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SD-GOLD

SHANDONG GOLD MINING CO., LTD.

山東黃金礦業股份有限公司

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

(Stock Code: 1787)

**DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO THE CASH ACQUISITIONS OF 100% EQUITY
INTERESTS IN DIKUANG LAIJIN AND 45% EQUITY INTERESTS IN
HONGSHENG MINING**

On 5 August 2021 (after trading hours), SDG Mining (Laizhou) and SDG Group Co. entered into the Acquisition Agreements on the acquisitions of 100% equity interests in Dikuang Laijin (which directly holds 55% equity interests of Hongsheng Mining) and 45% equity interests in Hongsheng Mining at an aggregate consideration of RMB4,667,014,358.15. Upon Completion, the Target Companies will be wholly-owned by SDG Mining (Laizhou) and the financial information of the Target Companies will be consolidated into the financial statements of the Group.

HONG KONG LISTING RULES IMPLICATION

Upon aggregation, as one or more of the relevant applicable percentage ratios (as defined under the Hong Kong Listing Rules), are more than 5% but less than 25%, the Acquisitions constitute discloseable transactions of the Company under Chapter 14 of the Hong Kong Listing Rules and will be subject to reporting and announcement requirements but exempt from the shareholders' approval requirement under Chapter 14 of the Hong Kong Listing Rules.

SDG Group Co. is the controlling Shareholder of the Company, directly and indirectly holding approximately 45.08% of the issued share capital of the Company. SDG Mining (Laizhou) is a subsidiary of the Company that is owned by it as to approximately 95.31%. Accordingly, the Acquisitions constitute connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules and are subject to reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The Directors, Mr. Li Guohong, Mr. Wang Lijun and Ms. Wang Xiaoling, also hold senior management positions in SDG Group Co., are deemed to have material interests in the Acquisitions and have abstained from voting on the resolutions in relation to the Acquisition Agreements proposed to the Board. Save as disclosed above, none of the Directors attended the Board meeting has a material interest in the Acquisitions.

GENERAL

The EGM will be convened for the Independent Shareholders to consider and, if thought fit, to approve among other things the Acquisition Agreements and the transactions contemplated thereunder. Pursuant to Rule 14A.36 of the Hong Kong Listing Rules, any Shareholder who has a material interest in the Acquisition Agreement shall abstain from voting to approve the Acquisition Agreements and the Acquisitions at the EGM. As at the date of this announcement, SDG Group Co., being the controlling Shareholder, directly or indirectly holds approximately 45.08% of the issued share capital of the Company will be required to abstain from voting on the relevant resolutions at the EGM accordingly. Save for SDG Group Co. and its subsidiaries, including Shandong Gold Non-ferrous Metal Mine Group Co., Ltd., Shandong Gold Geological Mine Exploration Co., Ltd., Shandong Gold Group Qingdao Gold Co., Ltd., and SDG (Beijing) Industry Investment Co., Ltd., as at the date of this announcement, to the best knowledge of the Directors, no other Shareholder would be required to abstain from voting thereat as no other Shareholder has any interest in the Acquisition Agreements.

A circular containing, among other things, (i) information on the Acquisitions; (ii) the recommendation of the Independent Board Committee in respect of the Acquisitions; (iii) the advice of the Independent Financial Adviser regarding the terms of the Acquisitions; and (iv) other information as required under the Hong Kong Listing Rules, shall be despatched to the Shareholders on or before 17 September 2021, so as to allow sufficient time for the preparation of the aforesaid information for inclusion in the circular.

ACQUISITION OF THE TARGET COMPANIES

On 5 August 2021 (after trading hours), SDG Mining (Laizhou) and SDG Group Co. entered into the Acquisition Agreements on the acquisitions of 100% equity interests in Dikuang Laijin (which directly holds 55% equity interests of Hongsheng Mining) and 45% equity interests in Hongsheng Mining at an aggregate consideration of RMB4,667,014,358.15. Upon Completion, the Target Companies will be wholly-owned by SDG Mining (Laizhou) and the financial information of the Target Companies will be consolidated into the financial statements of the Group.

(1) The Dikuang Laijin Agreement

Date

5 August 2021

Parties

1. SDG Group Co. (as Vendor)
2. SDG Mining (Laizhou) (as Purchaser)

Consideration

The consideration of RMB2,612,929,494.01 payable by the Purchaser under the Dikuang Laijin Agreement in connection with Dikuang Laijin was determined based on the appraised value of Dikuang Laijin of RMB2,612,929,494.01 as at the Valuation Reference Date in the valuation report issued by Beijing Pan-China.

Payment method

The Purchaser shall pay the consideration by cash in one lump sum within 30 days from the date of completion of the delivery of the equity interest in Dikuang Laijin. The Group intends to pay the consideration with the Group's internal financial resources, external credit facilities and available financing channels.

Completion

SDG Group Co. irrevocably agrees to proceed with the completion of the delivery of the equity interest in Dikuang Laijin within 7 working days after all the conditions for the effectiveness of the Dikuang Laijin Agreement have been satisfied. SDG Group Co. shall complete the registration of the transfer of the equity interest in Dikuang Laijin on the date of Completion, and SDG Mining (Laizhou) shall legally enjoy and assume all rights and obligations of the shareholders of the equity interest in Dikuang Laijin from the date of Completion onward.

SDG Mining (Laizhou) shall provide the necessary assistance to ensure the smooth completion of the delivery of the equity interest in Dikuang Laijin.

Conditions precedent

Completion is subject to, inter alia, the following conditions precedent being satisfied:

- (1) The board of directors and the shareholders' meeting of SDG Mining (Laizhou) and the Board of the Company have approved the matters relating to the Dikuang Laijin Agreement;
- (2) The Company has convened a general meeting in accordance with its Articles of Association and the applicable listing rules for the approval of the matters relating to the Dikuang Laijin Agreement by Independent Shareholders;
- (3) SDG Mining (Laizhou) and the Company have obtained all approvals (if any) required by applicable laws and regulations;
- (4) SDG Group Co. has completed all procedures and obtained all necessary resolutions and authorizations in respect of the matters relating to the Dikuang Laijin Agreement in accordance with the laws and regulations of its place of incorporation, articles of association of SDG Group Co. and Dikuang Laijin.

