation of muffler on the air compressor, the setting of speed limit for vehicles, adoption of sound insulation measures, and the limitation of the blasting in the daytime, so as to reduce the impact of noise on the environment.

During the Track Record Period, our cost of compliance with the applicable environmental protection rules and regulations in the PRC amounted to approximately RMB0.5 million, RMB0.4 million, RMB0.7 million and RMB0.4 million, respectively. Moving forward, we expect our environmental protection rules and regulations will maintain at a similar level.

Our principal operating subsidiary, Yantai Zhongjia, was included in the 2022 soil contamination supervision list of Shandong Province published by the Administration Department for Ecology and Environment of Shandong Province (山東省生態環境廳). Pursuant to the Soil Pollution Prevention and Control Law of the PRC (《中華人民共和國土壤污染防治法》), Administrative Measures for Soil Environment of Industrial and Mining Land (Trial) (《工礦用地土壤環境管理辦法(試行)》) and Soil Pollution Prevention and Control Regulations of Shandong Province (《山東省土壤污染防治條例》) (collectively, the "**Soil Pollution Prevention Laws and Regulations**"), amongst others, non-ferrous metal mining and processing enterprises above scale shall be included in the soil contamination supervision list so that relevant authorities could supervise these enterprises in the list on a timely basis. Pursuant to the Soil Pollution Prevention Laws and Regulations, enterprises included in the soil contamination supervision list are required to: (i) establish procedures for managing the discharge of toxic or hazardous waste; (ii) establish procedures for screening of soil contamination, and (iii) conduct an annual examination on the soil and underground water on the land used for its operation and report the results to the competent authorities of ecology and environment.

Our Directors confirmed that, as concurred by our PRC Legal Advisers, Yantai Zhongjia was included in the soil contamination supervision list because it is operating in one of the industries that has been under close supervision pursuant to the Soil Contamination Prevention Laws and Regulations, and not as a result of its non-compliance with the Soil Pollution Prevention Laws and Regulations. After we became aware of the soil contamination supervision list, we have established the required waste management and screening procedures and carried out the examination and reporting at least one a year in compliance with the Soil Pollution Prevention Laws and

Regulations. As at the Latest Practicable Date, we had not received any notice or demand from any competent authorities on penalties, enforcement actions or allegations of non-compliance with the Soil Contamination Prevention Laws and Regulations as a result of Yantai Zhongjia being included in the soil contamination supervision list. Given that we have established the relevant procedures and carried out examination and reporting as required under the Soil Pollution Prevention Laws and Regulations and we have never received any notice or demand from any competent authorities on penalties, enforcement actions or allegations in relation to soil contamination, our PRC Legal Advisers are of the view that Yantai Zhongjia is in compliance with the Soil Pollution Prevention Laws and Regulations in material respects, and any enforcement actions or a penalty are unlikely and remote. In view of the above, our Directors further confirmed that being included in the soil contamination supervision list would not have a material and adverse financial effect on our business.

Management of use of resources

We are committed to making optimal use of resources, such as prioritising the purchase of energy-efficient production facilities, in order to reduce the consumption of natural resources. We have formulated the policies and procedures on resource conservation, including the "Office Electricity Management System", "Energy Quota Assessment System" and the "Fuel Saving Management System". In order to provide clear directions, methods and procedures for resource conservation in the workplace, such as the operation of air-conditioning and lighting systems, the approval of fuel-consuming equipment, and division of labor in energy management among units and departments. We implemented various measures in the daily office operations of mining sites and ore processing plant, such as identifying abnormal energy consumption and conducting necessary investigation and rectification, carrying out energy calculation of the production departments, adopting the light-emitting diode (LED) lighting system and bringing in natural light to the extent possible, and arranging the last employee to leave the workplace to check and turn off lighting and air conditioning to avoid wasting resources.

