



RESPONSE TO SGX QUERY ON FINANCIAL RESULTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2016

The Board of Directors of China International Holdings Limited (the “**Company**”), or together with its subsidiaries (the “**Group**”) refers to the Company’s financial results for its third quarter ended 30 September 2016 (“**Q3 FY2016 Results**”) released to Singapore Exchange Securities Trading Limited (“**SGX-ST**”) on 8 November 2016. The Company would like to provide the following additional information in reply to the queries raised by SGX-ST on 25 November 2016:-

SGX Query 1

We note the disclosure that the “Liuhe Gold Project has received all licenses required for commercial operation but has not commence commercial production due to the weak gold price in Q3FY2016. The Group has made full impairment in relation to the Liuhe Gold project in Q4FY2015, and is considering to dispose this investment”.

Kindly disclose the following information:-

- a. To quantify the total investment and impairment cost of the Liuhe Gold Project to-date. When were impairments made.
- b. The resources and reserves of this mine.
- c. When were operations on this mine halted.
- d. If operations have not been halted, why was this since the Company had taken the view that the mine is totally impaired.
- e. The market valuation based on the technical valuation of this gold mine.

Company’s response

- (a) Set out below are the total investment and impairment accounted for investment in associated company – Liuhe Country YuKun Mining Co. Ltd (also known as “Liuhe Gold project”):

	30 September 2016/ 31 December 2015 RMB’000
Share of net assets	27,237
Goodwill	17,044
	<hr/> 44,281
Impairment loss on investment in associate	<hr/> (44,281)
	<hr/> -
Due from associate	9,968
Less: allowance for impairment	<hr/> (9,968)
	<hr/> -

The carrying amounts of investment in associate as well as amount due from associate were fully impaired during the financial year ended 31 December 2015 and the reasons for impairment are explained in (d) and (e). As of to-date, the Company did not make any new investments or loans to the Liuhe Gold Project.

(b) Based on the information the Company announced on 18 April 2016, The Company is not a mineral, oil and gas company, and the trial production result is not a report of reserves, resources or exploration results. The total production of trial runs after mineral processing/ore dressing is 305.94 tonne, which consist of the following:

	Tonne
Gold	0.020
Silver	0.140
Copper	23.421

(c) It does not apply to the status of the Company.

(d) During the FY 2015, the Management assessed the recoverability of investment in the Liuhe Gold Project. In view of the weak commodity prices, additional funds would be required to continue with the actual production. Based on a valuation conducted by Roma, an independent valuer, and taking into account the expected increase in mining costs and poor trial production results, the Company is of the view that there would be insufficient cash flows over the life of the mining project to recover the Group's investment in Liuhe. On this basis the Company decided to impair the carrying amount of Liuhe. Although the Company retains the option to recover a portion of its investment by making it available for disposal, the Company decided to impair the investment as the timing and realisable value of the potential disposal was uncertain and there were no concrete plans as at 31 December 2015.

(e) The Liuhe valuation exercise was carried out to assess whether there was any impairment to the Group's cost of investment in the Liuhe Gold Project and also to value the amount due from Liuhe to the Company.

The Liuhe Valuation was based on a going concern premise and conducted on a market value basis. According to the International Valuation Standards established by the International Valuation Standards Council in 2011, market value is defined as "the estimated amount for which an asset should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties have each acted knowledgeably, prudently and without compulsion".

Roma estimated the market value of Liuhe Gold Project based on the Income-Based Approach. The Income-Based approach focuses on the economic benefits due to the income producing capability of the relevant business entity. The underlying theory of this approach is that the value of the business entity can be measured by the present worth of the economic benefits to be received over the useful life of the business entity. Based on this valuation principle, the Income-Based Approach estimates the future economic benefits and discounts them to their present values using a discount rate appropriate for the risks associated with realizing those benefits.

SGX Query 2

With regards to the full impairment made by the Group for the related investment in the Group's project in Papua New Guinea in Q4 FY2015, please disclose the following:-

a. The total investment cost made by the Group and when the investment was made.

- b. The total impairment cost written off by the Group and when the impairment costs were written off.
- c. The size and technical specification of this mine.
- d. The market valuation based on the technical valuation of this mine.

Company's response

(a) and (b)

Set out below are the total investment and impairment accounted for investment in associated company – Future Trillion Holdings Limited, which holds 28.35% of MKS Limited (also known as “Papua New Guinea Project”):

	30 September 2016/ 31 December 2015 RMB'000
Share of net assets (including goodwill of RMB40,876,000)	24,617
Impairment loss on investment in associate	(24,617)
	<hr/> -
Due from associate	76,102
Less: allowance for impairment	(76,102)
	<hr/> -

The Company made its first investment in Papua New Guinea Project/MKS on 30 November 2009 with the total amount of USD6million and second investment on 16 December 2011 with the total amount of USD3.5million. Total investments made amounted to USD9.5million, approximately RMB60,162,000.

During the financial year ended 31 December 2015, approximately RMB104,970,000 of exploration and evaluation expenditure was expensed off. Even though there was a valuation report as disclosed in (d), the directors were in the opinion that it is not commercially viable to continue exploration after considering the depressed oil and gas prices and inability to obtain additional funds hence, impairment was made to investments in associate as well as amount due from associate (as disclosed in table above).