Default and compensation

Any breach, non-performance or incomplete performance by either party of any of its obligations, representations, warranties and undertakings under the Dikuang Laijin Agreement after the signing thereof shall constitute a default. The defaulting party shall fully and adequately indemnify the other party against any reasonable claims, losses, costs or other liabilities incurred by the other party as a result of such default, including but not limited to costs of litigation against the defaulting party (including but not limited to professional advisers' fees) and litigation with and compensation to third parties (including but not limited to professional advisers' fees) as a result of such default.

If SDG Group Co. fails to perform its obligations under the Dikuang Laijin Agreement within 15 days after the expiry thereof or breaches its obligations under the Dikuang Laijin Agreement, SDG Mining (Laizhou) shall have the right to terminate the Dikuang Laijin Agreement with the overdue (defaulting) party and to require the overdue (defaulting) party to pay liquidated damages and other obligations in accordance with, including but not limited to, the relevant provisions of the Dikuang Laijin Agreement.

If SDG Group Co. fails to disclose or does not truthfully disclose any facts or circumstances that existed prior to the date of delivery of the equity interest in Dikuang Laijin, and such facts or circumstances would materially and adversely affect the ongoing lawful and normal operation of Dikuang Laijin after the Completion, SDG Mining (Laizhou) has the right to terminate the Dikuang Laijin Agreement and to require SDG Group Co. to jointly and severally assume responsibility for the payment of liquidated damages and other obligations.

Profit or loss for the transitional period

During the period from the Valuation Reference Date to the date of Completion (the date when the equity interest in Dikuang Laijin is registered for industrial and commercial change), the increase in net assets due to operating profits and other reasons, or the decrease in net assets due to operating losses and other reasons, shall be enjoyed or incurred by SDG Mining (Laizhou).

Information on Dikuang Laijin

As at the date of this announcement, Dikuang Laijin has 55% equity interests in Hongsheng Mining. Details of Hongsheng Mining are set out in the relevant part in "Information on Hongsheng Mining" in this announcement. The equity interest of Dikuang Laijin is clear, and there is no mortgage, pledge or any other restrictions on the transfer thereof. There is no litigation, arbitration or judicial measures such as sealing up and freezing, nor other situation hindering the transfer of ownership.

Financial position of Dikuang Laijin

The main financial indicators of Dikuang Laijin are as follows:

	For the year ended	
	31 December	
	2019	2020
	audited	audited
	RMB'000	RMB'000
Net loss before tax	30,463	39,590
Net loss after tax	32,602	38,846

Dikuang Laijin had no revenue in 2019 and 2020. The original acquisition cost of Dikuang Laijin is approximately RMB1,817.75 million. The net asset value of Dikuang Laijin as at 31 May 2021 were RMB1,654.53 million.

Valuation of Dikuang Laijin

According to the valuation report, the asset-based approach was used in the valuation. The valuation conclusion is set out below:

Under the going concern assumption as at the Valuation Reference Date, the carrying amount of the total assets attributable to Dikuang Laijin after simulated divestment was RMB134,613,200, the carrying amount of liabilities was RMB27,808,100, and the carrying amount of owner's equity (net assets) was RMB106,805,100.

Upon adoption of the asset-based approach, the appraised value of total assets of Dikuang Laijin was RMB2,640,737,600, the appraised value of liabilities was RMB27,808,100, and the appraised value of owner's equity was RMB2,612,929,494.01, representing an increase of RMB2,506,124,400 in value as compared with the carrying amount adjusted by valuation, with an appreciation rate of 2,346.45%.

The specific valuation results are summarized in the following table:

Unit: RMB'0000

Item name	Carrying amount	Appraised value	Increase/ Decrease in value	Appreciation rate
Current assets	12,980.00	12,980.00	–	–
Non-current assets	481.32	251,093.76	250,612.44	52,067.74%
Of which:				
Long-term equity investment	461.47	251,054.82	250,593.35	54,303.28%
Investment properties	–	–	–	–
Fixed assets	19.85	38.94	19.09	96.17%
Construction in progress	–	–	–	–
Intangible assets	–	–	–	–
Land use rights	–	–	–	–
Others	–	–	–	–
Total assets	13,461.32	264,073.76	250,612.44	1,861.72%
Current liabilities	1,474.32	1,474.32	–	–
Non-current liabilities	1,306.49	1,306.49	–	–
Total liabilities	2,780.81	2,780.81	–	–
Net assets (total shareholders' equity)	10,680.51	261,292.95	250,612.44	2,346.45%

Valuation of mineral rights

1) Mining right of Laizhou Jinsheng Mining Investment Co., Ltd. ZhuguoLijia gold mine (萊州金盛礦業投資有限公司朱郭李家金礦)

The appraised value of mineral right in the Valuation Report of Dikuang Laijin issued by Beijing Pan-China adopted the conclusion in the Valuation Report on Mining Right of Laizhou Jinsheng Mining Investment Co., Ltd. ZhuguoLijia Gold Mine issued by Headmen (Headmen Ping Bao Zi [2021] No. 019 of Total No. 2668): the appraised value of the mining right of Laizhou Jinsheng Mining Investment Co., Ltd. ZhuguoLijia gold mine included in this valuation was RMB3,322,454,400. Details are as follows:

- ① Valuation Reference Date: 31 May 2021
- ② Valuation method: Discounted cash flow method
- ③ Main parameters used in the valuation: retained resource reserves within the valuation scope as of the Valuation Reference Date, 33,359,000 tons of major mineral gold (122b+332+333) ore, with an average grade of 3.65 g/t and 121,856.00 kg of metal; 23,473,900 tons of associated mineral silver (333) ore, with an average grade of 6.59 g/t and 154,650.00 kg of metal; 23,473,900 tons of associated mineral sulphur (333) ore, with an average grade of 2.04% and 1,371,100 tons of standard sulphur in resources reserves. The resources reserves used in the valuation are as follows: 28,363,500 tons of ore, 106,873.00 kg of gold metal with an average grade of 3.77 g/t and 123,720.00 kg of silver metal with an average grade of 4.36 g/t. The mining recovery rate is 93%, the recoverable reserves used in the valuation are 26,378,100 tons, and ore depletion rate is 7.80%. The production capacity is 1,650,000 tons/year; the estimated service life is 22 years and 4 months (including the infrastructure construction period); the discount rate is 8.62%.