In respect of our emissions and wastes management and resources usage management, we primarily adopt electricity consumption and water consumption as our KPIs. In FY2020, FY2021, FY2022 and 6M2023, we consumed approximately 47,182 MWh, 28,336 MWh, 44,034 MWh and 21,340 MWh of energy in the course of our operations, respectively. As for energy consumption intensity, we consumed approximately 47,411 MWh/tonne of production volume, 56,780 MWh/tonne of production volume and 40,588 MWh/tonne of production volume and 45,599 MWh/tonne of production volume in FY2020, FY2021, FY2022 and 6M2023, respectively. In FY2020, FY2021, FY2022 and 6M2023[(1)], we consumed approximately 150,357 cubic metres, 48,221 cubic metres, 102,532 cubic metres and 49,368 cubic metres of water resources in our daily operations, respectively. In terms of water consumption intensity, we consumed approximately 151,087 cubic metres/tonne of production volume, 96,627 cubic metres/tonne of production volume, 94,508 cubic metres/tonne of production volume and 105,487 cubic metres/tonne of production volume in FY2020, FY2021, FY2022 and 6M2023, respectively.

(1) As we increased the use of recycled water through rainwater recovery in FY2021, FY2022 and 6M2023, the water consumption and its water consumption intensity in FY2021, FY2022 and 6M2023, are lower than those in FY2020.

In addition, we have also measured CO_2 emissions as one of the greenhouse gases based on electricity and energy consumption. In FY2020, FY2021, FY2022 and 6M2023, we emitted approximately 28,785 tonnes of CO_2-equivalent, 17,288 tonnes of CO_2-equivalent, 26,865 tonnes of CO_2-equivalent and 13,020 tonnes of CO_2-equivalent of greenhouse gases (indirect emissions) from our operations, respectively. For emission intensity of greenhouse gases (indirect emissions), we emitted approximately 28,925 tonnes of CO_2-equivalent/tonnes of production volume, 34,641 tonnes of CO_2-equivalent/tonnes of production volume, 24,763 tonnes of CO_2-equivalent/tonnes of production volume and 27,820 tonnes of CO_2-equivalent/tonnes of production volume in FY2020, FY2021, FY2022 and 6M2023, respectively.

For illustration purpose only, below is a table comparing the ESG metrics of our Group and the major gold producers in Shandong Province:

	Our Group	**Shandong Gold Mining Co., Ltd.** *(Note 1)*	**Zhaojin Mining Industry Co. Ltd.** *(Note 1)*	**Shandong Humon Smelting Co., Ltd** *(Note 1)*
Emission data — Greenhouse Gas				
Total emissions intensity (both Scope 1 direct and Scope 2 energy indirect greenhouse gas emission in tonnes) (tCO_2-e/million RMB revenue)	72.49	25.74	76.71	Not disclosed
Waste data — Hazardous waste				
Hazardous waste intensity (tonnes per million RMB revenue)	0.005	133.94	52.06	Not disclosed
Waste data — Non-hazardous waste				
Non-hazardous waste intensity (tonnes per million RMB revenue)	5,552.58 *(Note 2)*	223.79	547.68	Not disclosed
Consumption of energy				
Total energy intensity (MWh per million RMB revenue)	137.00	33.60	82.55	Not disclosed
Social data — Total workforce				
Employees number (Person)	429	16,993	6,760	4,899

Notes:

(1) The ESG metrics were extracted from their published ESG reports.

(2) The amount of non-hazardous waste produced by our Group, which is 5,552.58 tonnes per million RMB revenue, is relatively high compared to Shandong Gold Mining Co., Ltd. and Zhaojin Mining Industry Co. Ltd. in Shandong Province. This difference can be attributed to the fact that our Group operates on a smaller scale in terms of revenue and/or the number of gold mines in operation.

As shown in the table above, the result of ESG performance indicators relating to emission and waste, consumption of energy and social data varies among our Group and each of the comparable companies, mainly attributable to the followings:

1. the scope of business for the comparable companies includes smelting and refining while our Group's business is specialising in gold exploration, mining and processing and does not have a smelting business. The difference in combination of business segments between our Group and the comparable companies will lead to significant variance in the scale of business operation and hence, the number of labour force applied, the efficiency in use of energy or emission data; and

2. even Shandong Gold Mining Co., Ltd. and Zhaojin Mining Industry Co. Ltd. are companies listed in the Stock Exchange, there are insufficient published information (i.e. segmental information for its gold and copper businesses/smelting and refining business), to understand the variance in environmental data between them. As a result, it is impracticable to infer the reasons for and circumstance leading to the difference between our Group and the comparable companies.

