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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Shandong Gold Mining Co., Ltd. (山東黃金礦業股份有限公司) (the “Company”), you should at once hand this circular to the purchaser(s) or transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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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)**

**(1) RESOLUTION REGARDING THE CASH ACQUISITION AND DISCLOSEABLE AND CONNECTED TRANSACTION OF 100% EQUITY INTEREST IN SHANDONG TIANCHENG MINING CO., LTD. BY CONTROLLING SUBSIDIARY**

**(2) RESOLUTION REGARDING THE CASH ACQUISITION AND DISCLOSEABLE AND CONNECTED TRANSACTION OF 100% EQUITY INTEREST IN SHANDONG LAIZHOU LUDI GOLD MINE COMPANY LIMITED BY CONTROLLING SUBSIDIARY**

**(3) RESOLUTION REGARDING THE CASH ACQUISITION AND DISCLOSEABLE AND CONNECTED TRANSACTION OF 100% EQUITY INTEREST IN SHANDONG DIKUANG LAIJIN HOLDINGS CO., LTD. AND 45% EQUITY INTEREST IN LAIZHOU HONGSHENG MINING INVESTMENT CO., LTD. BY CONTROLLING SUBSIDIARY**

**(4) RESOLUTION ON THE ESTIMATE OF NEW DAILY CONNECTED TRANSACTIONS AFTER THE CONTROLLING SUBSIDIARY ACQUIRES THE EQUITY OF SHANDONG TIANCHENG MINING CO., LTD.**

**(5) NOTICE OF 2021 SECOND EXTRAORDINARY GENERAL MEETING**

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



**東興證券(香港)**  
DONGXING SECURITIES (HONG KONG)

**Dongxing Securities (Hong Kong) Company Limited**

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A notice convening the 2021 Second extraordinary general meeting (the “EGM”) of Shandong Gold Mining Co., Ltd. (the “Company”) to be held at the conference room of the Company, No. 2503, Jingshi Road, Licheng District, Jinan, Shandong Province, the PRC at 9:00 a.m. on Friday, 24 September 2021 is set out on pages III-1 to III-2 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 74 of this circular. A letter from Dongxing Securities, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 75 to 111 of this circular.

A proxy form for use in connection with the EGM is enclosed with this circular. The proxy form is also published on the website of The Stock Exchange of Hong Kong Limited ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company’s website (<http://www.sdhjgf.com.cn>).

Any shareholder(s) of the Company (the “Shareholders”) entitled to attend and vote at the EGM are entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a shareholder of the Company. If you intend to appoint a proxy to attend the EGM and vote on your behalf, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return it by hand, by post or by facsimile to the Company’s H share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong (for H Shareholders only) as soon as possible and in any event not later than 24 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be) (i.e. before 9:00 a.m. on Thursday, 23 September 2021). Completion and return of the proxy form will not preclude you from attending and voting at the EGM or any adjournment hereof should you so wish.

8 September 2021

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## CONTENTS

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<b>DEFINITIONS</b> .....	1
<b>LETTER FROM THE BOARD</b> .....	6
<b>LETTER FROM THE INDEPENDENT BOARD COMMITTEE</b> .....	74
<b>LETTER FROM THE INDEPENDENT FINANCIAL ADVISER</b> .....	75
<b>APPENDIX I</b> — <b>OVERSEAS REGULATORY ANNOUNCEMENT OF THE COMPANY ON THE ESTIMATE OF NEW DAILY CONNECTED TRANSACTIONS AFTER THE CONTROLLING SUBSIDIARY ACQUIRES THE EQUITY OF SHANDONG TIANCHENG MINING CO., LTD.</b> ..	I-1
<b>APPENDIX II</b> — <b>GENERAL INFORMATION</b> .....	II-1
<b>APPENDIX III</b> — <b>NOTICE OF 2021 SECOND EXTRAORDINARY GENERAL MEETING</b> .....	III-1

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions have the following meanings:*

“Acquisitions”	the acquisitions of (1) 100% equity interests of Dikuang Laijin and 45% equity interests of Hongsheng Mining, (2) 100% equity interests of Tiancheng Mining and (3) 100% equity interests of Ludi Gold Mine;
“Agreements”	collectively, (1) the Dikuang Laijin Agreement, (2) the Hongsheng Mining Agreement, (3) the Tiancheng Mining Agreement and (4) the Ludi Gold Mine Agreement;
“Announcements”	the announcements of the Company all dated 5 August 2021 in relation to, among other things, the Acquisitions and the transactions contemplated thereunder, the estimated new daily connected transaction of the Company after the acquisitions of the equity interest of the Tiancheng Mining;
“Articles of Association”	the articles of association of the Company;
“A Share(s)”	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” or “Board of Directors”	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, the H Shares and A Shares of which are listed on the main board of the Hong Kong Stock Exchange (Stock Code: 1787) and the Shanghai Stock Exchange (Stock Code: 600547) respectively;
“Completion”	completion of the Acquisitions in accordance with the terms and conditions of the Agreements;
“Conditions”	conditions precedent to the Acquisitions as set out in the paragraph headed “Conditions precedent” in this circular;

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## DEFINITIONS

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“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;
“Director(s)”	the director(s) of our Company;
“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. and holds 55% of equity interests in Hongsheng Mining;
“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;
“Dongxing Securities” or “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;
“EGM”	the 2021 Second extraordinary general meeting of the Company to be held at 9:00 a.m. on Friday, 24 September 2021 at the conference room of the Company, No. 2503, Jingshi Road, Licheng District, Jinan, Shandong Province, the PRC;
“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));

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## DEFINITIONS

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“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. and holds 39% and 100% equity interests of Huijing Mining and Jinsheng Mining respectively;
“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;
“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;
“Huijin Mining”	Laizhou Huijin Mining Investment Co., Ltd. (萊州匯金礦業投資有限公司), a company incorporated in PRC on 23 March 2009 and held as to 39% of its equity interests by Hongsheng Mining;
“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 Agreements and the transaction contemplated thereunder;
“Independent Shareholders”	Shareholders who are independent of and have no interest in the transaction contemplated under the Agreements;
“Jinsheng Mining”	Jinsheng Mining Investment Co., Ltd. (萊州金盛礦業投資有限公司), company incorporated in PRC on 5 March 2009 and a wholly owned subsidiary of Hongsheng Mining;

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## DEFINITIONS

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“Latest Practicable Date”	3 September 2021, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein;
“Ludi Gold Mine”	Shandong Laizhou Ludi Gold Mine Company Limited (山東萊州魯地金礦有限公司), a company incorporated in the PRC on 13 July 2005 and is a wholly owned subsidiary of SDG Group Co.;
“Ludi Gold Mine Agreement”	the acquisition agreement entered into between SDG Group Co. and SDG Mining (Laizhou) dated 5 August 2021 pursuant to which SDG Mining (Laizhou) agreed to purchase and SDG Group Co. agreed to sell the entire equity interests of Ludi Gold Mine held by it at the consideration of RMB2,034,195,071.54;
“PRC” or “China”	the People’s Republic of China, for the purpose of this Circular, excluding Hong Kong, Macau and Taiwan;
“PRC GAAP”	Generally Accepted Accounting Principles of PRC;
“RMB”	Renminbi, the lawful currency of the PRC;
“Royalty Fee”	the income for the use of state-owned resources collected by the PRC government in consideration for granting the exploration rights licenses and the mining rights licenses on the state’s natural resources to the holders of the said licenses in accordance with laws. The Royalty Fees include the Royalty Fees for exploration rights and the Royalty Fees for mining rights;
“SDG Group”	SDG Group Co. and all of its subsidiaries;
“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 of our Company, and was held as to approximately 70% by Shandong SASAC, 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)”	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;
“Shanghai Stock Exchange” or “SSE”	Shanghai Stock Exchange (上海證券交易所);

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## DEFINITIONS

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“Share(s)”	shares in the share capital of our Company, with a nominal value of RMB1.00 each, comprising our A Shares and our H Shares;
“Shareholders”	holder(s) of our Share(s);
“SSE Listing Rules”	the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange (上海證券交易所股票上市規則) as amended, supplemented or otherwise modified from time to time;
“Supervisor(s)”	the supervisor(s) of our Company;
“Supervisory Committee”	the board of Supervisors;
“Target Companies”	collectively, Tiancheng Mining, Ludi Gold Mine, Dikuang Laijin and Hongsheng Mining
“Tiancheng Mining”	Shandong Tiancheng Mining Co., Ltd. (山東天承礦業有限公司), a company incorporated in the PRC on 10 August 1989, a wholly owned subsidiary of SDG Group Co.;
“Tiancheng 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 entire equity interests of Tiancheng Mining held by it at the consideration of RMB431,031,818.49;
“Valuation Reference Date”	31 May 2021; and
“%”	per cent.

\* *for identification purposes only*

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LETTER FROM THE BOARD

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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)**

***Executive Directors:***

Mr. Liu Qin (*Vice-chairman*)  
Mr. Wang Shuhai  
Mr. Tang Qi

***Non-executive Directors:***

Mr. Li Guohong (*Chairman*)  
Mr. Wang Lijun  
Ms. Wang Xiaoling

***Independent non-executive Directors:***

Mr. Wang Yunmin  
Mr. Liew Fui Kiang  
Ms. Zhao Feng

***Registered office and headquarters  
in the PRC:***

No. 2503, Jingshi Road,  
Licheng District, Jinan  
Shandong Province  
PRC

***Principal place of business in Hong Kong:***

Rooms 4003-06  
China Resources Building  
No. 26 Harbour Road  
Wanchai  
Hong Kong

8 September 2021

*To the Shareholders*

Dear Sir or Madam,

- (1) RESOLUTION REGARDING THE CASH ACQUISITION AND DISCLOSEABLE AND CONNECTED TRANSACTION OF 100% EQUITY INTEREST IN SHANDONG TIANCHENG MINING CO., LTD. BY CONTROLLING SUBSIDIARY**
- (2) RESOLUTION REGARDING THE CASH ACQUISITION AND DISCLOSEABLE AND CONNECTED TRANSACTION OF 100% EQUITY INTEREST IN SHANDONG LAIZHOU LUDI GOLD MINE COMPANY LIMITED BY CONTROLLING SUBSIDIARY**
- (3) RESOLUTION REGARDING THE CASH ACQUISITION AND DISCLOSEABLE AND CONNECTED TRANSACTION OF 100% EQUITY INTEREST IN SHANDONG DIKUANG LAIJIN HOLDINGS CO., LTD. AND 45% EQUITY INTEREST IN LAIZHOU HONGSHENG MINING INVESTMENT CO., LTD. BY CONTROLLING SUBSIDIARY**
- (4) RESOLUTION ON THE ESTIMATE OF NEW DAILY CONNECTED TRANSACTIONS AFTER THE CONTROLLING SUBSIDIARY ACQUIRES THE EQUITY OF SHANDONG TIANCHENG MINING CO., LTD.**
- (5) NOTICE OF 2021 SECOND EXTRAORDINARY GENERAL MEETING**

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## LETTER FROM THE BOARD

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### INTRODUCTION

Reference is made to the Announcements. The purpose of this circular is to provide you with, among others, (i) details of the Agreements; (ii) estimated new daily connected transactions of the Company after the acquisitions of the entire equity interest of the Target Companies; (iii) the recommendation of the Independent Board Committee regarding the terms of the Agreements; (iv) the advice of the Independent Financial Adviser regarding the terms of the Agreements; (v) the notice of EGM; and (vi) other information as required under the Hong Kong Listing Rules.

#### **(1) RESOLUTION REGARDING THE CASH ACQUISITION AND DISCLOSEABLE AND CONNECTED TRANSACTION OF 100% EQUITY INTEREST IN SHANDONG TIANCHENG MINING CO., LTD.**

On 5 August 2021 (after trading hours), SDG Mining (Laizhou) and SDG Group Co. entered into the Tiancheng Mining Agreement on the acquisition of 100% equity interests in Tiancheng Mining at a consideration of RMB431,031,818.49. Upon Completion, the Tiancheng Mining will be wholly-owned by SDG Mining (Laizhou) and the financial information of the Tiancheng Mining will be consolidated into the financial statements of the Group.

##### **(a) The Tiancheng Mining Agreement**

###### *Date*

5 August 2021

###### *Parties*

1. SDG Group Co. (as vendor)
2. SDG Mining (Laizhou) (as purchaser)

###### *Consideration*

The consideration of RMB431,031,818.49 payable by SDG Mining (Laizhou) under the Tiancheng Mining Agreement in connection with Tiancheng Mining was determined based on the appraised value of Tiancheng Mining of RMB431,031,818.49 as at the Valuation Reference Date in the business valuation report issued by Beijing Pan-China, which took into consideration of the valuation report of Headmen in relation to the four mining rights and two exploration rights held by Tiancheng Mining.