The product plan is finished gold and finished silver, and the selling price is RMB314.43/g for finished gold and RMB3,764.06/kg for finished silver. The total unit cost is RMB399.86/ton for Phase I and RMB421.10/ton for Phase II. The unit operating cost is RMB337.59/ton for Phase I and RMB351.84/ton for Phase II.

- ④ Valuation conclusion: Based on the investigation, understanding and analysis of the actual situation of the target of valuation, in accordance with the principles and procedures for the valuation of mining rights and through reasonable valuation methods and parameters, the appraised value of “mining right of Laizhou Jinsheng Mining Investment Co., Ltd. ZhuguoLijia gold mine” is determined to be RMB3,322,454,400 (i.e., RMB three billion three hundred and twenty-two million four hundred and fifty-four thousand four hundred only) by estimation.

2) *Mining right of Laizhou Huijin Mining Investment Co., Ltd. Shaling gold mine (萊州匯金礦業投資有限公司紗嶺金礦)*

The appraised value of mineral right of the Valuation Report of Dikuang Laijin issued by Beijing Pan-China adopted the conclusion in the Valuation Report on Mining Right of Laizhou Huijin Mining Investment Co., Ltd. Shaling Gold Mine issued by Headmen (Headmen Ping Bao Zi [2021] No. 09 of Total No. 2658): the appraised value of the mining right of Laizhou Huijin Mining Investment Co., Ltd. Shaling gold mine included in this valuation was RMB6,696,471,600. Details are as follows:

- ① Valuation Reference Date: 31 May 2021
- ② Valuation method: Discounted cash flow method
- ③ Main parameters used in the valuation: retained resource reserves within the valuation scope as of the Valuation Reference Date, A. major mineral: gold ore, 89,970,800 tons of ore and 309.06 tons of gold metal, with an average grade of 3.44g/t. In particular: measured economic basic reserves (111b) are 5,408,300 tons of ore and 21.99 tons of metal, with an average grade of 4.07g/t; indicated economic basic reserves (122b) are 23,831,500 tons of ore and 80.11 tons of metal, with an average grade of 3.36g/t; inferred intrinsic economic resources (333) are 60,731,000 tons of ore and 206.96 tons of metal, with an average grade of 3.41g/t. B. associated minerals: silver, inferred intrinsic economic resources (333) are 89,256,800 tons of ore and 232.02 tons of silver metal, with an average grade of 2.60g/t; sulfur, inferred intrinsic economic resources (333) are 1,550,700 tons of ore and 42,200 tons of elemental sulfur, with an average grade of 2.71%, equivalent to 121,000 tons of standard sulfur. C. additional low-grade ore: gold ore, 44,142,700 tons of ore and 63.00 tons of gold metal, with an average grade of 1.43g/t. In particular: measured intrinsic economic resources (331) are 1,199,300 tons of ore and 1.51 tons of metal, with an average grade of 1.30 x 10g/t; indicated intrinsic economic resources (332) are 2,936,000 tons of ore and 3.82 tons of metal, with an average grade of 1.30g/t; inferred intrinsic economic resources (333) are 40,007,300 tons of ore and 57.67 tons of metal, with an average grade of 1.44g/t.

The resource reserves used in the valuation are as follows: 86,273,900 tons of ore, 262,363.07 kg of gold metal and 224,312.22 kg of silver metal, with an average grade of 3.04 g/t for gold and 2.60 g/t for silver. The first mining area (Phase I) contains 57,959,600 tons of ore, 189,355.95 kg of gold metal and 150,694.96 kg of silver metal, with an average grade of 3.27 g/t for gold and 2.60 g/t for silver. The later mining area (Phase II) contains 28,314,300 tons of ore, 73,007.12 kg of gold metal and 73,617.18 kg of silver metal, with an average grade of 2.58g/t for gold and 2.60g/t for silver.

The mining recovery rate of both the first and later mining areas is 88% and the ore depletion rate is 8%; the designed gold processing recovery rate is 95% for Phase I and 94% for Phase II, and the designed silver processing recovery rate is 35%; the designed gold return rate is 97.2% and the silver return rate is 0.

The recoverable reserves mined in the mining area of Phase I are 51,004,400 tons of ore, 166,633.24 kg of gold metal and 132,611.56 kg of silver metal; the recoverable reserves mined in the mining area of Phase II are 24,916,600 tons of ore, 64,246.27 kg of gold metal and 64,783.12 kg of silver metal; with a total of 75,921,000 tons of ore, 230,879.50 kg of gold metal and 197,394.68 kg of silver metal. The production scale is 3,960,000 tons/year for Phase I and 1,980,000 tons/year for Phase II. The production service life is 14.50 years for Phase I and 13.68 years for Phase II, for a total of 28.18 years.

The investment in intangible assets (land use fee) of RMB502,983,000 has been utilized in the valuation (of which RMB18,672,400 was formed as land use fee). The investment in fixed assets of RMB2,761,027,700 has been utilized in the valuation for Phase I (of which fixed assets have been formed with original value of RMB2,744,800 and net value of RMB2,022,700; construction in progress of RMB478,607,000) and the investment in fixed assets is RMB280,000,000 for Phase II. The working capital is RMB496,985,000 for Phase I and RMB412,208,200 for Phase II. The selling price of gold is RMB314.43/g.

The total unit cost is RMB305.89/ton for Phase I and RMB393.40/ton for Phase II, and the unit operating cost is RMB255.02/ton for Phase I and RMB313.37/ton for Phase II. The discount rate is 8.62%.