Management of the environment and natural resources

We understand that our operating activities may have an impact on environmental and natural resources, so we do our best to minimise such impact to achieve sustainable development. To this end, we formulate a series of policies to reduce the negative impact of operating activities on the environment and land, as well as prevent environmental accidents. Our "Mineral Resources Development and Utilization Plan" contains mine environmental governance measures, including waste, waste gas, wastewater, noise treatment measures, as well as soil and water conservation and land reclamation measures. The "Emergency Plan for Environmental Accidents", "Emergency Response System for Environmental Accidents" and "Environmental Accident Management System" also assist staffs in responding to different levels and types of environmental accidents.

According to the SRK Report, none of our mines are located within the area of natural reserves. The development of our Songjiagou Open-Pit Mine and Songjiagou Underground Mine is and will unlikely to cause harm to wild animals or plants. However, we still strive to protect environment and minimise environmental footprint generated in the course of our operations, in order to protect ecosystems and combat climate change. We strictly regulate the emission of exhaust gas, wastewater, solid waste and noise from our production plant to ensure that each production process complies with the environmental standards of national and local governments.

According to the SRK Report, our Songjiagou Open-Pit Mine and Songjiagou Underground Mine will result in destruction of a land of a total of approximately 83.1 hectares. Under the relevant PRC laws and regulations, we are required to be responsible for site closure and land rehabilitation in relation to mining activities and submit a land rehabilitation plan to the Ministry of Natural Resources or the local land and resources branch for review when renewing the mining licences. The purpose of land rehabilitation is to rehabilitate the land damaged by the operations in order to control water and soil loss and protect the ecological environment. As at 30 June 2023, an environmental rehabilitation deposit of approximately RMB19.2 million has been deposited in the form of restricted and secured deposits for our Songjiagou Open-Pit Mine and Songjiagou Underground Mine in accordance with relevant PRC laws and regulations. The proposed measures in relation to site closure and land rehabilitation are as follows:

	Measures	**Details**
1.	Geological environment restoration	We will take measures to mitigate geological disasters, particularly landslides during the rainy season, including slope cutting during open pit mining or backfilling of steep slope areas with tailings after completion of underground mining. Our mining operations may cause impacts or losses to the growth of the plants and animals and the habitats due to landslides or stripping.
2.	Greening and rehabilitation	We have minimised environmental impacts by greening the area around the mining area and the tailings dam. We have also begun to gradually rehabilitate the mining site by replanting the slopes in the mining areas.
3.	Topsoil stripping	Topsoil will be stripped from mining, ore processing sites, waste stone quarries and infrastructure areas and then reused for land rehabilitation.
4.	Progressive restoration	Restoration will be carried out progressively with mining activities. In addition, any damaged agricultural land must be restored to the agricultural use phase at the lowest crop yield when possible.
5.	Replanting	At completion of the project, we will rehabilitate the relevant land for replanting by covering it with topsoil and seeds. The species used will be local perennials that are capable of growing in the conditions of the district where the mining areas are located.
6.	Rehabilitation monitoring and maintenance	Rehabilitation monitoring and maintenance will continue throughout the period of the project and after the completion of the project.

During the Track Record Period and up to the Latest Practicable Date, we are committed to complying with and implementing the approved rehabilitation plan. For FY2020, FY2021, FY2022 and 6M2023, the present value of our rehabilitation provision is approximately RMB22.0 million, RMB23.3 million, RMB23.9 million and RMB24.3 million, respectively.

As advised by our PRC Legal Advisers, during the Track Record Period and up to the Latest Practicable Date, we have complied in all material aspects with the applicable laws and regulations relating to environmental protection. During the Track Record Period and up to the Latest Practicable Date, we have not received any notice or warning, nor have we been subject to any investigation or suffered any material fines or penalties that would have a material adverse effect on our production and operations as a result of any breach of the relevant PRC environmental laws and regulations.

Our environmental and climate related risks and opportunities

Under the guidance of our ESG Risk Management Work Plan, our ESG Working Group is responsible for identifying ESG-related risks, including environmental and climate related risks, through strategies and measures such as feedback from internal and external stakeholders, developing an ESG Risk Identification and Register, and identifying business opportunities and reporting related matters to our Board. We assess the extent to which these risks affect our Group and prioritise them. Subsequently, we develop corresponding measures and regularly review the effectiveness of existing measures to control and mitigate the relevant risks. Please refer to the paragraphs headed “A. Environment” and “B. Social” in this section for the risk response measures.