###### *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 of Tiancheng Mining. The Group intends to pay the consideration with the Group's internal financial resources, external credit facilities and available financing channels.

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## LETTER FROM THE BOARD

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### *Completion*

SDG Group Co. irrevocably agrees to proceed with the completion of the delivery of the equity interest in Tiancheng Mining within 7 working days after all the conditions for the effectiveness of the Tiancheng Mining Agreement have been satisfied. SDG Group Co. shall complete the registration of the transfer of the equity interest in Tiancheng 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 Tiancheng 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 Tiancheng Mining.

### *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 Tiancheng 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 Tiancheng 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 Tiancheng Mining Agreement in accordance with the laws and regulations of its place of incorporation, articles of association of SDG Group Co. and Tiancheng 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 Tiancheng 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.

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## LETTER FROM THE BOARD

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If SDG Group Co. fails to perform its obligations under the Tiancheng Mining Agreement within 15 days after the expiry thereof or breaches its obligations under the Tiancheng Mining Agreement, SDG Mining (Laizhou) shall have the right to terminate the Tiancheng 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 Tiancheng 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 of Tiancheng Mining, and such facts or circumstances would materially and adversely affect the ongoing lawful and normal operation of Tiancheng Mining after the Completion, SDG Mining (Laizhou) has the right to terminate the Tiancheng 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 of Tiancheng 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). The Company is of the view that the adoption of such clauses is in full compliance with the particular legal requirements on transactions with state-owned enterprises. Pursuant to Article 23 of the “Measures for the Supervision and Administration of the Transactions of State-owned Assets of Enterprises”, once parties to an agreement enters into an equity transfer agreement, both parties shall not adjust the agreed consideration and conditions based on the operating profit and loss of the business during the period of transaction. Accordingly, any profit or loss for the transitional period enjoyed or incurred by SDG Mining (Laizhou) will not be considered as adjustment to the consideration.

### *No material changes anticipated on Tiancheng Mining up to Completion*

As at the Latest Practicable Date, to the best knowledge and belief of the Company and SDG Group Co., there are no material changes and does not anticipate any material changes to the date of Completion, as to the management, operations and financial of Tiancheng Mining upon reviewing the management accounts and the regular due diligence conducted on the respective operations of the Target Company. On such basis, the Company is of the view that the Company’s interests are sufficiently protected.

### *Further Undertaking by SDG Group Co.*

1. According to the current policy, Tiancheng Mining’s “Deep and Peripheral Gold Mine Exploration Right of Matang II Mine Area, Laizhou City, Shandong Province” (“**Matang II Prospecting Right**”) is required to pay Royalty Fee when applying to transfer from exploration right to mining right in the future. SDG Group Co. undertakes that as of the base date of this equity transfer, the resources of the Matang II Prospecting Right shall be based on the evaluation report of the mineral rights in the “Evaluation Report on the Exploration and Prospecting Rights of the Deep and Peripheral Gold Mines in the Matang II Mine Area, Laizhou City, Shandong Province” (Headmen Ping Bao Zi [2021] No. 016 Total No. 2665). The Royalty Fee

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## LETTER FROM THE BOARD

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corresponding to the assessed resource amount shall be borne by SDG Group Co. After payment by Tiancheng Mining, SDG Group Co. shall within 30 working days reimburse the same. The supplementary responsibility undertaken by SDG Group Co. is limited to the evaluation value of this “Evaluation Report on the Deep and Peripheral Gold Mine Exploration and Prospecting Rights in Matang II Mine Area, Laizhou City, Shandong Province”.

2. According to the current policy, the “Shandong Tiancheng Mining Co., Ltd. Hongbu Mining Rights” (“**Hongbu Mining Rights**”) to which Tiancheng Mining belongs to Peripheral gold prospecting rights” (“**Hongbu Prospecting Rights**”) will need to pay Royalty Fee when applying to transfer from exploration right to mining right in the future. SDG Group Co. undertakes that as of the base date of this equity transfer, the resources of the Hongbu Mining Rights and Hongbu Prospecting Rights shall be based on the mineral rights evaluation report “Shandong Tiancheng Mining Co., Ltd. Hongbu Mining Area Mining Rights Evaluation Report” (Headmen Ping Bao Zi [2021] No. 015 Total No. 2664) and “Hongbu Mining Area, Laizhou City, Shandong Province” The Evaluation Report on Exploration and Prospecting Rights for Deep and Peripheral Gold Mines (Headmen Ping Bao Zi [2021] No. 023 Total No. 2672). The Royalty Fee corresponding to the assessed resources shall be borne by SDG Group Co. After the payment by Tiancheng Mining, SDG Group Co. will reimburse the same within 30 working days. The supplementary responsibility undertaken by SDG Group Co. is limited to the evaluation value of the Hongbu Mining Rights and Hongbu Prospecting Rights based on this “Shandong Tiancheng Mining Co., Ltd. Hongbu Mining Area Mining Rights Evaluation Report” and “Shandong Tiancheng Mining Co., Ltd. Hongbu Mining Area Mining Rights Evaluation Report”.

For details of the policies in relation to Royalty Fees, please refer to the section headed “FURTHER INFORMATION ON THE ACQUISITIONS – Royalty Fees” below.

For the reasons set out under “INFORMATION ON THE PARTIES – SDG Group Co.”, the Directors of the Company have duly performed assessment of SDG Group Co. and are the view that there are sufficient safeguards to ensure the payment of the aforementioned royalty amount of SDG Group Co.

### **(b) Information on the Tiancheng Mining**

Tiancheng Mining currently has four mining right licenses, two exploration rights licenses (details of the mining licenses and exploration rights licenses will be set out below) and supporting assets related to production and operation, namely mining right of Shandong Tiancheng Mining Co., Ltd. Dongji mine area with a production scale of 45,000 tons/year, mining right of Shandong Tiancheng Mining Co., Ltd. Matang mine area with a production scale of 40,000 tons/year, mining right of Shandong Tiancheng Mining Co., Ltd. Matang II mine area with a production scale of 40,000 tons/year and mining right of Shandong Tiancheng Mining Co., Ltd. Hongbu mine area with a production scale of 60,000 tons/year.

The equity interest of Tiancheng 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.

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## LETTER FROM THE BOARD

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### *Status of the Safety Production License*

Among them, the mining right of Dongji mine area has been suspended pending the completion of procedures for the change of production scale due to capacity expansion, and the safety production license has not been obtained for the time being. In June 2017, the production scale stated in the mining right license of the Dongji mine area was expanded from the original 33,000 tons/year to 45,000 tons/year. As a result of the fact that the mine did not carry out capacity expansion and renovation works, the safety production license was not obtained by the Valuation Reference Date and thus production has not been resumed. For the avoidance of any doubt, during the valuation of the mining rights in Donji mine area, Headmen has taken into account of the non-renewal of safety license as a factor affecting the selection of the risk return rate. Tiancheng Mining is actively handling the procedures for the change of production scale and the renewal of the safety production license, and currently has obtained the “Reply Slip of Receipt” issued by the Department of Emergency Management of Shandong Province. Each of the other three mine areas has obtained the Safety Production License issued by the Department of Emergency Management of Shandong Province, and belongs to the mine in production.

The safety production license for Matang mine area is valid from 6 September 2020 to 5 September 2023; and the safety production license for Matang II mine area is valid from 2 July 2018 to 1 July 2021. Since February 2021, Matang II Mine area has ceased mine production. At present, Tiancheng Mining is actively promoting the renewal procedures of the safety production license for Matang II mine area. The safety production license for Hongbu mine area is valid from 30 September 2018 to 29 September 2021. The production requirements relevant to mining in the above three mine areas are in place.

For details on the timetable for obtaining safety production licenses for the above two mining right licenses, please refer to the section headed “Issues in relation to the Acquisitions” below.

### *Financial position of Tiancheng Mining*

The main financial indicators of Tiancheng Mining are as follows:

	<b>For the year ended</b>	
	<b>31 December</b>	
	<b>2019</b>	<b>2020</b>
	audited	audited
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	230,221	378,827
Net profit/(loss) before tax	(3,546)	97,301
Net profit/(loss) after tax	(3,875)	96,032

Tiancheng Mining's profit in 2020 increased significantly compared with last year, mainly due to the significant increase in domestic gold price in 2020 as a result of the rising international gold price. The original acquisition cost of Tiancheng Mining is RMB736 million. The net asset value of Tiancheng Mining as at 31 May 2021 were RMB100,630,000.

## LETTER FROM THE BOARD

### (c) Business Valuation of Tiancheng Mining

According to the business valuation report of Tiancheng Mining issued by Beijing Pan-China, the asset-based approach was used in the valuation. For reasons on selecting the asset-based approach and its principal assumptions, please refer to the section headed “FURTHER INFORMATION ON THE ACQUISITIONS – Selection of Asset-based Approach for Valuation Report issued by Beijing Pan-China”. 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 of Tiancheng Mining was RMB629,784,500, the appraised value was RMB950,161,800, representing an increase of RMB320,377,300 and an appreciation rate of 50.87%; the carrying amount of liabilities was RMB529,154,600, the assessed value was RMB519,130,000, representing a decrease of RMB10,024,500 and an impairment rate of 1.89%; the carrying amount of net assets was RMB100,629,900, the appraised value was RMB431,031,800, representing an increase of RMB330,401,800 and an appreciation rate of 328.33%.

The specific valuation results are summarized in the following table:

*Unit: RMB'0,000*

Item name	Carrying amount	Appraised value	Increase/ Decrease in value	Appreciation rate
Current assets	3,056.26	3,055.76	-0.50	-0.02%
Non-current assets	59,922.19	91,960.42	32,038.23	53.47%
Of which:				
Long-term equity investment	-	-	-	-
Investment properties	93.29	4,176.27	4,082.98	4,376.65%
Fixed assets	51,002.69	63,608.30	12,605.61	24.72%
Construction in progress	1,672.15	1,212.01	-460.14	-27.52%
Intangible assets	6,681.09	22,351.81	15,670.72	234.55%
of which:				
Land use rights	1,692.16	17,183.13	15,490.97	915.46%
Mining rights ( <i>note</i> )	4,590.79	4,715.43	124.64	2.72%
Other intangible assets	398.14	453.25	55.11	13.84%
Others	472.97	612.02	139.05	29.40%
<b>Total assets</b>	<b>62,978.45</b>	<b>95,016.18</b>	<b>32,037.73</b>	<b>50.87%</b>
Current liabilities	50,409.57	49,407.12	-1,002.45	-1.99%
Non-current liabilities	2,505.88	2,505.88	-	-
<b>Total liabilities</b>	<b>52,915.46</b>	<b>51,913.00</b>	<b>-1,002.45</b>	<b>-1.89%</b>
<b>Net assets (total shareholders' equity)</b>	<b>10,062.99</b>	<b>43,103.18</b>	<b>33,040.18</b>	<b>328.33%</b>

*Note:* The mining rights under intangible assets in the business valuation report of Beijing Pan-China is the same figure as the appraised value set out in the valuation report of mining rights prepared by Headmen. For details of the mining rights, please refer to the section headed “(d) Valuation of mineral rights” below.

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## LETTER FROM THE BOARD

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### *Analysis of Valuation Results*

1. There is an impairment of current assets of approximately RMB5,000, which was mainly due to the fact that the inventory of goods was evaluated in accordance with the market method, and the market price as at the Valuation Reference Date was lower than its book cost.
2. The estimated original value of investment properties was RMB41,762,700, and the estimated net value was RMB41,762,700; the estimated original value appreciation rate was 432.34%, and the estimated net value appreciation rate was 4,376.65%. The main reason for the appreciation of investment properties appraisal is that the estimated investment properties was built earlier and the construction cost is lower. At present, the price of commercial real estate in Laizhou has increased. The second is that the book value is only the construction cost of buildings and the amortized investment. The assessed value includes the value of land occupied by houses and buildings.
3. The fixed assets included in the scope of this appraisal include buildings and structures, underground works, equipment and fixed assets disposal, with an aggregate increase in appraised net value of RMB126,056,176.02. The specific changes in value and relevant reasons are as follows.
  - (a) After evaluation, the original value of fixed assets of buildings has increased by RMB51,722,089.66 with an appreciation rate of 55.20% and their net value has increased by RMB43,412,089.56 with an appreciation rate of 160.57%. The reasons are as follows:
    - (i) The increase in the appraised original value of the buildings is due to the increase in the cost of labour, machinery and materials in recent years resulting in an increase in the appraised original value over the adjusted original book value.
    - (ii) The increase in the appraised net value of the buildings is mainly due to the increase in the original value and the difference between the economic useful life of the buildings and the useful life used in accounting depreciation.
  - (b) the appraised original value of underground works assets has increased by RMB140,577,710.14 with an appreciation rate of 23.22% and their appraised net value has increased by RMB52,449,878.91 with an appreciation rate of 12.18%. The reasons for changes in value are as follows:
    - (i) The increase in the appraised original value is due to the increase in the cost of labour, machinery and materials in recent years resulting in an increase in the appraised original value over the original book value.
    - (ii) The increase in the appraised net value is mainly due to the increase in the original value.