- ④ Valuation conclusion: Based on the investigation, understanding and analysis of the actual situation of the target of valuation, in accordance with the principles and procedures for the valuation of mining rights and through reasonable valuation methods and parameters, the appraised value of “Mining right of Laizhou Huijin Mining Investment Co., Ltd. Shaling gold mine” is determined to be RMB6,696,471,600 (i.e., RMB six billion six hundred and ninety-six million four hundred and seventy-one thousand six hundred only) by estimation.

The procedures for appointing a valuer are in compliance with relevant requirements of laws and regulations. The appointed valuer has assets appraisal qualifications for the securities business, is competent in providing valuation services and satisfies the independence requirements. The valuation assumptions and valuation conclusion set forth in the valuation report are reasonable. According to the relevant provisions of state-owned assets supervision, the above valuation report has legally fulfilled the filing procedures in respect of state-owned assets in accordance with the relevant laws and regulations.

(2) The Hongsheng Mining Agreement

Date

5 August 2021

Parties

1. SDG Group Co. (as Vendor)
2. SDG Mining (Laizhou) (as Purchaser)

Consideration

The consideration of RMB2,054,084,864.14 payable by the Purchaser under the Hongsheng Mining Agreement in connection with Hongsheng Mining was determined based on the appraised value of Hongsheng Mining of RMB4,564,633,100 as at the Valuation Reference Date in the valuation report issued by Beijing Pan-China , while the market value of 45% of equity interests amounted to RMB2,054,084,900.

Payment method

SDG Mining (Laizhou) shall pay the consideration by cash in one lump sum within 30 days from the date of completion of the delivery of the equity interest in Hongsheng Mining. The Group intends to pay the Consideration with the Group's internal financial resources, external credit facilities and available financing channels.

Completion

SDG Group Co. irrevocably agrees to proceed with the completion of the delivery of the equity interest in Hongsheng Mining within 7 working days after all the conditions for the effectiveness of the Hongsheng Mining Agreement have been satisfied. SDG Group Co. shall complete the registration of the transfer of the equity interest in Hongsheng Mining on the date of Completion, and SDG Mining (Laizhou) shall legally enjoy and assume all rights and obligations of the shareholders of the equity interest in Hongsheng Mining from the date of Completion onward.

SDG Mining (Laizhou) shall provide the necessary assistance to ensure the smooth completion of the delivery of the equity interest in Hongsheng Mining.

Conditions precedent

Completion is subject to, inter alia, the following conditions precedent being satisfied:

- (1) The board of directors and shareholders' meeting of SDG Mining (Laizhou) and the Board have approved the matters relating to the Hongsheng Mining Agreement;
- (2) The Company has convened a general meeting in accordance with its Articles of Association and the applicable listing rules for the approval of the matters relating to the Hongsheng Mining Agreement by Independent Shareholders;
- (3) SDG Mining (Laizhou) and the Company have obtained all approvals (if any) required by applicable laws and regulations;
- (4) SDG Group Co. has completed all procedures and obtained all necessary resolutions and authorizations in respect of the matters relating to the Hongsheng Mining Agreement in accordance with the laws and regulations of its place of incorporation, articles of association of SDG Group Co. and Hongsheng Mining.

Default and compensation

Any breach, non-performance or incomplete performance by either party of any of its obligations, representations, warranties and undertakings under the Hongsheng Mining Agreement after the signing thereof shall constitute a default. The defaulting party shall fully and adequately indemnify the other party against any reasonable claims, losses, costs or other liabilities incurred by the other party as a result of such default, including but not limited to costs of litigation against the defaulting party (including but not limited to professional advisers' fees) and litigation with and compensation to third parties (including but not limited to professional advisers' fees) as a result of such default.

If SDG Group Co. fails to perform its obligations under the Hongsheng Mining Agreement within 15 days after the expiry thereof or breaches its obligations under the Hongsheng Mining Agreement, SDG Mining (Laizhou) shall have the right to terminate the Hongsheng Mining Agreement with the overdue (defaulting) party and to require the overdue (defaulting) party to pay liquidated damages and other obligations in accordance with, including but not limited to, the relevant provisions of the Hongsheng Mining Agreement.

If SDG Group Co. fails to disclose or does not truthfully disclose any facts or circumstances that existed prior to the date of delivery of the equity interest in Hongsheng Mining, and such facts or circumstances would materially and adversely affect the ongoing lawful and normal operation of Hongsheng Mining after the completion of the Acquisitions, SDG Mining (Laizhou) has the right to terminate the Hongsheng Mining Agreement and to require SDG Group Co. to jointly and severally assume responsibility for the payment of liquidated damages and other obligations.

Profit or loss for the transitional period

During the period from the Valuation Reference Date to the date of Completion (the date when the equity interest in Hongsheng Mining is registered for industrial and commercial change), the increase in net assets due to operating profits and other reasons, or the decrease in net assets due to operating losses and other reasons, shall be enjoyed or incurred by SDG Mining (Laizhou).

Information on Hongsheng Mining

As at the date of this announcement, Hongsheng Mining owns 100% equity interests in Laizhou Jinsheng Mining Investment Co., Ltd. (萊州金盛礦業投資有限公司) (“**Jinsheng Mining**”), and 39% equity interests in Laizhou Huijin Mining Investment Co., Ltd. (萊州匯金礦業投資有限公司) (“**Huijin Mining**”). The equity interest of Hongsheng Mining is clear, and there is no mortgage, pledge or any other restrictions on the transfer thereof. There is no litigation, arbitration or judicial measures such as sealing up and freezing, nor other situation hindering the transfer of ownership. Jinsheng Mining now has a mining license for the ZhuguoLijia Gold Mine of Jinsheng Mining with a production capacity of 1.65 million tons per year. At present, the ZhuguoLijia Gold Mine has not been put into production and has not obtained a safety production license. It is expected to reach production in February 2027. Huijin Mining now has a mining license for the Shaling Gold Mine of Huijin Mining with a production capacity of 3.96 million tons per year. At present, Shaling Gold Mine has not been put into production and has not obtained a safety production license. It is expected to reach production in February 2027.