We are well aware that the risks of environmental and climate change may cause financial losses and non-financial losses to our operations. These risks include: (i) transition risks associated with changes in policies, laws, technologies and markets; and (ii) physical risks associated with hurricanes, floods and continuous high temperature.

The following is a summary of the environmental and climate related risks and opportunities we have identified:

(i) Environmental and climate related risks	Potential impacts
• Extreme weather events such as floods, storms, snowstorms or extreme heat	• Our mining operations may be effected due to adverse weather, resulting in lower production rates • The revenue may decrease because the supply chain is intervened or disrupted
• Changes in environmental or climate related regulations	• In order to comply with the increasingly stringent environmental regulations, the compliance cost increases, which affects the profit
• Policies to reduce CO_2 emissions	• In order to cope with the changes in the policies, operating models may be changed, leading to the increase in operating costs or tax liabilities, which affects the profit

(ii) Environmental and climate related opportunities	Potential impacts
• To adopt energy efficient machineries and equipments to improve efficiency of resource utilisation	• Operating costs may decrease
• To develop energy efficient and low carbon production technologies	• Competitiveness may be enhanced, resulting in the decrease in operation cost

We will work with third-party professional organisations to improve the calculation and reporting of GHG emissions. We will also maintain close communication with internal and external stakeholders to integrate climate change issues into our Group's risk management process and ESG governance.

B. Social

Employees

We believe that our employees are crucial to our success. Our human resources department is responsible for the recruitment, management and training of the employees. As at the Latest Practicable Date, we had a total of 452 full-time employees. Other than one employee in Canada and one employee in Hong Kong, all of our employees are based in the PRC.

As at the Latest Practicable Date, our Group had a total of 452 full-time employees (including our executive Directors), of which 450 full-time employees were local employees and 2 full-time employees were foreign employees.

The following table sets out a breakdown of our employees by function on the dates indicated:

	As at 31 December			As at 30 June	As at the Latest Practicable Date
	2020	2021	2022	2023	
Management	10	10	9	9	8
Operation	241	331	374	379	399
Administration	22	26	31	31	30
Accounting/finance	5	6	6	7	8
Safety and environmental protection	6	6	3	3	3
Other	10	12	6	6	4
Total	294	391	429	435	452

We strictly comply with the requirements of employment related laws and regulations in the PRC, including but not limited to the Labour Law of the PRC (《中華人民共和國勞動法》), the Provisions on Prohibition of Using Child Labour (《禁止使用童工規定》) and the Law of the PRC on Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》). In order to ensure compliance and improve employment management, we have formulated a series of employment management related policies, including but not limited to Human Resource Management System, Employee Handbook and Recruitment Norms and Procedures, which set out measures on employment matters such as compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunities, diversity, anti-discrimination and other benefits and welfare.

To ensure we comply with the Labour Law of the PRC and pursue the principle of equality when conducting recruitment, we generally recruit employees through recruitment websites, campus recruitments and open markets. When we make recruitment decisions, we take into account factors such as our business strategy, development plans, industry trends and competitive environment. To ensure that the recruitment process is in compliance with relevant local laws and regulations, we verify the candidates' information, including but not limited to age and identification documents, thereby ensuring that the regulations on child labour and forced labour are not violated in the operation.

We are committed to promoting equal opportunities in the workplace and value a diverse workforce. We specify in the ESG policies and procedures manual to provide equal opportunities in employment matters such as recruitment, promotion and training, not allowing any discrimination based on the factors such as age, gender, marital status, race, colour, nationality, religion, sexual orientation. The tables below set forth further details of our diverse workforce at the dates indicated:

By age group:

	As at 30 June 2023	**As at the Latest Practical Date**
At or below 20	0	0
Between 21–30	27	27
Between 31–40	83	91
Between 41–50	142	144
Between 51–60	167	169
At or above 61	16	21
Total	435	452

By gender:

	As at 30 June 2023	**As at the Latest Practical Date**
Male	377	389
Female	58	63
Total	435	452

We recognise the importance of maintaining good relationships with our employees. Remuneration payable to our employees includes salaries and allowances. In accordance with the relevant statutory requirements, we make contributions to the employees' mandatory social insurance funds to provide retirement, medical, work injury, maternity and unemployment benefits. We also provide additional benefits to the employees such as free accommodation, medical, food and transportation allowance. However, we failed to make full contributions to social insurance and housing provident fund for our employees during the Track Record Period. For further details, please refer to the paragraph "Compliance with laws and regulations — Non-compliance incidents" in this section.