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## LETTER FROM THE BOARD

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- (c) The appraised original value of equipment assets was RMB147,988,310.00, and the appraised net value was RMB82,706,424.30. The appreciation rate of appraised original value was 25.04%, and the appreciation rate of appraised net value was 57.76%. The reasons for changes in value are as follows:
- (i) The main reasons for the increase in the appraised original value of machinery and equipment are: 1. the original book value of most of the machinery and equipment does not include value-added tax, whereas the appraised original value is the value that includes value-added tax; 2. the increase in the appraised original value is due to the addition of costs such as upfront costs and capital costs necessary for the acquisition of the equipment; the increase in the appraised net value is mainly due to: 1. the economic useful life of most of the equipment is higher than the useful life used by the enterprise for depreciation purposes; 2. the increase in the appraised original value.
  - (ii) The main reasons for the impairment of the appraised original value of the vehicles were: the vehicles to be scrapped were appraised at their recoverable value and both their appraised original value and appraised net value were equal to their recoverable value, resulting in the impairment of the original value; the increase in the appraised net value was mainly due to the depreciation of the vehicles by the enterprise resulting in a higher depreciation rate than the normal depreciation rate of the vehicles appraised in the open trading market.
  - (iii) The main reasons for the impairment of the appraised original value of electronic equipment are: on the one hand, the electronic equipment is updated quickly and its purchase price has dropped to a certain extent; on the other hand, the appraised original value and appraised net value of some old equipment assessed by the market method are equal to the recoverable value, resulting in impairment of the original value. The main reason for the appreciation of the appraised net value is that the depreciation period the enterprise adopts in accounting is shorter than the economic life used in the valuation.
- (d) The impairment of fixed assets liquidation is RMB87,080.05, and the impairment rate is 99.66%. The main reason for the impairment is that the valuation determines the value of end-of-life vehicles by the recoverable price.

As a result, the appreciation rate is higher than the impairment rate, which leads to the appreciation of appraised value on fixed assets.

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## LETTER FROM THE BOARD

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4. The assessed value of construction in progress is RMB12,120,100, the impairment amount is RMB4,601,400, and the impairment rate is 27.52%. The reasons for the decrease are mainly due to the expenses incurred in the geological prospecting of the construction in progress have been evaluated in the mining right, and the evaluation value of the construction in progress is 0, which causes the evaluation value of the construction in progress to be devalued.
5. The intangible assets included in this valuation include land use rights, mining rights and other intangible assets. The appraised appreciation of the intangible assets is RMB156,707,204.12, and the appraised appreciation rate is 234.55%, the main reasons are as follows:
  - (a) Intangible assets – the book value of land use rights is RMB16,921,600, the appraised value is RMB171,831,300, the appraised appreciation is RMB154,909,700, and the appreciation rate is 915.46%. The appraisal value-added is mainly due to the earlier acquisition of the parcels to be appraised and the lower acquisition prices.
  - (b) Intangible assets – The appraised value of other intangible assets is RMB4,532,500, the appraised appreciation is RMB551,100, and the appraised appreciation rate is 13.84%. The main reasons for the appreciation are as follows: the self-developed proprietary technology is confirmed to be higher than the book amortized value at the cost of acquisition; when the utility model patent is obtained, the relevant cost is included in the expense, and the book value is 0 causing an increased in appraised value.
  - (c) Intangible assets – Mining rights are assessed for an appreciation of RMB1,246,400, with an appreciation rate of 2.72%. The details are as follows:
    - (1) Mining right of Dongji mining area of Shandong Tiancheng Mining Co., Ltd.

According to the Headmen Kuang Ping Bao Zi [2021] No. 014, Total No. 2663, “Shandong Tiancheng Mining Co., Ltd. Dongji Mining Right Evaluation Report” issued by Headmen, Shandong Tiancheng Cheng Mining Co., Ltd. Dongji mining area mining right records a book balance account of RMB19,078,095.82, an impairment provision of RMB4,549,398.49, a carrying amount of RMB14,528,697.33, an evaluation result of RMB13,689,700.00, and an evaluation impairment of RMB838,997.33, while the impairment rate is 5.77%, the reason for the evaluation impairment: the book value is calculated based on the mining right transfer proceeds of Dongji mining area of Shandong Tiancheng Mining Co., Ltd. as of the Valuation Reference Date and the exploration fees paid as of the Valuation Reference Date, etc., and the evaluation value is calculated by Headmen using the income equity method and based on the verified and proven resource reserves and the price level as of the Valuation Reference Date.

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## LETTER FROM THE BOARD

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- (2) The mining right of Shandong Tiancheng Mining Co., Ltd. Matang mining area

According to the Headmen Kuang Ping Bao Zi [2021] No. 013 Total No. 2662, “Shandong Tiancheng Mining Co., Ltd. Matang Mining Area Mining Right Evaluation Report” issued by Headmen, Shandong Tiancheng Mining Co., Ltd. Matang mining area mining right records a book balance account of RMB13,143,544.58, an impairment provision of RMB1,684,331.97, a carrying amount of RMB11,459,212.61, an evaluation result of RMB9,750,000.00, and the evaluation impairment of RMB1,709,212.61, while the impairment rate is 14.92%. The reason for the evaluation of the impairment: The book value is calculated based on the mining right transfer proceeds of the Matang mining area of Shandong Tiancheng Mining Co., Ltd. as of the Valuation Reference Date and the exploration fees paid as of the Valuation Reference Date, etc. After verification, the estimated retained resource reserves and estimated utilized resource reserves in the “Shandong Shengda Mining Co., Ltd. Matang Mining Area Mining Rights Assignment Income Evaluation Report” submitted by Jinan Yuanfeng Mineral Resources Evaluation Co., Ltd. (Jiyuanfeng Kuang Ping Bao Zi [2020] No. 035) are 816,506 tons of ore, 1,853 kg of gold metal, 5,643 kg of silver metal, and 17,144 tons of pure sulfur. The estimated utilization of resource reserves on the Valuation Reference Date of this assessment is 397,300 tons, gold metal content is 859.60 kg, silver metal content is 2,852.47 kg, pure sulfur content is 8,780 tons, average grade: gold 2.16g/t, silver 7.18g/t, sulfur 2.21%, the parameter difference is quite large, and the assessment value is calculated by Headmen using the income equity method and based on the verified and proven resource reserves and the price level as of the Valuation Reference Date.

- (3) Mining right of Hongbu Mining Area of Shandong Tiancheng Mining Co., Ltd.

According to the Headmen Kuang Ping Bao Zi [2021] No. 015 Total No. 2664, “Shandong Tiancheng Mining Co., Ltd. Hongbu Mining Area Mining Right Evaluation Report” issued by Headmen, Shandong Tiancheng Mining Co., Ltd. Hongbu mining area mining rights records a book balance account of RMB12,138,969.09, an impairment provision of RMB1,240,432.12, a carrying amount of RMB10,898,536.97, an evaluation result of RMB14,273,800.00, and the evaluation appreciation of RMB3,375,263.03, while the appreciation rate is 30.97%, the reason for the evaluation appreciation: the book value represents the consideration for the mining right of Shandong Tiancheng Mining Co., Ltd. Hongbu mining area as of the Valuation Reference Date and the acquisition cost including exploration fee paid as of the Valuation Reference Date, and the appraised value is calculated by Headmen using the income equity method and based on the verified and proven resource reserves and the price level as of the Valuation Reference Date.

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## LETTER FROM THE BOARD

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- (4) Exploration and prospecting rights for deep and peripheral gold mines in Hongbu Mining Area, Laizhou City, Shandong Province

According to the Headmen Kuang Ping Bao Zi [2021] No. 015, Total No. 2672, “Evaluation Report on the Deep and Peripheral Gold Mine Exploration and Prospecting Rights in Hongbu Mining Area, Laizhou City, Shandong Province” issued by Headmen, the evaluation result of the exploration and prospecting rights for the deep and peripheral gold mines in Hongbu Mining District, Laizhou City, Shandong Province was RMB0, and there was no increase or decrease in the evaluation.

- (5) The mining right of Shandong Tiancheng Mining Co., Ltd. Matang No. 2 Mining Area

According to the Headmen Kuang Ping Bao Zi [2021] No. 012, Total No. 2661, “Shandong Tiancheng Mining Co., Ltd. Matang No. 2 Mining Area Mining Right Evaluation Report”, Shandong Tiancheng Mining Co., Ltd. Matang No. 2 Mining Area Mining Right records a book balance account of RMB15,853,016.84, an impairment provision of RMB6,831,588.77, a carrying amount of RMB9,021,428.07, an evaluation result of RMB8,879,100.00. The estimated impairment is RMB142,328.07, and the impairment rate is 1.58%. The reason for the estimated impairment: The book value is calculated as the transfer proceeds of the mining right of Shandong Tiancheng Mining Co., Ltd. Matang No. 2 Mining Area as of the Valuation Reference Date and the acquisition cost including exploration fee paid as of the Valuation Reference Date. After verification, the estimated retained resource reserves and estimated utilization of resource reserves recorded in the “Shandong Shengda Mining Co., Ltd. Matang No. 2 Mining Area Mining Rights Transfer Proceeds Evaluation Report” (Jiyuanfeng Kuang Ping Bao Zi [2020] No. 034) as submitted by Jinan Yuanfeng Mineral Resources Evaluation Co., Ltd. are 706,814 tons of ore, 1,960 kg of gold, 6,531 kg of silver, and 14,610 tons of pure sulfur. The estimated utilization of resource reserves as of the Valuation Reference Date of this assessment is 282,700 tons, gold metal content is 708.60 kg, silver metal content is 3,050.56 kg, pure sulfur content is 6,219 tons, average grade: gold 2.51g/t, silver 10.79g/t, sulfur 2.20%, the parameter difference is large, and the appraised value is calculated by Headmen using the income equity method and based on the verified and proven resource reserves and the price level as of the Valuation Reference Date.

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## LETTER FROM THE BOARD

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- (6) Exploration and prospecting rights for the deep and peripheral gold mines in the Matang No. 2 Mining Area, Laizhou City, Shandong Province

According to the Headmen Kuang Ping Bao Zi [2021] No. 016, Total No. 2665, “Evaluation Report on the Exploration and Prospecting Rights of the Deep and Peripheral Gold Mine in Matang No. 2 Mining Area, Laizhou City, Shandong Province”, the appraised value of the exploration and prospecting rights of the deep and peripheral gold mine in Matang No. 2 Mining Area, Laizhou City, Shandong Province is RMB561,700.00, and the evaluation appreciation is RMB561,700.00. Reasons for the evaluation appreciation: after detailed investigation, the prospecting right and the deep and peripheral gold mines in the Hongbu mining area, Laizhou City, Shandong Province, are acquired, free of charge, by the appraised unit before 2012, and thus of no book value, and this appraised value is calculated by Headmen using the exploration cost-effectiveness method by multiplying the effective physical workload within assessment scope as of the Valuation Reference Date by the corresponding prevailing market rate to obtain the direct cost of replacement, then multiplying it by the overhead expense sharing coefficient to obtain the overhead expenses, and then multiplying the sum of the above two figures (to obtain the direct cost of replacement) by the utilization coefficient.