Financial position of Hongsheng Mining

The main financial indicators for Hongsheng Mining are as follows:

	For the year ended	
	31 December	
	2019	2020
	audited	audited
	RMB'000	RMB'000
Net loss before tax	21,875	39,207
Net loss after tax	24,014	38,464

Hongsheng Mining had no revenue in 2019 and 2020. The original acquisition cost of 45% equity interests of Hongsheng Mining is approximately RMB1,037.86 million. The net asset value of Hongsheng Mining as at 31 May 2021 were RMB1,552.35 million.

Valuation of Hongsheng Mining

According to the valuation report, the asset-based approach was used in the valuation. The valuation conclusion is set out below:

Under the going concern assumption as at the Valuation Reference Date, the carrying amount of the total assets attributable to Hongsheng Mining was RMB332,244,700, the carrying amount of liabilities was RMB322,173,500, and the carrying amount of owner's equity (net assets) was RMB10,071,200.

Upon adoption of the asset-based approach, the appraised value of total assets was RMB4,886,806,500, the appraised value of liabilities was RMB322,173,400, the appraised value of owner's equity was RMB4,564,633,100, representing an increase of RMB4,554,561,800 in value, with an appreciation rate of 45,223.63%.

The specific valuation results are summarized in the following table:

Unit: RMB'0000

Project name	Carrying amount	Appraised value	Increase/ Decrease in value	Appreciation rate
Current assets	32,525.14	33,366.17	841.03	2.59%
Non-current assets	699.33	455,314.48	454,615.15	65,007.24%
Of which:				
Long-term equity investment	500.00	455,314.28	454,814.28	90,962.86%
Investment properties	—	—	—	—
Fixed assets	—	0.20	0.20	—
Construction in progress	—	—	—	—
Intangible assets	—	—	—	—
Land use rights	—	—	—	—
Others	199.33	—	-199.33	-100.00%
Total assets	33,224.47	488,680.65	455,456.18	1,370.85%
Current liabilities	31,247.32	31,247.32	—	—
Non-current liabilities	970.02	970.02	—	—
Total liabilities	32,217.35	32,217.34	—	—
Net assets (total shareholders' equity)	1,007.12	456,463.31	455,456.18	45,223.63%

The procedures for appointing a valuer are in compliance with relevant requirements of laws and regulations. The appointed valuer has assets appraisal qualifications for the securities business, is competent in providing valuation services and satisfies the independence requirements. The valuation assumptions and valuation conclusion set forth in the valuation report are reasonable. According to the relevant provisions of state-owned assets supervision, the above asset valuation report has legally fulfilled the filing procedures in respect of state-owned assets.

Valuation of mineral right

- 1) *Mining right of Laizhou Jinsheng Mining Investment Co., Ltd. ZhuguoLijia gold mine (萊州金盛礦業投資有限公司朱郭李家金礦)*

The appraised value of mineral right of the Valuation Report on Hongsheng Mining issued by Beijing Pan-China adopted the conclusion in the Valuation Report on Mining Right of Laizhou Jinsheng Mining Investment Co., Ltd. ZhuguoLijia Gold Mine issued by Headmen (Headmen Ping Bao Zi [2021] No. 019 of Total No. 2668). For details, please refer to the relevant contents set out in “(1) The Dikuang Laijin Agreement – Valuation of mineral rights – 1) Mining right of Laizhou Jinsheng Mining Investment Co., Ltd. ZhuguoLijia gold mine (萊州金盛礦業投資有限公司朱郭李家金礦)” in this announcement.

- 2) *Mining right of Laizhou Huijin Mining Investment Co., Ltd. Shaling gold mine (萊州匯金礦業投資有限公司紗嶺金礦)*

The appraised value of mineral right of the Valuation Report on Hongsheng Mining issued by Beijing Pan-China adopted the conclusion in the Valuation Report on Mining Right of Laizhou Huijin Mining Investment Co., Ltd. Shaling Gold Mine issued by Headmen (Headmen Ping Bao Zi [2021] No. 09 of Total No. 2658). For details, please refer to the relevant contents set out in “(1) The Dikuang Laijin Agreement – Valuation of mineral rights – 2) Mining right of Laizhou Huijin Mining Investment Co., Ltd. Shaling gold mine (萊州匯金礦業投資有限公司紗嶺金礦)” in this announcement.

Valuation of Mining Right

Pursuant to Rule 14A.68(7) of the Hong Kong Listing Rules, the discounted cash flow method adopted by the valuation contained in the valuation report issued by Headmen on Dikuang Laijin and Hongsheng Mining in relation to the mining right has been prepared on the following principal basis and assumptions, including commercial assumptions:

General Assumptions

1. Transaction assumption: Transaction assumption presumes that all assets to be evaluated have been under the process of transaction. The valuer evaluates the assets based on the transaction conditions of the assets to be evaluated compared with the market. Transaction assumption is a basic pre-assumption to conduct the assets evaluation;
2. Open market assumption: Open market assumption presumes that as to the assets being or to be traded in the market, the parties to the asset transaction are equal and both have opportunity and time to acquire sufficient market information to make reasonable judgment on the function, use and transaction price of the assets. Open market assumption is based on fact that assets can be traded publicly in the market;
3. Asset continuity assumption: Asset continuity assumption means that the assets being evaluated will continue to be used according to the current usage, method, scale, frequency, environment and other conditions. Otherwise, if the assets are used in a different manner, the method, parameter and basis of the evaluation would be changed accordingly.