We conduct trainings for new employees annually and conduct regular trainings for on-the-job employees. In general, our trainings focus on developing job-related skills of the management and technical staff. We also provide external training opportunities for the employees. We provide employees with training opportunities related to the safe use of machinery and execution of work, including induction and on-the-job training.

We established a trade union in the PRC which all the Chinese employees are eligible to join. Our trade union protects the legal rights and interests of our employees, promotes and enhances our operational efficiency by addressing issues relating to workers, for example, their demands and suggestions to the workplace. During the Track Record Period and up to the Latest Practicable Date, we have not experienced any significant labour disputes within our Group or labour disputes on the operation of our Group, nor have we experienced any difficulty in recruiting and retaining the experienced employees.

Occupational Health and Safety

We operate in a responsible manner to ensure the health and safety of our employees, subcontractors and the communities in which we operate. We adopt occupational health and safety-related policies, including the "Employee Safety Manual", "Safety Production Rules and Regulations" and the "Safety Production Responsibility System", which stipulate the procedures for handling hazardous materials and hazardous processes in the workplace, as well as safety production measures, so as to reduce the risk of accidents during work. At the same time, in order to protect the employees' health, we have formulated the "Occupational Hygiene Management System" and "Occupational Disease Prevention and Control Responsibility System", to maintain workplace hygiene and ensure the good health of staffs. We have developed fundamental operational occupational health and safety management systems and procedures for our Songjiagou Open-Pit Mine and Songjiagou Underground Mine. These management systems and procedures cover basic safety production management for drilling, transportation, ventilation, explosive storage, and fire and flood prevention. We have also established safety measures covering various aspects including mining, flood and fire protection, explosion prevention and transportation. In February 2014, we were awarded "the Advanced Unit in Production Safety at the District Level" (年度區級安全生產工作先進單位) from the government authority of the Muping District in Yantai City. We have taken measures to comply with the applicable laws and regulations relevant to occupational health and safety. For our operations, we are subject to laws and regulations of the PRC in respect of occupational health and safety, such as the Law of the PRC on the Prevention and Control of Occupational Diseases (中華人民共和國職業病防治法), the Work Safety Law of the PRC (中華人民共和國安全生產法), the Mine Safety Law of the PRC (中華人民共和國礦山安全法), the Regulations for the Implementation of the Mine Safety Law of the PRC (中華人民共和

國礦山安全法實施條例) and the Regulations on the Reporting, Investigation and Disposition of Work Safety Accidents (生產安全事故報告和調查處理條例). For the details, please refer to the section headed "Regulatory overview" in this prospectus.

In particular, our Songjiagou Open-Pit Mine and Songjiagou Underground Mine have obtained valid production safety permits. Please refer to the paragraph headed "Our mineral assets and reserves — Mining rights, mining licences and other licences" in this section for the details. We have also obtained a safety permit for our tailings dam, which has established a perfect safety management system equipped with an online monitoring system covering dam displacement monitoring, leach line monitoring and safety alarms. We also continuously provide our employees with safety training courses, the contents of which include but are not limited to post safety operation and safety and occupational sanitation matters.

We require the subcontractors to possess appropriate qualifications in their contracted tasks and production safety. We provide regular safety trainings to our subcontractors, who work under the supervision of our departments such as Safety Division, Production Technology Department. For further details, please see the paragraph headed "Suppliers and subcontractors — Subcontractors" in this section.

In response to the outbreak of the COVID-19 pandemic, we are committed to minimising the risk of infection amount our employees, and have adopted a series of quarantine measures. For the information on our safety measures during the outbreak of the pandemic, please see the paragraph headed "Impacts of the outbreak of COVID-19 pandemic on our business" in this section.

As advised by our PRC Legal Advisers, during the Track Record Period and up to the Latest Practicable Date, we had been in compliance with the applicable PRC laws and regulations in respect of occupational health and safety in all material respects.