6. Others include other equity instruments, long-term deferred expenses and other non-current assets. The book value of others is RMB4,729.7 thousand while its appraised value is RMB6,120.2 thousand, the appraised appreciation is RMB1,390.5 thousand, and the appreciation rate is 29.40%. The main reasons are as follows: the appraised value of other equity investment is RMB4,930.5 thousand, the appraised appreciation is RMB3,830.5 thousand, and the appreciation rate is 348.23%. The reason is that the book value is the initial investment cost of the appraised entity. This appraisal is temporarily based on the product of the owner’s equity value disclosed in the first quarterly report of 2021 of the invested unit multiplying the percentage of shareholding to confirm its appraised value, which includes profits for the operating period, thus resulted in an appreciation; the long-term deferred expenses have been appraised as 0, and the depreciation is RMB2.440 million. The main reason is that the long-term deferred expenses for various projects have been included in the appraisal for houses and buildings, and the long-term deferred expenses for projects have been appraised as 0; there is no appreciation or depreciation for other non-current assets.
7. The impairment of liability assessment is RMB10,024,538.74, and the impairment rate is 1.89%. The reason is that it is based on the supplementary notice of the Ministry of Finance on the “Interim Provisions on the Management and Financial Treatment of State-owned Capital in the Organizational Reform of Enterprises” (Caiqi [2005] No.12): The original balance of welfare expenses and employee education funds on the books of the restructured enterprise should be transferred to the capital provident fund and no longer be managed as a liability. This assessment evaluates the employee education expense of RMB10,024,538.74 as 0.

## LETTER FROM THE BOARD

### (d) Valuation of mineral rights

The Company has engaged Headmen to perform independent valuation of the mineral rights held by Tiancheng Mining, details of which are set out section headed “Information on the mineral rights involved in the subject transaction” below. The following are the extract from the valuation report:

<i>Unit: RMB</i>				
No.	Name and type (exploration right/mining right)	Carrying amount	Appraised value	Changes
(1)	Mining right of Shandong Shengda Mining Co., Ltd. Matang mine area (山東盛大礦業有限公司 馬塘礦區採礦權)	11,459,212.61	9,750,000.00	-1,709,212.61
(2)	Mining right of Shandong Shengda Mining Co., Ltd. Matang II mine area (山東盛大礦業有限公司 馬塘二礦區採礦權)	9,021,428.07	8,879,100.00	-142,328.07
(3)	Mining right of Shandong Tiancheng Mining Co., Ltd. Dongji mine area (山東天承礦業有限公司東季礦區)	14,528,697.33	13,689,700.00	-838,997.33
(4)	Mining right of Shandong Tiancheng Mining Co., Ltd. Hongbu mine area (山東天承礦業有限公司紅布礦區)	10,898,536.97	14,273,800.00	3,375,263.03
(5)	The gold mine at the deep level and outer rim of the Matang II mine area in Laizhou, Shandong Province (general exploration) (山東省萊州市馬塘二礦區深部及 週邊金礦詳查)	-	561,700.00	561,700.00
(6)	The gold mine at the deep level and outer rim of Hongbu mine area in Laizhou, Shandong Province (general exploration) (山東省萊州市紅布礦區深部及 外圍金礦詳查)	-	-	-
Total		<u>45,907,874.98</u>	<u>47,154,300.00</u>	<u>1,246,425.02</u>

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## LETTER FROM THE BOARD

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(1) *Mining right of Shandong Tiancheng Mining Co., Ltd. Matang mine area (山東天承礦業有限公司馬塘礦區)*

The appraised value of mineral right in the valuation report issued by Beijing Pan-China adopted the conclusion in the Valuation Report on Mining Right of Shandong Tiancheng Mining Co., Ltd. Matang Mine Area issued by Headmen Mining Right Appraisal Firm (General Partnership) (北京海地人礦業權評估事務所(普通合夥)) (Headmen Ping Bao Zi [2021] No. 013 of Total No. 2662): the appraised value of the mining right of Shandong Tiancheng Mining Co., Ltd. Matang mine area included in this valuation was RMB9,750,000. Details are as follows:

- 1) Valuation Reference Date: 31 May 2021
- 2) Valuation method: Income equity method
- 3) Main parameters used in the valuation: retained resource reserves within the valuation scope as of the Valuation Reference Date, 407,800 tons of gold ore, 879 kg of gold metal, with an average grade of 2.16 g/t; 407,800 tons of associated silver ore, 2,928 kg of silver metal, with an average grade of 7.18 g/t; 407,800 tons of associated sulfur ore, 9,013 tons of pure sulfur, with an average grade of 2.21%. The resource reserves used in the valuation are as follows: 397,300 tons of ore, 859.60 kg of gold metal, 2,852.47 kg of silver metal, 8,780 tons of pure sulfur, with an average grade of 2.16 g/t for gold, 7.18 g/t for silver and 2.21% for sulfur. The product plan is alloyed gold and alloyed silver, and the selling price is RMB307.74/g for alloyed gold and RMB3,764.06/kg for alloyed silver. The mining recovery rate is 94.15%, the ore depletion rate is 6.90%, the processing recovery rate is 94.73% for gold and 87.10% for silver, the gold return rate is 97.70% and the silver return rate is 55%. The recoverable reserves used in the valuation are 374,100 tons. The production scale is 40,000 tons/year and the mine service life is 10.05 years. The discount rate is 8.07% and the mining right interest factor is 6.2%.
- 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 Shandong Tiancheng Mining Co., Ltd. Matang mine area” is determined to be RMB9,750,000 (i.e., RMB nine million seven hundred and fifty thousand only) by estimation.

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## LETTER FROM THE BOARD

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(2) *Mining right of Shandong Tiancheng Mining Co., Ltd. Matang II mine area (山東天承礦業有限公司馬塘二礦區)*

The appraised value of mineral right in the valuation report issued by Beijing Pan-China adopted the conclusion in the Valuation Report on Mining Right of Shandong Tiancheng Mining Co., Ltd. Matang II Mine Area issued by Headmen Mining Right Appraisal Firm (General Partnership) (北京海地人礦業權評估事務所(普通合夥))(Headmen Ping Bao Zi [2021] No. 012 of Total No. 2661): the appraised value of the mining right of Shandong Tiancheng Mining Co., Ltd. Matang II mine area included in this valuation was RMB8,879,100. Details are as follows:

- 1) Valuation Reference Date: 31 May 2021
- 2) Valuation method: Income equity method
- 3) Main parameters used in the valuation: retained resource reserves within the valuation scope as of the Valuation Reference Date, 313,600 tons of gold ore, 795 kg of gold metal, with an average grade of 2.53 g/t; 313,600 tons of associated silver ore, 3,384 kg of silver metal, with an average grade of 10.79 g/t; 313,600 tons of associated sulfur ore, 6,900 tons of pure sulfur, with an average grade of 2.20%. The ore reserves used in the valuation are as follows: 282,700 tons of ore, 708.60 kg of gold metal, 3,050.56 kg of silver metal, 6,219 tons of pure sulfur, with an average grade of 2.51 g/t for gold, 10.79 g/t for silver and 2.20% for sulfur. The product plan is alloyed gold and alloyed silver, and the selling price is RMB307.74/g for alloyed gold and RMB3,764.06/kg for alloyed silver. The mining recovery rate is 92.90%, the ore depletion rate is 7%, the processing recovery rate is 94.73% for gold and 87.10% for silver, the gold return rate is 97.70% and the silver return rate is 55%. The recoverable reserves used in the valuation are 262,600 tons. The production scale is 40,000 tons/year and the mine service life is 7.06 years. The discount rate is 8.07% and the mining right interest factor is 6.2%.
- 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 Shandong Tiancheng Mining Co., Ltd. Matang II mine area” is determined to be RMB8,879,100 (i.e., RMB eight million eight hundred and seventy-nine thousand one hundred only) by estimation.

(3) *Mining right of Shandong Tiancheng Mining Co., Ltd. Dongji mine area (山東天承礦業有限公司東季礦區)*

The appraised value of mineral right in the valuation report issued by Beijing Pan-China adopted the conclusion in the Valuation Report on Mining Right of Shandong Tiancheng Mining Co., Ltd. Dongji Mine Area issued by Headmen Mining Right Appraisal Firm (General Partnership) (北京海地人礦業權評估事務所(普通合夥))(Headmen Ping Bao Zi [2021] No. 014 of Total No. 2663): the appraised value of the mining right of

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## LETTER FROM THE BOARD

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Shandong Tiancheng Mining Co., Ltd. Dongji mine area included in this valuation was RMB13,689,700. Details are as follows:

- 1) Valuation Reference Date: 31 May 2021
- 2) Valuation method: Income equity method
- 3) Main parameters used in the valuation: retained resource reserves within the valuation scope as of the Valuation Reference Date, 634,200 tons of gold ore, 1,647 kg of gold metal, with an average grade of 2.60 g/t. The resource reserves used in the valuation are as follows: 526,500 tons of ore, 1,346.40 kg of gold metal, with an average grade of 2.56 g/t. The product plan is alloyed gold, and the selling price is RMB307.74/g. The mining recovery rate is 90%, the ore depletion rate is 10%, the processing recovery rate is 94.58%, and the gold return rate is 97.50%. The recoverable reserves used in the valuation are 473,900 tons. The production scale is 45,000 tons/year and the mine service life is 11.70 years. The discount rate is 8.12% and the mining right interest factor is 6.3%.
- 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 Shandong Tiancheng Mining Co., Ltd. Dongji mine area” is determined to be RMB13,689,700 (i.e., RMB thirteen million six hundred and eighty-nine thousand seven hundred only) by estimation.

(4) *Mining right of Shandong Tiancheng Mining Co., Ltd. Hongbu mine area (山東天承礦業有限公司紅布礦區)*

The appraised value of mineral right in the valuation report issued by Beijing Pan-China adopted the conclusion in the Valuation Report on Mining right of Shandong Tiancheng Mining Co., Ltd. Hongbu Mine Area issued by Headmen Mining Right Appraisal Firm (General Partnership) (北京海地人礦業權評估事務所(普通合夥)) (Headmen Ping Bao Zi [2021] No. 015 of Total No. 2664): the appraised value of the mining right of Shandong Tiancheng Mining Co., Ltd. Hongbu mine area included in this valuation was RMB14,273,800. Details are as follows:

- 1) Valuation Reference Date: 31 May 2021
- 2) Valuation method: Income equity method
- 3) Main parameters used in the valuation: retained resource reserves within the valuation scope as of the Valuation Reference Date, 443,800 tons of gold ore, 1,254 kg of gold metal, with an average grade of 2.83 g/t; 443,800 tons of associated silver ore, 1,508 kg of silver metal, with an average grade of 3.40 g/t. The ore reserves used in the valuation are as follows: 408,400 tons of ore, 1,153.20 kg of gold metal, 1,388.42 kg of silver metal, with an average grade of 2.82 g/t for gold and 3.40 g/t for silver. The product plan is alloyed gold and

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## LETTER FROM THE BOARD

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alloyed silver, and the selling price is RMB307.74/g for alloyed gold and RMB3,764.06/kg for alloyed silver. The mining recovery rate is 93.10%, the ore depletion rate is 7.3%, the processing recovery rate is 94.73% for gold and 87.10% for silver, the gold return rate is 97.70% and the silver return rate is 55%. The recoverable reserves used in the valuation are 380,200 tons. The production scale is 60,000 tons/year and the mine service life is 6.84 years. The discount rate is 8.07% and the mining right interest factor is 6.2%.

- 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 Shandong Tiancheng Mining Co., Ltd. Hongbu mine area” is determined to be RMB14,273,800 (i.e., RMB fourteen million two hundred and seventy-three thousand eight hundred only) by estimation.

- (5) *Exploration right of the gold mine at the deep level and outer rim of the Matang II mine area in Laizhou, Shandong Province* (山東省萊州市馬塘二礦區深部及外圍金礦)

The appraised value of mineral right in the valuation report issued by Beijing Pan-China adopted the conclusion in the Valuation Report on Exploration Right of the Gold Mine at the Deep Level and Outer Rim of the Matang II Mine Area in Laizhou, Shandong Province issued by Headmen Mining Right Appraisal Firm (General Partnership) (北京海地人礦業權評估事務所(普通合夥)) (Headmen Ping Bao Zi [2021] No. 016 of Total No. 2665): the appraised value of the exploration right of the gold mine at the deep level and outer rim of the Matang II mine area in Laizhou, Shandong Province included in this valuation was RMB561,700. Details are as follows:

- 1) Valuation Reference Date: 31 May 2021
- 2) Valuation method: Exploration cost effectiveness method
- 3) Main parameters used in the valuation: effective physical workload within the valuation scope as of the Valuation Reference Date, 1/2,000 geological survey of 0.97km<sup>2</sup> and drilling of 374.26m. The direct replacement cost is RMB432,100, the overhead expenses is RMB129,600, the replacement cost is RMB561,700, and the effectiveness factor is 1.00.
- 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 exploration rights and through reasonable valuation methods and parameters, the appraised value of “exploration right of the gold mine at the deep level and outer rim of the Matang II mine area in Laizhou, Shandong Province” is determined to be RMB561,700 (i.e., RMB five hundred and sixty-one thousand seven hundred only) by estimation.