(c) The Company had earlier disclosed the evaluation reports conducted by GCA on 23 May 2012 and 7 January 2013 in relation to the Exploration Project.

The announcement released by the Company on 23 May 2012 disclosed a report by GCA which identified one prospect and one lead for further exploration and provided prospective resources estimation for the prospect named AOI-2, which showed 44 million barrels of oil or 489 billion cubic feet of gas on P50 assumption.

The announcement released by the Company on 7 January 2013 disclosed a report by GCA which, based on revised data processing and studies, identified updated estimation for the prospect named AOI-2 and showed 70 million barrels of oil or 775 billion cubic feet of gas on P50 assumption. This updated report also eliminated AOI-3W as a lead for further exploration.

Based on the updated evaluation of AOI-3W lead, GCA concluded that there was no trap in the AOI-3W area and did not recommend any additional work in this area.

The Company's announcement released on 24 May 2012 provided the results of the activities in the period prior to 2012. The following is an extract from the Company's announcement released on 24 May 2012:

"Based on a combination of the available geologic surface mapping data and subsurface mapping utilizing five 2D seismic lines, one prospect and one lead, AOI-2 Prospect and AOI-3W Lead, have been identified in the license area covered by PPL294.

Based on the available information, GCA estimates that the following prospective resources are contained in AOI-2:

<i>Gas Only Case</i>	<i>P90</i> <i>90% Probability</i>	<i>P50</i> <i>50% Probability</i>	<i>P10</i> <i>10% Probability</i>
<i>Gas initially in place</i> <i>(Bscf - Billion standard cubic feet)</i>	<i>184</i>	<i>700</i>	<i>2,655</i>
<i>Estimated Ultimate Recovery Gas</i> <i>(Bscf - Billion standard cubic feet)</i>	<i>127</i>	<i>489</i>	<i>1,863</i>
<i>Oil Only Case</i>	<i>P90</i> <i>90% Probability</i>	<i>P50</i> <i>50% Probability</i>	<i>P10</i> <i>10% Probability</i>
<i>Stock tank oil initially in place</i> <i>(MMstb - Million Stock tank barrel)</i>	<i>60</i>	<i>233</i>	<i>871</i>
<i>Estimated Ultimate Recovery Oil</i> <i>(MMstb - Million Stock tank barrel)</i>	<i>9</i>	<i>44</i>	<i>180</i>

Notes:

1. The cases presented above are alternates. If the gas case is used there are no oil resources and vice versa.
2. The figures presented in this table must be considered only in the light of comments contained in the accompanying report dated 23 May, 2012 of which this table forms an integral part. The report is available for inspection by shareholders at the Company's office during office hours from 24 May 2012 to 23 June 2012".

The following is an extract of the Company's announcement released on 7 January 2013:

"Based on integration of the updated surface geology data, the re-processing and re-interpretation of seismic data and the construction of balanced structural cross sections, a re-evaluation of the AOI-2 area has resulted in a 3D subsurface model that provides a more confident interpretation of the area's prospectively. As a result, the Tumuli interpretation is considered to be more reliable, the level of geological risk has been reduced. Based on the supplementary and more reliable surface geology data, GCA increased the net thickness of reservoir in AOI-2 Prospect, as well as the prospective resources as follows:

<i>Gas Only Case</i>	<i>P90</i> <i>90% Probability</i>	<i>P50</i> <i>50% Probability</i>	<i>P10</i> <i>10% Probability</i>
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<i>Gas initially in place</i> <i>(Bscf - Billion standard cubic feet)</i>	332	1,104	3,640
<i>Estimated Ultimate Recovery Gas</i> <i>(Bscf - Billion standard cubic feet)</i>	229	775	2,549
Oil Only Case	P90 90% Probability	P50 50% Probability	P10 10% Probability
<i>Stock tank oil initially in place</i> <i>(MMstb - Million Stock tank barrel)</i>	115	369	1,226
<i>Estimated Ultimate Recovery Oil</i> <i>(MMstb - Million Stock tank barrel)</i>	18	70	249

Notes:

1. The cases presented above are alternates. If the gas case is used there are no oil resources and vice versa.
2. The figures presented in this table must be considered only in the light of comments contained in the accompanying report by GCA of which this table forms an integral part".

(d) MKS Limited, a subsidiary of Future Trillion Holdings Limited ("FT") and FT, an associated company of the Group, collectively FT Group. MKS has expensed off approximately RMB104.97 million of exploration and evaluation expenditure ("EEE") in FY2015. The board of directors of MKS have assessed that it is not commercially viable to continue exploration, after taking into consideration depressed oil and gas prices, the inability of MKS to obtain additional funds and the difficulty in meeting the conditions set out in exploration license, which is expected to expire in 2020.

The application of the Group's accounting policy for EEE requires judgement to determine whether future economic benefits are likely from either future exploitation or sale, or whether activities have not reached a stage that permits a reasonable assessment of the existence of reserves.

Factors taken into account in assessing whether the Company's interests in associated company have suffered any impairment include the financial health and cash flow projection of the associated company, the period for the associated company has the right to explore a specific area, the substantive expenditure of the associated company on the exploration for and evaluation of oil, and gas resources in specific areas and the future prospect and commercial viability of further exploration and evaluation activities.

BY ORDER OF THE BOARD
CHINA INTERNATIONAL HOLDINGS LIMITED

Shan Chang
Chairman
30 November 2016