Work safety accidents during the Track Record Period

During the Track Record Period, we recorded six occupational health or work safety accidents of our workers as follows:

	FY2020	**FY2021**	**FY2022**	**6M2023**
Number of work safety accidents	2	2	2	0
Accident frequency rate *(Note 1)*	0.8	0.6	0.5	0.0
Total recordable incident rate ("**TRIR**") *(Note 2)*	2.2	1.7	1.6	0.0

Notes:

1. Accident frequency rate represents the number of workplace accidents per hundred workers. It is calculated as the number of workplace accidents during the year divided by the number of workers, then multiplied by 100. As at 31 December 2020, 2021 and 2022 and 30 June 2023, our Group had total operational workers of 241, 331, 374 and 379, respectively.

2. TRIR represents the number of workplace accidents per one million man-hours worked. It is calculated as the number of workplace accidents during the year/period divided by the number of man-hours worked, then multiplied by 1,000,000. Number of man-hours worked for a year is estimated based on the total number of the Group's employees and subcontractors as at the end of the year/period, multiplied by total number of working days per year per worker for eight hours per day.

   For comparison purpose, according to Frost & Sullivan, the global industry average TRIR per million hours worked for gold mining companies (with similar production capacity as composed with us) in the year 2020, 2021 and 2022 were 6.5, 5.2 and 3.4, respectively.

According to Work Injury Insurance Regulations《工傷保險條例》the severity of injuries will be assessed by the degree of labour dysfunction and the degree of self-care disorder. During the Track Record Period, except for two cases of sudden death due to sudden illness, the severity of injuries in all the other nine workplace accidents were considered to be minor with light grades 9 or 10 or no grade being assessed. These accidents primarily included fracture, incision of fingers, bruise on legs, infection on eyes and sudden death due to sudden illness, the breakdown of which is as follows:

Nature of injury	**Number of accident**	**Materiality grade** *(Note)*	**Amount claimed**
Fracture	3	Two cases being assessed as grade 9 and one case being assessed as grade 10	Fully covered by work safety liability insurance
Incision of fingers	3	Two cases being assessed as minor injury with no level being assessed, and one case being assessed as grade 10	No amount claimed for two cases, and the other one case fully covered by work safety liability insurance
Bruise on legs	2	One case being assessed as minor injury with no grade being assessed, and one case was pending assessment	No amount claimed for one case and the other case is pending assessment for claim
Infection on eyes	1	One case of minor injury with no grade being assessed	No amount claimed
Sudden death due to sudden illness	2	Two cases of severe work injury	Fully covered by work safety liability insurance

Note: According to Work Injury Insurance Regulations《工傷保險條例》, labour ability assessment refers to the degree of labour dysfunction and the degree of self-care restriction. Labour dysfunction is divided into ten grades of disability, the most serious grade is grade 1 and the lightest grade is grade 10.

Based on the advice of the PRC Legal Advisers, pursuant to Regulations on Reporting, Investigation and Handling of Work Safety Incidents (生產安全事故報告和調查處理條例), work safety incidents are generally divided into four categories based on casualty or direct economic losses caused in a work safety incident, namely, particularly major incidents (特別重大事故), material incidents (重大事故), relatively big incidents (較大事故) and ordinary incidents (一般事故). A material incident refers to an incident that has caused at least 10 but less than 30 deaths, or at least 50 but less than 100 serious injuries or direct economic losses of at least RMB50 million but less than RMB100 million. Besides, according to Work Safety Law of the PRC (2021 Amendment) (中華人民共和國安全生產法 (2021修正)), an enterprise that is liable for the work safety incidents shall be imposed fines by the relevant emergency management authority, and in the event of a material incident, a fine of not less than RMB2 million nor more than RMB10 million shall be imposed. Pursuant to a written confirmations dated 13 January 2022 and 16 August 2022, the Emergency Management Bureau of Yantai Muping has confirmed that it has never imposed any penalties on Yantai Zhongjia. All of the aforementioned work safety accidents were reported to the Human Resources and Social Security Bureau of Muping (煙台市牟平區人力資源和社會保障局) for determination of claims under the Work Injury Insurance Regulations (《工傷保險條例》). No litigation or legal actions arose from these occupational health or work safety accidents during the Track Record Period. Given that (i) save for one case of sudden death due to sudden illness and one case of death caused by slip and fall at work, there were no casualties or direct economic losses caused by the above ten occupational health or work safety accidents which have caused at least 10 but less than 30 death, or at least 50 but less than 100 serious injuries or direct economic losses of at least RMB50 million but less than RMB100 million per incident; and (ii) there were no fines of not less than RMB2 million or more than 10 million have been imposed, our PRC Legal Advisers were of the view that the above nine occupational health or work safety accidents were unlikely to be considered as material incidents under the Regulations on Reporting, Investigation and Handling of Work Safety Incidents (生產安全事故報告和調查處理條例) or the Work Safety Law of the PRC (2021 Amendment) (中華人民共和國安全生產法(2021修正)), respectively.