## LETTER FROM THE BOARD

(6) *Exploration right of the gold mine at the deep level and outer rim of Hongbu mine area in Laizhou, Shandong Province (山東省萊州市紅布礦區深部及外圍金礦)*

The appraised value of mineral right in the valuation report issued by Beijing Pan-China adopted the conclusion in the Valuation Report on Exploration Right of the Gold Mine at the Deep Level and Outer Rim of Hongbu Mine Area in Laizhou, Shandong Province issued by Headmen Mining Right Appraisal Firm (General Partnership) (北京海地人礦業權評估事務所(普通合夥))(Headmen Ping Bao Zi [2021] No. 023 of Total No. 2672): The appraised value of the exploration right of the gold mine at the deep level and outer rim of Hongbu mine area in Laizhou, Shandong Province included in this valuation was RMB0. 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:

Item name	Unit	Exploration right of the gold mine at the deep level and outer rim of Hongbu mine area		
		Wang'ershan belt	Jiaojia belt	
Resource reserves as of the Valuation Reference Date	Ore	10,000 tons	270.91	400.33
	Gold metal	kg	8,715.00	10,651.00
	Silver metal	kg	9,940.00	14,370.00
	Average grade of gold	g/t	3.22	2.66
	Average grade of silver	g/t	3.67	3.59
Resource reserves used in the valuation	Ore	10,000 tons	191.19	294.07
	Gold metal	kg	6,245.70	7,765.90
	Silver metal	kg	7,016.50	10,557.20
	Average grade of gold	g/t	3.27	2.64
	Average grade of silver	g/t	3.67	3.59
Recoverable reserves in the valuation	Ore	10,000 tons	176.50	271.49
Production scale		10,000 tons/year	24.00	24.00
Mining loss rate		%	7.68	7.68
Ore depletion rate		%	7.63	7.63
Appraised service life		Year	7.96	12.25
Processing recovery rate	Gold	%	95.57	94.80
	Silver	%	87.55	85.09
Gold return rate		%	97.70	97.70
Silver return rate		%	35.00	40.00
Net investment in fixed assets		RMB0'000	52,760.46	7,422.24
Total cost		RMB/ton	628.93	669.35
Operating cost		RMB/ton	482.34	496.73
Discount rate		%	8.62	

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## LETTER FROM THE BOARD

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- 4) 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 exploration rights and through reasonable valuation methods and parameters, the present value of net cash flow of “exploration right of the gold mine at the deep level and outer rim of Hongbu mine area in Laizhou, Shandong Province” is determined to be –RMB233,015,700 by estimation. The appraised value of “exploration right of the gold mine at the deep level and outer rim of Hongbu mine area in Laizhou, Shandong Province” is RMB0 (i.e., RMB Nil).

### Analysis on the rationale in acquiring the Hongbu mine area

In October 2020, Shandong Gold Group Yantai Design and Research Engineering Co., Ltd. compiled the “the feasibility study report of Hongbu mining area and its proposal in utilizing the resources and reserves within the current exploration rights”, which include the mining technology design plan, the technical indicators, investment, cost and other economic parameters. Because the exploration right of Hongbu mine is located in the deep level and periphery level, the “feasibility study report” designed to exploit the resources within the scope of the exploration right needs to extend most of the existing Hongbu mining area’s assets. The net value of fixed assets that originally needed to be utilized in mine shafts and lanes reached RMB341 million. The “feasibility study report” designed a new total fixed assets of RMB261 million. As a result of the substantial expected investment in fixed assets, and other technical and economic parameters designed in accordance with the feasibility study report, the estimated net cash flow of exploration rights is negative and the estimated value of exploration rights is zero.

Despite the estimated negative net cash flow, the Company emphasizes that the aforesaid analysis is made on the assumption that the costs of the fixed assets are solely for the Hongbu mine area. As disclosed below, the Company has concrete plans to consolidate all the mining areas within the metallogenic belt of Jiaojia and Xincheng and thus the fixed assets that are applicable for utilization in the area can also be used in the Hongbu mine area. As a result, the Company is of the view that the fixed costs arising from the Hongbu mine area will be significantly lower than its estimation. Further, the Company reiterates that the Company has acquired the exploration rights of the Hongbu mine area on nil consideration. All in all, the Company is of the view that acquiring such mine is in the interests of the Company.

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## LETTER FROM THE BOARD

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### *Information on the mineral rights involved in the subject transaction*

The subject assets of the Acquisition involved a total of 6 mineral rights, including 4 mining rights and 2 exploration rights. The details are shown in the following table:

No.	Name of mineral right	Type of mineral right	Holder of mineral right
1	Mining right of Shandong Tiancheng Mining Co., Ltd. Matang mine area	Mining right	Tiancheng Mining
2	Mining right of Shandong Tiancheng Mining Co., Ltd. Matang II mine area	Mining right	Tiancheng Mining
3	Mining right of Shandong Tiancheng Mining Co., Ltd. Dongji mine area	Mining right	Tiancheng Mining
4	Mining right of Shandong Tiancheng Mining Co., Ltd. Hongbu mine area	Mining right	Tiancheng Mining
5	Exploration right of the gold mine at the deep level and outer rim of the Matang II mine area in Laizhou, Shandong Province	Exploration right	Tiancheng Mining
6	Exploration right of the gold mine at the deep level and outer rim of Hongbu mine area in Laizhou, Shandong Province	Exploration right	Tiancheng Mining

The procedures for appointing a valuer are in compliance with relevant requirements of laws and regulations. The 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 provisions of state-owned assets supervision, the above asset valuation report has legally fulfilled the filing procedures in respect of state-owned assets.

(I) *Mining right of Shandong Tiancheng Mining Co., Ltd. Matang mine area*

Basic information on the mining right

Mining right owner:	Shandong Tiancheng Mining Co., Ltd.
Mining license No.:	C3700002020094120150751
Name of mine:	Shandong Tiancheng Mining Co., Ltd. Matang mine area
Mining type:	Gold ore
Production scale:	40,000 tons/year

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## LETTER FROM THE BOARD

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Mining area:	0.211 square kilometer
Validity period:	5 years from 30 September 2020 to 30 September 2025
Issuing authority:	Department of Natural Resources of Shandong Province

The owner of the mining right of Shandong Tiancheng Mining Co., Ltd. Matang mine area is Tiancheng Mining. The mining right owned by it is clear, has obtained legal mining license, is free from mortgage, pledge and any other restrictions on transfer, and it is not involved in any litigation, arbitration matters or judicial measures such as seizure and freezing and other circumstances that prevent the transfer of ownership of such mining right.

As of the Valuation Reference Date, the valuation scope of the mining right of Shandong Tiancheng Mining Co., Ltd. Matang mine area reserved 407,800 tons of gold ore, 879 kilograms of gold metal with an average grade of 2.16 g/t; 407,800 tons of associated silver ore, 2,928 kilograms of silver metal with an average grade of 7.18 g/t; 407,800 tons of associated sulfur ore, 9,013 tons of pure sulfur with an average grade of 2.21%.

*(II) Mining right of Shandong Tiancheng Mining Co., Ltd. Matang II mine area*

Basic information on the mining right

Mining right owner:	Shandong Tiancheng Mining Co., Ltd.
Mining licence No.:	C3700002020094120150750
Name of mine:	Shandong Tiancheng Mining Co., Ltd. Matang II mine area
Mining type:	Gold ore
Production scale:	40,000 tons/year
Mining area:	0.477 square kilometer
Validity period:	5 years from 30 September 2020 to 30 September 2025
Issuing authority:	Department of Natural Resources of Shandong Province

The owner of the mining right of Shandong Tiancheng Mining Co., Ltd. Matang II mine area is Tiancheng Mining. The mining right owned by it is clear, has obtained legal mining license, is free from mortgage, pledge and any other restrictions on transfer, and it is not involved in any litigation, arbitration matters or judicial measures such as seizure and freezing and other circumstances that prevent the transfer of ownership of such mining right.

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## LETTER FROM THE BOARD

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As of the Valuation Reference Date, the valuation scope of the mining right of Shandong Tiancheng Mining Co., Ltd. Matang II mine area reserved 313,600 tons of gold ore, 795 kilograms of gold metal with an average grade of 2.53 g/t; 313,600 tons of associated silver ore, 3,384 kilograms of silver metal with an average grade of 10.79 g/t; 313,600 tons of associated sulfur ore, 6,900 tons of pure sulfur with an average grade of 2.20%.

*(III) Mining right of Shandong Tiancheng Mining Co., Ltd. Dongji mine area*

Basic information on the mining right

Mining right owner:	Shandong Tiancheng Mining Co., Ltd.
Mining licence No.:	C3700002011034120108645
Name of mine:	Shandong Tiancheng Mining Co., Ltd. Dongji mine area
Mining type:	Gold ore
Production scale:	45,000 tons/year
Mining area:	0.1892 square kilometer
Validity period:	five years from 30 June 2017 to 30 June 2022
Issuing authority:	Department of Land and Resources of Shandong Province

The owner of the mining right of Shandong Tiancheng Mining Co., Ltd. Dongji mine area is Tiancheng Mining. The mining right owned by it is clear, has obtained legal mining license, is free from mortgage, pledge and any other restrictions on transfer, and it is not involved in any litigation, arbitration matters or judicial measures such as seizure and freezing and other circumstances that prevent the transfer of ownership of such mining right.

As of the Valuation Reference Date, the valuation scope of the mining right of Shandong Tiancheng Mining Co., Ltd. Dongji mine area reserved 634,200 tons of gold ore, 1,647 kilograms of gold metal with an average grade of 2.60 g/t.

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## LETTER FROM THE BOARD

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(IV) *Mining right of Shandong Tiancheng Mining Co., Ltd. Hongbu mine area*

Basic information on the mining right

Mining right owner:	Shandong Tiancheng Mining Co., Ltd.
Mining licence No.:	C3700002011034120108648
Name of mine:	Shandong Tiancheng Mining Co., Ltd. Hongbu mine area
Mining type:	Gold ore
Production scale:	60,000 tons/year
Mining area:	0.6598 square kilometer
Validity period:	five years from 28 June 2017 to 28 June 2022
Issuing authority:	Department of Land and Resources of Shandong Province

The owner of the mining right of Shandong Tiancheng Mining Co., Ltd. Hongbu mine area is Tiancheng Mining. The mining right owned by it is clear, has obtained legal mining license, is free from mortgage, pledge and any other restrictions on transfer, and it is not involved in any litigation, arbitration matters or judicial measures such as seizure and freezing and other circumstances that prevent the transfer of ownership of such mining right.

As of the Valuation Reference Date, the valuation scope of the mining right of Shandong Tiancheng Mining Co., Ltd. Hongbu mine area reserved 443,800 tons of gold ore, 1,254 kilograms of gold metal with an average grade of 2.83 g/t; 443,800 tons of associated silver ore, 1,508 kilograms of silver metal with an average grade of 3.40 g/t.

(V) *Exploration right of the gold mine at the deep level and outer rim of the Matang II mine area in Laizhou, Shandong Province*

Basic information on the exploration right

Exploration right owner:	Shandong Tiancheng Mining Co., Ltd.
License No.:	T3700002008024010001973
Name of exploration project:	Exploration of the gold mine at the deep level and outer rim of the Matang II mine area in Laizhou, Shandong Province
Geographic location:	Laizhou City, Shandong Province

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## LETTER FROM THE BOARD

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Map No.: J51E016001

Exploration area: 0.97 square kilometer

Validity period: 1 July 2019 to 30 June 2024

Issuing authority: Department of Natural Resources of Shandong Province

The owner of the exploration right of the gold mine at the deep level and outer rim of the Matang II mine area in Laizhou, Shandong Province is Tiancheng Mining, and has obtained a legal exploration right certificate. The exploration right owned by Tiancheng Mining is clear, free from mortgage, pledge and any other restrictions on transfer, and it is not involved in any litigation, arbitration matters or judicial measures such as seizure and freezing and other circumstances that prevent the transfer of ownership of such exploration right.

As of the Valuation Reference Date, the effective physical workload of the exploration right of the gold mine at the deep level and outer rim of the Matang II mine area in Laizhou, Shandong Province within the the valuation scope was 1/2,000 geological survey of 0.97km<sup>2</sup> and drilling of 374.26m. The direct replacement cost was RMB432,100, the overhead expenses was RMB129,600, the replacement cost was RMB561,700, and the effectiveness factor was 1.00.