Specific Assumptions

1. There is no material change in existing macroeconomic and industrial policies in the PRC;
2. There is no material change in the socio-economic environment and the policies for the applicable tax and tax rates in the future operation period of the evaluated object (i.e. the mining right);
3. The management of the evaluated object is diligent in the future operation period and continues to maintain the existing management mode as at the reference date to operate on an on-going concern basis;
4. It is assumed that the production scale, investment construction plan, development and utilization mode adopted in the report are in line with the reality in the future, which would not change during the service life of the mine. The changes in business structure and other conditions due to possible changes in management, business strategy and business environment in the future are not considered. Also, future additional investment that leads to the expansion of production and operation capacity is not considered;

5. It is assumed that mining enterprise will continue to operate legally on the basis of the planned development schedule, production mode, production scale, product structure, development technology level and market supply and demand level;
6. It is assumed that the subsequent royalties of the mining right have been fully paid in 2020 as required by the government;
7. Relevant mineral rights have obtained licenses in accordance with the law within the stipulated validity period;
8. The valuation does not take into consideration of the inflation.

The valuation report on the mining right adopts the following assumptions:

1. It is possible to realize overall development of the above mining right in the future; the mining right owner can normally apply for and obtain a mining license in accordance with relevant regulations; the production scale stated in the mining license is consistent with that designed in the feasibility study report;
2. The production mode, product structure, technical and economic indicators of the mining enterprise set by the target of valuation will remain unchanged and the enterprise will operate on an on-going basis;
3. The price of mineral products and relevant national economic policies will not change significantly in the short term;
4. The level of market supply and demand will basically remain unchanged;
5. It will not take into account the impact on its appraised value of other rights such as mortgages and guarantees that may be assumed in the future, or any other restrictions on the property rights, and any additional price that may be paid by a special counterparty;
6. There is no other significant impact caused by force majeure and unpredictable factors.

Valuation method

Based on the purpose of the valuation and the specific characteristics and information of the mining right/exploration right, the mining right/exploration right entrusted to be appraised are of a certain scale, have independent profitability and can be measured, and their future revenue and risks borne can be measured in monetary terms, thereby possessing the technical and economic parameters required by the income approach, an income-based appraisal method. Accordingly, Headmen is of the opinion that the mining right/exploration right generally meet the requirements of the income approach. As the mines have been generally explored and estimated resource reserves have been assessed by and filed with the competent authorities, the cost-based appraisal method is not applicable. The current mineral right market is not a relatively developed, normal, active market, similar recent transactions are not yet available as references and information including comparable quantitative indicators, technical and economic parameters is not available, which make it impossible to adopt market-based appraisal method. As a result, it was determined that the income approach was adopted for the valuation.

INFORMATION ON THE PARTIES

The Company and SDG Mining (Laizhou)

The Company was established by its promoters with approval from the Shandong Province Economic System Reform Commission (山東省經濟體制改革委員會) and the People's Government of Shandong Province (山東省人民政府) in January 2000. The Company is an integrated gold company listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange since 2003 and 2018, respectively and engaged in gold exploration, mining, processing, smelting and sales. It is one of the largest gold producers listed domestically and/or in Hong Kong that operates in the PRC, controlling and operating more than 10 gold mines with operation primarily located in Shandong Province. The Company has gradually expanded its business into the Inner Mongolia Autonomous Region, Gansu Province, Xinjiang Uyghur Autonomous Region and Fujian Province and Argentina, South America and Ghana, Africa.

SDG Mining (Laizhou) is a subsidiary of the Company that is owned by it as to approximately 95.31%. It was established in the PRC on 27 May 2003. It is principally engaged in the sales of gold, mineral products (except coal), mining equipment and materials. Its subsidiary is principally engaged in gold mining and smelting; acquisition, processing, sales: gold products, silver products, gold concentrate, silver concentrate, copper concentrate, lead concentrate, zinc concentrate, sulfur concentrate and iron ore concentrate; wholesale and retail, production and sales of jewelry, metal jewelry and handicrafts; production and sales: construction materials and underground filling materials (for items subject to approval according to laws, operation activities may not be commenced until the approval has been obtained from the relevant authorities).

SDG Group Co.

As the Company's controlling Shareholder, SDG Group Co. was established in the PRC in July 1996. SDG Group engages in gold mining related operations, including geological exploration and mining of gold, gold processing, gold smelting and technical services, and production and sales of specialized equipment and supplies and construction materials for gold mines. The gold resources of SDG Group are mainly located in the PRC. As of the date of this announcement, SDG Group Co. directly and indirectly holds approximately 45.08% of the Company's issued share capital.

REASONS FOR AND BENEFITS OF THE ACQUISITIONS

(I) Implementing the overall approval requirements of the People’s Government of Shandong Province on the consolidation of gold mineral resources and expeditiously taking forward the consolidation of mineral rights

On 26 July 2021, the People’s Government of Shandong Province issued the Approval of the People’s Government of Shandong Province on the Gold Mineral Resources Consolidation Plan for the Eight Districts (Cities) of Yantai City (《山東省人民政府關於煙臺市8個區(市)金礦礦產資源整合方案的批覆》) (Lu Zheng Zi [2021] No. 133) (the “**Approval**”), agreeing to the gold mineral resources consolidation plan for Yantai City as set out in the Request for Approval of the Gold Mineral Resources Consolidation Plan for the Eight Districts (Cities) of Yantai City (《關於呈批煙臺市8個區(市)金礦礦產資源整合方案的請示》) (Yan Zheng Cheng [2021] No. 7) submitted by the People’s Government of Yantai City. At the same time, it clearly stated: “Adhering to the principle of ‘one entity’, promoting the retention of one mining right holder within a consolidation area, and one production and operation entity within a mining right. The government will resolutely put an end to physical and false consolidation, protect the legitimate rights and interests of all parties and maintain social stability.”

In order to implement the above-mentioned opinions of various levels of governments in Shandong Province regarding the gold mineral resources consolidation plan and to ensure that the consolidation of mineral rights is completed within the time limit, the Company is obliged to unify the holders of relevant mineral rights of the Company and the metallogenic belt of Jiaojia and Xincheng under SDG Group Co. in accordance with the existing policies. Therefore, after becoming aware of the Approval, SDG Group Co. has expedited standardisation and rectification of the assets involved to ensure that the equity assets under the proposed Acquisitions have met the requirements for inclusion in the listed company, and injected them into the Company as soon as possible to commence the consolidation of mineral rights.