Notwithstanding this, according to the review and follow-up review of the Internal Control Consultant, our Internal Control Advisor has performed review procedures on our health and safety procedures and concluded that our overall health and safety procedures and controls are adequately designed and operating effectively, and no control deficiencies were reported during the period of review. Accordingly, our Directors are of the view that our Group's safety procedures are adequate and effective.

During the Track Record Period and up to the Latest Practicable Date, save for the occupational health or work safety accidents as disclosed above, there had not been any occupational health or work safety accident or any claim arising from such accident that would have a material adverse effect on our business, financial condition and results of operations.

Anti-corruption, bribery and anti-money laundering

We value business ethics and integrity and prohibit corruption, bribery and money laundering in any form. We have a set of anti-corruption, bribery and money laundering policies, including the "Anti-Corruption, Bribery and Fraud Management System" and the "Anti-Money Laundering Management System", which set out measures for preventing, reporting, investigating and training on corruption and money laundering, in order to guide and supervise our staffs to prevent corrupt practices. We have put in place a set of anti-corruption, bribery and money laundering policies, details of some of the internal control measures are as follows:

- We established the whistle-blowing mechanism to report any suspected misconduct;
- Staff are required to declare any conflicts of interests when performing their duties;
- We perform background search for the candidates of key position, to assess his/her integrity level during the recruitment process and maintain the record for future reference;
- For any suspected misconduct identified or reported, relevant department will perform assessment and/or investigations against any suspected or illegal behaviour to protect our Group's interests;
- To mitigate the risk in money laundering, all receipt must be performed through company's bank accounts and no cash receipt is allowed;
- Finance manager is responsible to ensure that all receipt are from our client's company account and match the bank information of our record;
- Where any crime related to corruption, bribery or money laundering is substantiated by our Group, a report will be submitted promptly to relevant regulators or law enforcement authorities when the management of our Group considers it necessary or after seeking for legal advice;
- Training will be arranged for staff (including Directors) to enhance their awareness towards anti-corruption, bribery and money laundering.

Community investment

We shoulder social responsibilities and are committed to contributing to the local communities. We have made donations to local public charity institutions and governmental agencies and helped those in need in the communities. During FY2020, FY2021, FY2022 and 6M2023, our charitable donations were approximately RMB2.0 million, RMB83,000, RMB1.0 million and nil, respectively.

In addition, we also contributed to the local communities by making investment to nearby villages which would enable us to maintain good relationships with the villagers.

As part of our contribution to the local communities, we provide employment opportunities to villagers in nearby villages. Such employment opportunities include truck drivers and workers in our mining areas and ore processing plant. In addition, in order to improve the social well-being of the local communities and reduce the impacts of our mining and ore processing operation on the original residential areas of villagers, we completed the construction of six residential buildings near our Songjiagou Open-Pit Mine and Songjiagou Underground Mine in August 2019 at a budget of approximately US$14.4 million, to relocate and house up to 240 families. Such relocation would also facilitate ongoing operations and potential expansion of surface mining activities in the future. The buildings include appliances, recreation rooms, child playgrounds and other modern amenities including elevators, air conditioning and parking lots. All the construction engagements were completed in accordance with national standards and approved following the inspection by the relevant government authorities. In addition, on 18 September 2020, we agreed to grant an interest-free loan of RMB4 million to Songjiagou Weikun Vegetables and Fruits Farmers Specialised Cooperation (宋家溝煒坤蔬果農民專業合作社) for the construction of a greenhouse to support the agricultural economic development of these villagers and farmers in the Muping District of Yantai. The loan is interest-free, unsecured and repayable by 17 September 2025. Further, our mining and production activities may cause certain degree of disruptions and inconvenience to the daily lives of the villagers who reside nearby. To compensate the villagers, we have implemented a scheme to compensate such villagers since 2012, whereby monetary compensations are given quarterly to each participating villagers.