*(VI) Exploration right of the gold mine at the deep level and outer rim of Hongbu mine area in Laizhou, Shandong Province*

Basic information on the exploration right

Exploration right owner: Shandong Tiancheng Mining Co., Ltd.

License No.: T3700002008044010006520

Name of exploration project: Exploration of the gold mine at the deep level and outer rim of Hongbu mine area in Laizhou, Shandong Province

Geographic location: Laizhou City, Shandong Province

Map No.: J51E016001

Exploration area: 1.53 square kilometers

Validity period: 1 October 2019 to 30 September 2021

Issuing authority: Department of Natural Resources of Shandong Province

## LETTER FROM THE BOARD

The owner of the exploration right of the gold mine at the deep level and outer rim of Hongbu mine area in Laizhou, Shandong Province is Tiancheng Mining, and has obtained a legal exploration right certificate. The exploration right owned by Tiancheng Mining is clear, free from mortgage, pledge and any other restrictions on transfer, and it is not involved in any litigation, arbitration matters or judicial measures such as seizure and freezing and other circumstances that prevent the transfer of ownership of such exploration right.

As of the Valuation Reference Date, the valuation of the exploration right of the gold mine at the deep level and outer rim of Hongbu mine area in Laizhou, Shandong Province is set out as follows:

Item name	Unit	Exploration right of the gold mine at the deep level and outer rim of Hongbu mine area		
		Phase II Wang'ershan belt	Phase III Jiaojia belt	
Resource reserves as of the Valuation Reference Date	Ore	10,000 tons	270.91	400.33
	Gold metal	kg	8,715.00	10,651.00
	Silver metal	kg	9,940.00	14,370.00
	Average grade of gold	g/t	3.22	2.66
	Average grade of silver	g/t	3.67	3.59

**(e) Valuation method and major assumptions adopted in the Valuation of the mineral and exploration rights**

Pursuant to Rule 14A.68(7) of the Hong Kong Listing Rules, the discounted cash flow method and income equity method on the four mining rights and two exploration rights adopted by the valuation contained in the valuation report issued by Headmen Mining Right Appraisal Firm (General Partnership)\* (北京海地人礦業權評估事務所(普通合夥)) (“**Headmen**”) on Tiancheng Mining in relation to the mining and exploration rights 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;

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## LETTER FROM THE BOARD

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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 and exploration rights);
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 Valuation 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 and exploration rights adopts the following assumptions:

1. It is possible to realize overall development of the above mining and/or exploration 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;

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## LETTER FROM THE BOARD

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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 a reference 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 discounted cash flow method was adopted for the valuation.

### **INFORMATION ON THE PARTIES, REASONS FOR AND BENEFITS OF THE ACQUISITION OF TIANCHENG MINING, OPINION FROM THE BOARD, HONG KONG LISTING RULES IMPLICATIONS**

Please refer to the section headed “FURTHER INFORMATION ON THE ACQUISITIONS” below.

The proposals have been considered and approved at the 10th meeting of the sixth session of the Board and are hereby submitted to the EGM for consideration and approval.

#### **(2) RESOLUTION REGARDING THE CASH ACQUISITION AND DISCLOSEABLE AND CONNECTED TRANSACTION OF 100% EQUITY INTEREST IN SHANDONG LAIZHOU LUDI GOLD MINE COMPANY LIMITED BY CONTROLLING SUBSIDIARY AND THE CONNECTED TRANSACTION**

On 5 August 2021 (after trading hours), SDG Mining (Laizhou) and SDG Group Co. entered into the Ludi Gold Mine Agreement on the acquisition of 100% equity interests in Ludi Gold Mine at a consideration of RMB2,034,195,071.54. Upon Completion, the Ludi Gold Mine will be wholly-owned by SDG Mining (Laizhou) and the financial information of the Ludi Gold Mine will be consolidated into the financial statements of the Group.

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## LETTER FROM THE BOARD

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**(a) The Ludi Gold Mine Agreement**

*Date*

5 August 2021

*Parties*

1. SDG Group Co. (as vendor)
2. SDG Mining (Laizhou) (as purchaser)

*Consideration*

The consideration of RMB2,034,195,071.54 payable by SDG Mining (Laizhou) under the Ludi Gold Mine Agreement in connection with Ludi Gold Mine was determined based on the appraised value of Ludi Gold Mine of RMB2,034,195,071.54 as at the Valuation Reference Date in the business valuation report issued by Beijing Pan-China, which took into consideration of the valuation report of Headmen in relation to the one exploration right held by Ludi Gold Mine, namely the exploration right of the gold mine at Nanlv-Xinmu District in Laizhou City, Shandong Province.

It is noted that the current consideration of RMB2 billion is significantly higher than its net asset value of RMB28 million. As at the Valuation Reference Date, (1) Ludi Gold Mine's book value of its total assets is RMB242.1 million while its appraised total assets is RMB2,248.4 million and (2) Ludi Gold Mine's appraised and book value of its total liabilities are both approximately RMB214.2 million. The increase of the net asset value of Ludi Gold Mine mainly represents the increase in the value of the inventories under assets. The book value of inventories is RMB242.0 million<sup>(Note)</sup> while its appraised value is RMB2,248.2 million, which shows an appreciation rate of 829.09%. The book value of the inventories represents the exploration costs of the aforesaid exploration right of the gold mine at Nanlv-Xinmu District in Laizhou City, Shandong Province incurred as at the Valuation Reference Date. The appraised value of inventories was derived by Headmen based on the measured resource and price level as at the Valuation Reference Date under the discounted cash flow method, after taking into account of key factors, including measured reserve during the exploration process in the mine, as well as the stable high price of gold in recent years, and thus causing a significant difference between the appraised value and the carrying amount. Further, the appraised value of the inventories under PRC GAAP is significantly higher than its net asset value. It is also because the amount of the Royalty Fee which SDG Group Co. has undertaken to pay but has not yet paid as the condition for payment of Royalty Fee (i.e. Ludi Gold Mine has not yet applied for the mining right license) are not fulfilled as of now, and thus causing a significant difference between the carrying amount and the appraised value.

*Note:* Ludi Gold Mine was established by the parent company and was not acquired through business combinations involving entities that are not under common control. Therefore, no adjustment based on fair value is in need at the consolidated statement level, and also no fair value adjustment needed in the financial statements of company level. The fair value serves in the acquisition as a reference for the acquisition consideration, and no fair value adjustment is needed after the completion of the acquisition by virtue of being a business combination involving entities under common control.

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## LETTER FROM THE BOARD

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In the premises, the Company is of the view that the consideration is fair and reasonable and that the *de facto* premium between both the consideration and the net asset value is at a reasonable level. For details of the undertaking by SDG Group Co. and details of Royalty Fees, please refer to the section headed “Further undertaking by SDG Group Co.” and “FURTHER INFORMATION ON THE ACQUISITIONS – Royalty Fees” below.

### *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 of Ludi Gold Mine. The Group intends to pay the consideration by 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 Ludi Gold Mine within 7 working days after all the conditions for the effectiveness of the Ludi Gold Mine Agreement have been satisfied. SDG Group Co. shall complete the registration of the transfer of the equity interest in Ludi Gold Mine 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 Ludi Gold Mine from the date of Completion.

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

### *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 of the Company have approved the matters relating to the Ludi Gold Mine Agreement;
- (2) The Company has convened a general meeting in accordance with its articles of association and the applicable Hong Kong Listing Rules for the approval of the matters relating to the Ludi Gold Mine 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 authorisations in respect of the matters relating to the Ludi Gold Mine Agreement in accordance with the laws and regulations of its place of incorporation, articles of association of SDG Group Co. and Ludi Gold Mine.

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## LETTER FROM THE BOARD

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### *Default and compensation*

Any breach, non-performance or incomplete performance by either party of any of its obligations, representations, warranties and undertakings under the Ludi Gold Mine 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 Ludi Gold Mine Agreement or breaches its obligations under the Ludi Gold Mine Agreement after the expiry of 15 days, SDG Mining (Laizhou) shall have the right to terminate the Ludi Gold Mine Agreement with the overdue (defaulting) party and shall have the right, including but not limited to, to require the overdue (defaulting) party to pay liquidated damages and other obligations in accordance with the relevant provisions of the Ludi Gold Mine 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 of Ludi Gold Mine, and such facts or circumstances will materially and adversely affect the continued lawful and normal operation of Ludi Gold Mine after the Completion, SDG Mining (Laizhou) has the right to terminate this Ludi Gold Mine 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 of Ludi Gold Mine is registered for industrial and commercial change), the net assets that increase due to operating profits and other reasons, or the net assets that decrease due to operating losses and other reasons, shall be enjoyed or incurred by SDG Mining (Laizhou). The Company is of the view that the adoption of such clauses is in full compliance with the particular legal requirements on transactions with state-owned enterprises. Pursuant to Article 23 of the "Measures for the Supervision and Administration of the Transactions of State-owned Assets of Enterprises", once parties to an agreement signed an equity transfer agreement, both parties shall not adjust the agreed consideration and conditions based on the operating profit and loss of the business during the period of transaction. Accordingly, any profit or loss for the transitional period enjoyed or incurred by SDG Mining (Laizhou) will not be considered as adjustments to the consideration.

### *No material changes anticipated on Ludi Gold Mine up to Completion*

As at the Latest Practicable Date, the material assets of Ludi Gold Mine, i.e. exploration right of the gold mine in Nanlv – Xinmu Area in Laizhou, Shandong Province, has not yet commenced mining before the Completion date. Thus, there will be no substantial impairment of assets and therefore it will not prejudice the interests of the Company. In addition, to the best knowledge and belief of the Company and SDG Group Co., there are no material changes and does not anticipate any material changes up to the date of Completion, to the management, operations and financial of Ludi Gold Mine upon reviewing the management accounts and the regular due diligence conducted on the

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## LETTER FROM THE BOARD

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respective operations of the Target Company. On such basis, the Company is of the view that the Company's interests are sufficiently protected.

### *Further undertaking by SDG Group Co.*

According to the current policy, Ludi Gold Mine's "Exploration Right of the Gold Mine at Nanlv-Xinmu District in Laizhou City, Shangdong Province" is required to pay the Royalty Fee when applying to transfer from exploration right to mining right in the future. SDG Group Co. undertakes that the Royalty Fee corresponding to the assessed resources of the exploration right of Nanlv-Xinmu as of the base date of the equity transfer according to the "Valuation Report on Exploration Right of the Gold Mine in Nanlv-Xinmu Area in Laizhou, Shangdong Province" (Headmen Ping Bao Zi [2021] No. 017 of Total No. 2666) shall be borne by SDG Group Co. after actual payment made by Ludi Gold Mine. SDG Group Co. shall reimburse within 30 working days. The reimbursement liability is limited to the consideration of the Acquisition.

For details of the policies in relation to royalty fees, please refer to the section headed "FURTHER INFORMATION ON THE ACQUISITIONS – Royalty Fees" below.

For the reasons set out under "INFORMATION ON THE PARTIES – SDG Group Co.", the Directors of the Company has duly performed assessment of SDG Group Co. and are the view that there are sufficient safeguards to ensure the payment of the aforementioned royalty amount of SDG Group Co.

### **(b) Information on the Ludi Gold Mine**

The equity interest of Ludi Gold Mine 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, and there is no other situation hindering the transfer of ownership. The mineral right acquired under the Acquisition is exploration right, which has not yet been transferred to mining or put into production, with the expected date of transfer from exploration right to mining right being July 2022.

### *Financial Position of Ludi Gold Mine*

Ludi Gold Mine had no revenue and profit in 2019 and 2020. On 20 April 2010, SDG Group Co. signed share transfer agreements with ten shareholders of Ludi Gold Mine, and the original acquisition cost of Ludi Gold Mine is RMB599.95 million. The net asset value of Ludi Gold Mine as at 31 May 2021 were RMB27,958,200.

### **(c) Business Valuation of Ludi Gold Mine**

According to the business valuation report of Ludi Gold Mine issued by Beijing Pan-China, the asset-based approach was used in the valuation. For reasons on selecting the asset-based approach and its principal assumptions, please refer to the section headed "FURTHER INFORMATION ON THE ACQUISITIONS – Selection of Asset – Based Approach for Valuation Report issued by Beijing Pan-China". Details are set out below:

Under the going concern assumption as at the Valuation Reference Date, the carrying amount of the total assets of Ludi Gold Mine was RMB242,130,200, the carrying amount of liabilities was RMB214,172,000, and the carrying amount of net assets (total shareholders' equity) was RMB27,958,200.