(II) Increasing resources reserve, expanding production scale and leveraging synergies to enhance the Company’s asset scale and profitability

Gold resource reserves determine the future development potential and room of a gold enterprise. The subject assets under the Acquisitions include several mines resources with large gold resource reserves. The implementation of the Acquisitions by the Company will be conducive to further increasing the Company’s gold resource reserves, expanding the Company’s production scale and enhancing its economy of scale, and thus enhancing the core competitiveness of the Company.

At the same time, major mineral rights assets of the subject assets under the Acquisitions are located in the metallogenic belt of Jiaojia and Xincheng in Laizhou District, Shandong Province, which are geographically close and adjacent to the existing mineral rights of the Company. That can achieve geographical concentration, with feasibility of mineral rights consolidation. The future completion of consolidation will give full play to the overall synergistic effect of resource development and utilization, realize intensive mining and utilize existing beneficiation capacity to reduce mining costs and improve the profitability of the Company.

(III) Reducing horizontal competition and realizing the overall listing of high-quality gold resources within SDG Group Co.

Pursuant to the undertaking given by SDG Group Co. to resolve horizontal competition upon the previous issue of shares to purchase assets and relevant fund raising as well as connected transactions of the Company (the “**Major Asset Reorganization**”): “Upon completion of the Major Asset Reorganization, all business assets owned by SDG Group Co. and its controlled subsidiaries in the PRC territory that meet the requirements for injection into the Company and which are identical or similar to the Company’s principal business will be injected into the Company”, SDG Group Co. has been carrying out various sorting, standardization and rectification in respect of the relevant principal gold business assets to be injected into the Company.

The implementation of the Acquisitions will inject major gold assets, such as existing mines and gold mineral rights that meet the listing requirements under SDG Group Co. and its controlling companies, into the Company. This will not only help realise the overall listing of high-quality gold resources within SDG Group Co., but also reduce horizontal competition between SDG Group Co. and the Company, thereby further implementing regulatory requirements for the listed company.

(IV) With adequate liquidity and availability of financing channels, the liquidity of the Company will not be affected

At present, the Company has an adequate reserve of self-owned liquidity, as well as sufficient external credit facilities and available financing channels. There is no obstacle to the source of funds for payment of the consideration for the Acquisitions and the liquidity for the Company’s normal production and operation in the future will not be adversely affected.

OPINION FROM THE BOARD

The Directors (excluding the independent non-executive Directors, being members of the Independent Board Committee, who will express their views after taking into consideration the advice of the Independent Financial Adviser) are of the view that the terms of the Acquisition Agreements are fair and reasonable, the transactions contemplated under the Acquisition Agreements are on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

The Directors, Mr. Li Guohong, Mr. Wang Lijun and Ms. Wang Xiaoling, also hold senior management positions in SDG Group Co., are deemed to have material interests in the Acquisitions and have abstained from voting on the resolutions in relation to the Acquisition Agreements proposed to the Board. Save as disclosed above, none of the Directors attended the Board meeting has a material interest in the Acquisitions.

HONG KONG LISTING RULES IMPLICATION

Reference is made to the announcement of the Company dated 25 June 2021, pursuant to which SDG Mining (Laizhou) entered into an agreement to acquire the mining right, exploration right and related land assets of Jiaojia Gold Mine (焦家金礦) interest from SDG Group Co. Reference is made to the announcement of the Company dated 5 August 2021, pursuant to which SDG Mining (Laizhou) entered into agreements to acquire 100% equity interests in Shandong Laizhou Ludi Gold Mine Company Limited and 100% equity interests in Shandong Tiancheng Mining Co., Ltd. from SDG Group Co. Pursuant to Rules 14.22 and 14.23 and 14A.81 and 14A.82 of the Hong Kong Listing Rules, since the above-mentioned Acquisitions are entered with SDG Group Co. and involve the acquisition of mining right and/or exploration right assets, the transactions under the Acquisitions shall be aggregated as if they were one transaction for the purpose of Chapter 14 and Chapter 14A of the Hong Kong Listing Rules.

Upon aggregation of the said acquisitions, as one or more of the relevant applicable percentage ratios (as defined under the Hong Kong Listing Rules), are more than 5% but less than 25%, the Acquisitions constitute discloseable transactions of the Company under Chapter 14 of the Hong Kong Listing Rules and will be subject to reporting and announcement requirements but exempt from the shareholders' approval requirement under Chapter 14 of the Hong Kong Listing Rules.

SDG Group Co. is the controlling Shareholder of the Company, directly and indirectly holding approximately 45.08% of the issued share capital of the Company. SDG Mining (Laizhou) is a subsidiary of the Company that is owned by it as to approximately 95.31%. Accordingly, the Acquisitions constitute connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules and are subject to reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Wang Yunmin, Mr. Liew Fui Kiang and Ms. Zhao Feng, has been established to consider the terms of the Acquisition Agreements and the transactions contemplated thereunder. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

None of the members of the Independent Board Committee has any interest or involvement in the transactions contemplated under the Acquisition Agreements. The Independent Board Committee will form its view in respect of the terms of the Acquisitions after obtaining and considering the advice from the Independent Financial Adviser.

GENERAL

The EGM will be convened for the Independent Shareholders to consider and, if thought fit, to approve among other things the Acquisition Agreements and the transactions contemplated thereunder. Pursuant to Rule 14A.36 of the Hong Kong Listing Rules, any Shareholder who has a material interest in the Acquisition Agreements shall abstain from voting to approve the Acquisition Agreements and the Acquisitions at the EGM. As at the date of this announcement, SDG Group Co., being the controlling Shareholder, directly or indirectly holding approximately 45.08% of the issued share capital of the Company, will be required to abstain from voting on the relevant resolutions at the EGM accordingly. Save for SDG Group Co. and its subsidiaries, including Shandong Gold Non-ferrous Metal Mine Group Co., Ltd., Shandong Gold Geological Mine Exploration Co., Ltd., Shandong Gold Group Qingdao Gold Co., Ltd., and SDG (Beijing) Industry Investment Co., Ltd., as at the date of this announcement, to the best knowledge of the Directors, no other Shareholder would be required to abstain from voting thereat as no other Shareholder has any interest in the Acquisition Agreements.