## LETTER FROM THE BOARD

Upon valuation by adoption of the asset-based approach, the total assets of Ludi Gold Mine were RMB2,248,367,000, the liabilities were RMB214,171,900, and the net assets (total shareholders' equity) were RMB2,034,195,100, representing an increase of RMB2,006,236,900 in value after valuation, with an appreciation rate of 7,175.84%.

The specific valuation results are summarized in the following table:

*Unit: RMB'0,000*

Item name	Carrying amount	Appraised value	Increase/ Decrease in value	Appreciation rate
Current assets	24,213.02	224,836.70	200,623.68	828.58%
Of which:				
Inventories ( <i>note</i> )	24,198.01	224,821.70	200,623.69	829.09%
Non-current assets	-	-	-	-
Of which:				
Long-term equity investment	-	-	-	-
Investment properties	-	-	-	-
Fixed assets	-	-	-	-
Construction in progress	-	-	-	-
Intangible assets	-	-	-	-
Land use rights	-	-	-	-
Others	-	-	-	-
<b>Total assets</b>	24,213.02	224,836.70	200,623.68	828.58%
Current liabilities	21,417.20	21,417.19	-0.01	-
Non-current liabilities	-	-	-	-
<b>Total liabilities</b>	21,417.20	21,417.19	-0.01	-
<b>Net assets (total shareholders' equity)</b>	2,795.82	203,419.51	200,623.69	7,175.84%

*Note:* The inventories under current assets in the business valuation report of Beijing Pan-China is the same figure as the appraised value of the mining right set out in the valuation report of mining rights prepared by Headmen. For details of the mining right, please refer to the section headed "(d) Valuation of mineral rights" below.

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## LETTER FROM THE BOARD

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### *Analysis of Valuation Results*

Current assets of Ludi Gold Mine include monetary funds, inventories and other current assets, and no appreciation was recorded for monetary funds and other current assets in the valuation. The carrying amount and the appraised value of inventories were RMB241,980,100 and RMB2,248,217,000, while the appreciation rate was 829.09%. Such value appreciation mainly because the carrying amount of inventories represents the exploration costs expended on and accounted for the Nanlv-Xinmu exploration permits as at the Valuation Reference Date, while the appraised value was derived by Headmen based on the measured resource and price level as at the Valuation Reference Date under the discounted cash flow method, after taking into account of key factors, including measured reserve during the exploration process in the mine, as well as the stable high price of gold in recent years, and thus causing a significant difference between the appraised value and the carrying amount. Further, the appraised value of the inventories under PRC GAAP is significantly higher than its net asset value. It is also because the amount of the Royalty Fee which SDG Group Co. has undertaken to pay but has not yet paid as the condition for payment of Royalty Fee (i.e. Ludi Gold Mine has not yet applied for the mining right license) are not fulfilled as of now, and thus causing a significant difference between the carrying amount and the appraised value.

The reason why Ludi Gold Mine considers exploration costs of the Nanlv-Xinmu exploration rights to be under the category of inventory is because Ludi Gold Mine's main operation is the exploration of mineral rights and subsequent disposals will be considered when the exploration of mineral rights has achieved certain results and therefore Ludi Gold Mine considers the exploration rights to be its product.

#### **(d) Valuation of Mineral Right**

The Company has engaged Headmen to perform independent valuation of the mineral rights held by Ludi Gold Mine. The following are the extract from the valuation report:

*Unit: RMB0'000*

No.	Name and type (exploration right/mining right)	Carrying amount	Appraised value	Changes	% of change
(1)	Exploration right of the gold mine at Nanlv-Xinmu District in Laizhou City, Shandong Province (山東省萊州市南呂-欣木探礦權)	24,198.01	224,821.70	200,623.69	829.09%

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## LETTER FROM THE BOARD

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The appraised value of mineral right in the valuation report issued by Beijing Pan-China adopted the conclusion in the Valuation Report on Exploration Right of the Gold Mine in Nanlv – Xinmu Area in Laizhou, Shandong Province issued by Headmen Mining Right Appraisal Firm (General Partnership) (北京海地人礦業權評估事務所(普通合夥)) (“**Headmen**”) (Headmen Ping Bao Zi [2021] No. 017 of Total No. 2666): the appraised value of the exploration right of the gold mine at Nanlv – Xinmu District in Laizhou City, Shandong Province included in this valuation was RMB2,248,217,000. 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 within its scope as of the Valuation Reference Date are as follows: 42,446,900 tons of gold ore, 133,135.00 kg of gold metal, with an average grade of 3.14 g/t; 8,284,800 tons of associated mineral silver (333) ore, 52,501 kg of silver metal, with an average grade of 6.34 g/t. The resource reserves used in the valuation are as follows: 35,163,400 tons of ore, 109,870.00 kg of gold metal, with an average grade of 3.12 g/t and a comprehensive recovery rate of 93.92%. On the Valuation Reference Date, the estimated recoverable reserves are 33,025,500 tons, ore depletion rate is 6.08%, and production scale is 1,980,000 tons per year. The mine service life is 18.43 years, and the estimated service life is 24.43 years (including 6 years of infrastructure construction period).

The product plan is finished gold; the comprehensive processing recovery rate is 94.00%; the gold return rate is 97.50%; the selling price of finished gold is RMB314.43/g; the investment in fixed assets is RMB1,104,604,000. The intangible assets – land cost is RMB644,000; the total unit cost is RMB445.13/ton and the unit operating cost is RMB408.36/ton; and the discount rate is 8.62%.

- (4) Valuation conclusion: After on-site investigation by the valuers and analysis of the local market, in accordance with the principles and procedures for the valuation of exploration rights and through appropriate valuation methods and parameters, the appraised value of “exploration right of the gold mine at Nanlv – Xinmu District in Laizhou City, Shandong Province” is determined to be RMB2,248,217,000 (i.e., RMB two billion two hundred and forty-eight million two hundred and seventeen thousand 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.

### INFORMATION ON THE MINERAL RIGHT

The subject assets of the Acquisition involve a total of one exploration right, namely the exploration right of the gold mine at Nanlv-Xinmu District in Laizhou City, Shandong Province, with the mineral right owner being Ludi Gold Mine.

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## LETTER FROM THE BOARD

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### Basic information on the exploration right

Exploration right owner:	Shandong Laizhou Ludi Gold Mine Co., Ltd. (山東萊州魯地金礦有限公司)
License no.:	T3700002008014010000606
Name of exploration project:	Exploration of the gold mine at Nanlv-Xinmu District, Laizhou City, Shandong Province
Geographic location:	Laizhou City, Shandong Province
Map No.:	J51E016001
Exploration area:	4.59 square kilometers
Validity period:	1 October 2020 to 30 September 2022
Issuing authority:	Department of Natural Resources of Shandong Province

The exploration right of gold mine area at Nanlv-Xinmu District, Laizhou City, Shandong Province, the owner of which is Ludi Gold Mine, has obtained a legal exploration right certificate. The exploration right owned by Ludi Gold Mine is clear, free from mortgage, pledge and any other restrictions on transfer, and it is not involved in any litigation, arbitration matters or judicial measures such as seizure and freezing and other circumstances that prevent the transfer of ownership of such exploration right.

As of the Valuation Reference Date, the valuation scope of the exploration right of gold mine area at Nanlv-Xinmu District, Laizhou City, Shandong Province reserved 42,446,900 tons of gold ore, 133,135.00 kilograms of gold metal with an average grade of 3.14 g/t; 8,284,800 tons of associated mineral silver (333) ore, 52,501 kilograms of silver metal with an average grade of 6.34 g/t.

### (e) Valuation method and major assumptions adopted in the Valuation of the exploration rights

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 on the exploration right of Ludi Gold Mine issued by Headmen on Ludi Gold Mine in relation to the Exploration 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

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## LETTER FROM THE BOARD

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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 policies for socio-economic environment and the applicable tax and tax rates in the future operation period which the evaluated object (i.e. the exploration right) is located;
3. The management of the evaluated object are diligent in the future operation period and continue to maintain the existing management mode to operate on an on-going concern basis as at the Valuation Reference Date;
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 enterprises 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 exploration 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 exploration right adopts the following assumptions:

1. It is possible to realize overall development of the above exploration 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;

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## LETTER FROM THE BOARD

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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**

The subject of this assessment is the exploration right. In October 2017, Shandong Gold Geology and Mineral Exploration Co., Ltd. compiled the exploration report of the gold mine in Nanlu-Xinmu Mining Area and was reviewed and filed by the competent authority. In April 2020, Shandong Gold Group Yantai Design and Research Engineering Co., Ltd. compiled the feasibility study report based on the recorded resource reserves in the exploration report.

While preparing the valuation report on the exploration rights of the gold mine in Nanlu-Xinmu Mining Area, Headmen has conducted its assessment and the specific characteristics and information of the exploration rights and noted that the exploration rights being evaluated is of a sizeable scale, is capable of earning profit independently and can be measured, with its future benefits and risks measurable in currency and thus fulfills the evaluation method and the technical and economic parameters required by the discounted cash flow method.

According to the “China Mining Rights Evaluation Guidelines”, the subject of the assessment is exploration rights. The exploration level has reached the level of exploration, and the estimated resource reserves have been reviewed and put on record by the competent authority, and are not applicable to the cost approach evaluation method. Given that the current mining rights market is not a relatively developed, normal and active mining rights market, and temporarily no available similar recent transaction cases are used as references, and there are comparable quantitative indicators, technical and economic parameters, etc., and it is impossible to adopt market-based evaluation methods. In summary, according to the “Mining Rights Evaluation Management Measures (Trial)”, “Profit Path Evaluation Method Specification” (CMVS12100-2008) (hereinafter referred to as “Profit Path Evaluation Method Specification”), it is determined that this assessment adopts discounted cash flow approach.

According to the “China Mining Rights Evaluation Standards”, the evaluation method adopts the discounted cash flow method. The technology selected for the evaluation and the economic parameters are determined mainly based on the “Gold Mine Exploration Report in Nanlu-Xinmu Mining Area, Laizhou City, Shandong Province” and the evaluation opinions and filing certificates of the Department of Land and Resources of Shandong Province, and the “Feasibility Study Report on Gold Mine Mining Project in Nanlu-Xinmu Area, Laizhou City, Shandong Province”.

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## LETTER FROM THE BOARD

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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 a reference 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 discounted cash flow method was adopted for the valuation.

### **INFORMATION ON THE PARTIES, REASONS FOR AND BENEFITS OF THE ACQUISITION OF LUDI GOLD MINE, OPINION FROM THE BOARD, HONG KONG LISTING RULES IMPLICATIONS**

Please refer to the section headed “FURTHER INFORMATION ON THE ACQUISITIONS” below.

The proposals have been considered and approved at the 10th meeting of the sixth session of the Board and are hereby submitted to the EGM for consideration and approval.

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## LETTER FROM THE BOARD

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**(3) RESOLUTION REGARDING THE CASH ACQUISITION AND DISCLOSEABLE AND CONNECTED TRANSACTION OF 100% EQUITY INTEREST IN SHANDONG DIKUANG LAIJIN CO., LTD. AND 45% EQUITY INTEREST IN LAIZHOU HONGSHENG MINING INVESTMENT CO., LTD. BY CONTROLLING SUBSIDIARY AND THE CONNECTED TRANSACTION**

On 5 August 2021 (after trading hours), SDG Mining (Laizhou) and SDG Group Co. entered into the Dikuang Laijin Agreement and Hongsheng Mining Agreement 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 Dikuang Laijin and Hongsheng Mining will be wholly-owned by SDG Mining (Laizhou) and the financial information of the Dikuang Laijin and Hongsheng Mining will be consolidated into the financial statements of the Group.

**(a) 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 SDG Mining (Laizhou) 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 business valuation report issued by Beijing Pan-China, which took into consideration of the valuation report of Headmen in relation to the two mining right licenses, namely the mining right of Jinsheng Mining Zhuguolijia gold mine and the mining right of Huijin Mining Shalin gold mine held by Jinsheng Mining and Huijin Mining respectively, which are in turn held as to 100% and 39% by Hongsheng Mining.

*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 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

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## LETTER FROM THE BOARD

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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.

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## LETTER FROM THE BOARD

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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). The Company is of the view that the adoption of such clauses is in full compliance with the particular legal requirements on transactions with state-owned enterprises. Pursuant to Article 23 of the “Measures for the Supervision and Administration of the Transactions of State-owned Assets of Enterprises”, once parties to an agreement signed an equity transfer agreement, both parties shall not adjust the agreed consideration and conditions based on the operating profit and loss of the business during the period of transaction. Accordingly, any profit or loss for the transitional period enjoyed or incurred by SDG Mining (Laizhou) will not be considered as adjustments to the consideration.