A circular containing, among other things, (i) information on the Acquisitions; (ii) the recommendation of the Independent Board Committee in respect of the Acquisitions; (iii) the advice of the Independent Financial Adviser regarding the terms of the Acquisitions; and (iv) other information as required under the Hong Kong Listing Rules, shall be despatched to the Shareholders on or before 17 September 2021, so as to allow sufficient time for the preparation of the aforesaid information for inclusion in the circular.

DEFINITIONS

The following terms have the following meanings in this announcement unless the context otherwise requires:

“Acquisitions”	the acquisitions of (1) 100% equity interests in Dikuang Laijin (which directly holds 55% equity interests of Hongsheng Mining) and (2) 45% equity interests in Hongsheng Mining;
“Acquisition Agreements”	collectively, (1) the Dikuang Laijin Agreement and (2) the Hongsheng Mining Agreement;
“Articles of Association”	the articles of association of the Company;
“A Shares”	the domestic share(s) issued by the Company to domestic investors with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange;
“Beijing Pan-China”	Beijing Pan-China Assets Appraisal Co., Ltd. (北京天健興業資產評估有限公司), an independent valuer with assets appraisal qualifications for the securities business;
“Board”	the board of Directors;

“Company”	Shandong Gold Mining Co., Ltd. (山東黃金礦業股份有限公司), a joint stock company incorporated in the PRC under the laws of the People’s Republic of China with limited liability on 31 January 2000;
“Completion”	completion of the Acquisitions in accordance with the terms and conditions of the Dikuang Laijin Agreement and Hongsheng Mining Agreement;
“connected person(s)”	has the meaning ascribed thereto under the Hong Kong Listing Rules;
“connected transaction”	has the meaning ascribed thereto under the Hong Kong Listing Rules;
“Dikuang Laijin”	Shandong Dikuang Laijin Holdings Co., Ltd. (山東地礦來金控股有限公司), a company incorporated in the PRC on 27 September 2011 and is a wholly-owned subsidiary of SDG Group Co.;
“Dikuang Laijin Agreement”	the acquisition agreement dated 5 August 2021 entered into between SDG Group Co. and SDG Mining (Laizhou), pursuant to which SDG Mining (Laizhou) agreed to purchase and SDG Group Co. agreed to sell the entire equity interests of Dikuang Laijin held by it at the consideration of RMB2,612,929,494.01;
“Director(s)”	the director(s) of our Company;
“EGM”	the extraordinary general meeting to be convened and held by the Company to consider and, if thought fit, approve the Acquisition Agreements and the transactions contemplated thereunder;
“Group”	the Company and its subsidiaries;
“Headmen”	Headmen Mining Right Appraisal Firm (General Partnership)* (北京海地人礦業權評估事務所(普通合夥));
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time;
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited;

“Hongsheng Mining”	Laizhou Hongsheng Mining Investment Co., Ltd. (萊州鴻昇礦業投資有限公司), a company incorporated in the PRC on 30 December 2008 and owned as to 55% by Dikuang Laijin and 45% by SDG Group Co.;
“Hongsheng Mining Agreement”	the acquisition agreement dated 5 August 2021 entered into between SDG Group Co. and SDG Mining (Laizhou), pursuant to which SDG Mining (Laizhou) agreed to purchase and SDG Group Co. agreed to sell the 45% equity interests of Hongsheng Mining held by it at the consideration of RMB2,054,084,864.14;
“H Shares”	the overseas-listed foreign invested share(s) in the Company’s share capital, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange;
“Independent Board Committee”	an independent committee of the Board comprising all its independent non-executive Directors, established for the purpose of advising the Independent Shareholders on the terms of the Acquisition Agreements and the transactions contemplated thereunder;
“Independent Financial Adviser”	Dongxing Securities (Hong Kong) Company Limited, a licensed corporation under the SFO licensed to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed for the purposes of advising the Independent Board Committee and the Independent Shareholders in respect of the Acquisitions and the transactions contemplated thereunder;
“Independent Shareholders”	Shareholders who are independent of and have no interest in the transactions contemplated under the Acquisition Agreements;
“PRC” or “China”	the People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, Macau and Taiwan;
“RMB”	Renminbi, the lawful currency of the PRC;

“SDG Group Co.”	Shandong Gold Group Co., Ltd. (山東黃金集團有限公司), a limited liability company incorporated in the PRC on 16 July 1996, the controlling Shareholder, and was held as to approximately 70% by Shandong Provincial State-owned Assets Supervision and Administration Commission, as to approximately 20% by Shandong Guohui Investment Co., Ltd. (山東國惠投資有限公司) and as to approximately 10% by Shandong Social Security Fund Committee (山東省社會保障基金理事會);
“SDG Mining (Laizhou)” or “Purchaser”	Shandong Gold Mining (Laizhou) Co., Ltd. (山東黃金礦業(萊州)有限公司), a subsidiary of the Company incorporated in the PRC on 27 May 2003;
“Share(s)”	shares in the share capital of the Company, with a nominal value of RMB1.00 each, comprising the A Shares and the H Shares;
“Shareholders”	holder(s) of our Share(s);
“Target Companies”	Dikuang Laijin and Hongsheng Mining;
“Valuation Reference Date”	31 May 2021; and
“%”	per cent.

By order of the Board
Shandong Gold Mining Co., Ltd.
Li Guohong
Chairman

Jinan, the PRC
5 August 2021

As at the date of this announcement, the executive Directors of the Company are Mr. Liu Qin, Mr. Wang Shuhai and Mr. Tang Qi; the non-executive Directors of the Company are Mr. Li Guohong, Mr. Wang Lijun and Ms. Wang Xiaoling; and the independent non-executive Directors of the Company are Mr. Wang Yunmin, Mr. Liew Fui Kiang and Ms. Zhao Feng.

* *For identification only*