### *No material changes anticipated on Dikuang Laijin up to Completion*

As at the Latest Practicable Date, the material assets of Dikuang Laijin, i.e. the above mentioned two mining rights, has not yet commenced mining before the Completion date. Thus, there will be no substantial impairment of assets and therefore it will not cause prejudice to interests of the Company. In addition, to the best knowledge and belief of the Company and SDG Group Co., there are no material changes and does not anticipate any material changes up to the date of Completion, to the management, operations and financial of Dikuang Laijin upon reviewing the management accounts and the regular due diligence conducted on the respective operations of the Target Company. On such basis, the Company is of the view that the Company’s interests are sufficiently protected.

### **(b) Information on Dikuang Laijin**

As at the Latest Practicable Date, 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 circular. 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.

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## LETTER FROM THE BOARD

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### *Financial position of Dikuang Laijin*

The main financial indicators of Dikuang Laijin are as follows:

	<b>For the year ended</b>	
	<b>31 December</b>	
	<b>2019</b>	<b>2020</b>
	audited	audited
	<i>RMB'000</i>	<i>RMB'000</i>
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.

#### **(c) Valuation of Dikuang Laijin**

According to the business valuation report of Dikuang Laijin issued by Beijing Pan-China, the asset-based approach was used in the valuation. For reasons on selecting the asset-based approach and its principal assumptions, please refer to the section headed “FURTHER INFORMATION ON THE ACQUISITIONS – Selection of Asset – Based Approach for Valuation Report issued by Beijing Pan-China”. 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%.

## LETTER FROM THE BOARD

The specific valuation results are summarized in the following table:

*Unit: RMB'0,000*

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	-	-	-	-
<b>Total assets</b>	<b>13,461.32</b>	<b>264,073.76</b>	<b>250,612.44</b>	<b>1,861.72%</b>
Current liabilities	1,474.32	1,474.32	-	-
Non-current liabilities	1,306.49	1,306.49	-	-
<b>Total liabilities</b>	<b>2,780.81</b>	<b>2,780.81</b>	<b>-</b>	<b>-</b>
<b>Net assets (total shareholders' equity)</b>	<b>10,680.51</b>	<b>261,292.95</b>	<b>250,612.44</b>	<b>2,346.45%</b>

### *Analysis of Valuation Results*

- (1) The appreciation of long-term equity investments is RMB2,505.9 million, with an appreciation rate of 54,303.28%. The reason for the appreciation is that the book value is the book investment cost of Dikuang Laijin's 55% equity interests holding in Hongsheng Mining calculated in accordance with the equity method, but the valuation covers the future benefits of assets invested by the invested unit, hence resulting in the appreciation.
- (2) The appreciation in value of fixed assets was RMB190,900, representing an appreciation rate of 96.19%. The fixed assets included in the scope of this appraisal are all equipment assets including vehicles and electronic equipments. The reasons for the appreciation are as follows:
  1. The main reason for the impairment of the original value of vehicles is that the replacement of vehicle is relatively fast, and the purchase price has dropped to a certain extent. The main reason for the appreciation of the appraised net value is that the depreciation rate the enterprise adopts for the depreciation vehicles is higher than that of the normal depreciation rate of appraised vehicles in the public trading market.
  2. Main reasons for the impairment of the original value of electronic equipments are: on the one hand, electronic equipments have been updated quickly and its

## LETTER FROM THE BOARD

purchase price has dropped to a certain extent; the appraised original value and the appraised net value of some old equipment assessed by the market method are equal to the recoverable value, resulting in impairment of the original value. The main reason for the appreciation of the appraised net value is that the depreciation period the enterprise adopts in accounting is shorter than the economic life period used in the valuation.

### (d) Valuation of mineral rights of Dikuang Laijin

The Company has engaged Headmen to perform independent valuation of the mineral rights held by Huijin Mining and Jinsheng Mining, which are indirectly held by Dikuang Laijin. The following are the extract from the valuation report:

*Unit: RMB ten thousand*

No.	Name and type (exploration right / mining right)	Carrying amount	Appraised value	Changes	% of change
(1)	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)	36,382.72	332,245.44	295,862.72	813.2
(2)	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)	225,020.62	669,647.16	444,626.54	197.59
Total		261,403.34	1,001,892.60	740,489.26	283.27

#### 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

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## LETTER FROM THE BOARD

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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,

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## LETTER FROM THE BOARD

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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 1.30g/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

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## LETTER FROM THE BOARD

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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.

**(a) 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 SDG Mining (Laizhou) 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 business valuation report issued by Beijing Pan-China, while the market value of 45% of equity interests amounted to RMB2,054,084,900, which took into consideration of the valuation report of Headmen in relation to the two mining right licenses namely, the mining right of Jinsheng Mining ZhuguoLijia gold mine and the mining right of Huijin Mining Shalin gold mine held by Jinsheng Mining and Huijin Mining respectively, which are in turn held as to 100% and 39% by Hongsheng Mining.

***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.

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## LETTER FROM THE BOARD

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### *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.

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## LETTER FROM THE BOARD

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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). The Company is of the view that the adoption of such clauses is in full compliance with the particular legal requirements on transactions with state-owned enterprises. Pursuant to Article 23 of the “Measures for the Supervision and Administration of the Transactions of State-owned Assets of Enterprises”, once parties to an agreement signed an equity transfer agreement, both parties shall not adjust the agreed consideration and conditions based on the operating profit and loss of the business during the period of transaction. Accordingly, any profit or loss for the transitional period enjoyed or incurred by SDG Mining (Laizhou) will not be considered as adjustments to the consideration.

### *No material changes anticipated on Hongsheng Mining up to Completion*

As at the Latest Practicable Date, the material assets of Hongsheng Mining, i.e. the above mentioned two mining rights, has not yet commenced mining before the completion date. Thus, no substantial impairment of assets will be caused, without prejudice to the interests of the Company. In addition, to the best knowledge and belief of the Company and SDG Group Co., there are no material changes and does not anticipate any material changes up to the date of Completion, to the management, operations and financial of Hongsheng Mining upon reviewing the management accounts and the regular due diligence conducted on the respective operations of the Target Company. On such basis, the Company is of the view that the Company’s interests are sufficiently protected.

### **(b) Information on Hongsheng Mining**

As at the Latest Practicable Date, Hongsheng Mining owns 100% equity interests in Jinsheng Mining, and 39% equity interests in Huijin Mining. The equity interest of Hongsheng

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## LETTER FROM THE BOARD

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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.

For details on the timetable for obtaining safety production license, please refer to the section headed “Issues in relation to the Acquisitions” below.

### *Financial position of Hongsheng Mining*

The main financial indicators for Hongsheng Mining are as follows:

	For the year ended 31 December	
	2019	2020
	<i>audited</i>	<i>audited</i>
	<i>RMB'000</i>	<i>RMB'000</i>
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.

### **(c) Business Valuation of Hongsheng Mining**

According to the business valuation report of Hongsheng Mining issued by Beijing Pan-China, the asset-based approach was used in the valuation. For reasons on selecting the asset-based approach and its principal assumptions, please refer to the section headed “FURTHER INFORMATION ON THE ACQUISITIONS – Reasons for Selection of Asset-Based Approach by Beijing Pan-China in its Business Valuation Reports”. 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%.

## LETTER FROM THE BOARD

The specific valuation results are summarized in the following table:

*Unit: RMB'0,000*

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 ( <i>note</i> )	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%
<b>Total assets</b>	<b>33,224.47</b>	<b>488,680.65</b>	<b>455,456.18</b>	<b>1,370.85%</b>
Current liabilities	31,247.32	31,247.32	–	–
Non-current liabilities	970.02	970.02	–	–
<b>Total liabilities</b>	<b>32,217.35</b>	<b>32,217.34</b>	–	–
<b>Net assets (total shareholders' equity)</b>	<b>1,007.12</b>	<b>456,463.31</b>	<b>455,456.18</b>	<b>45,223.63%</b>

*Note:*

The Long-term equity investment in Hongsheng Mining's business valuation report refers to the net asset value of Huijin Mining and Jinsheng Mining pursuant to the business valuation reports prepared by Beijing Pan-China, of which its main assets are the mining rights under the category of intangible assets. The said mining rights are the same figures as the appraised value set out in the valuation reports of mining rights of Huijin Mining and Jinsheng Mining prepared by Headmen. For details of the mining rights, please refer to the section headed "(d) Valuation of mineral rights of Dikuang Laijin" above.

### ***Analysis of Valuation Results***

#### ***(1) Current assets***

The current assets of Hongsheng Mining include monetary funds, other receivables and other current assets, among which, monetary funds have been appraised as not appreciated, while other receivables have appreciated by RMB7,973.1 thousand. Other receivables are primarily amounts due from related parties. The provision for bad debts accrued by the company has been appraised as 0 in this valuation, and the risk loss has not been recognised for the amounts due from internal related parties; Other current assets have appreciated by RMB437.3 thousand as other current assets are calculated based on the principal of the time deposit, and the appraised value is calculated according to the agreed deposit interest rate and the time of deposit in the valuation, which results in the appreciation.

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## LETTER FROM THE BOARD

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### (2) *Long-term equity investments*

The appraised value of long-term equity investments is RMB4,553,142,769.89, representing an appreciation of RMB4,548,142,769.89 and an appreciation rate of 90,962.86%. Main reasons for the appreciation are: the book value of long-term equity investments is the initial investment cost, and primary assets of the invested unit is the mining right of Jinsheng Mining and Huijin Mining. For the mining rights, Headmen Mining Right Appraisal Firm (General Partnership) adopts the discounted cash flow method to calculate the value, which covers profits of future operation periods and results in the appreciation.

#### Jinsheng Mining

The book value of the total assets of Jinsheng Mining is approximately RMB384.3 million while the appraised value of its total assets is approximately RMB3,343.2 million, of which the book value of the mining rights under the intangible assets under non-current assets (i.e. represents the Laizhou Jinsheng Mining Investment Co., Ltd. ZhuguoLijia gold mine) is approximately RMB363.8 million while the appraised value of the same is approximately RMB3,322.5 million, representing an increase in value of RMB2,958.6 million and an appreciation rate of 813.20%. The said mining right is the same figures as the appraised value set out in the valuation report of mining right of Jinsheng Mining prepared by Headmen. For details of the mining rights, please refer to the section headed “(d) Valuation of mineral rights of Dikuang Laijin” above.

#### Huijin Mining

The book value of the total assets of Huijin Mining is approximately RMB2,951.9 million while the appraised value of its total assets is approximately RMB7,401.0 million, of which the book value of the mining rights under the intangible assets under non-current assets (i.e. represents the Laizhou Huijin Mining Investment Co., Ltd. Shaling gold mine) is approximately RMB2,250.2 million while the appraised value of the same is RMB6,696.5 million, representing an increase in value of RMB4,446.3 million and an appreciation rate of 197.6%. The said mining right is the same figures as the appraised value set out in the valuation report of mining right of Huijin Mining prepared by Headmen. For details of the mining rights, please refer to the section headed “(d) Valuation of mineral rights of Dikuang Laijin” above.

### (3) *Fixed assets*

The original book value of equipment assets declared and assessed by Laizhou Hongsheng Mining Investment Co., Ltd. is RMB19,650.00 and the net book value is RMB0; the appraised original value is RMB13,270.00, and the appraised net value is RMB1,990.50, representing an impairment rate of 32.47%. Reasons for the change of value are: the reason for the impairment of original value is that the replacement of electronic equipments are relatively fast, and the purchase price has dropped to a certain extent; the book value of the equipments are tax-inclusive, while the appraised value does not include the tax price. The main reason for the appreciation of appraised net value is that full depreciation has been provided for the equipment, with the net book value being 0, and the depreciation period adopted in accounting is shorter than the economic life used in the valuation, which results in the appreciation of net value.

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## LETTER FROM THE BOARD

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(4) *Deferred income tax assets*

The impairment of deferred income tax assets is RMB1,993,279.85, and the impairment rate is 100.00%. The main reason is that the risk loss recognised in the valuation is RMB0.00, and there is no deductible temporary difference. The appraised value of corresponding deferred income tax assets is RMB0.00, resulting in the impairment.

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 issued by Beijing Pan-China 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.

(d) **Valuation of mineral right**

The Company has engaged Headmen to perform independent valuation of the mineral rights held by Hongsheng Mining. The following are the extract from the valuation report:

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 circular.

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 circular.

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## LETTER FROM THE BOARD

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(e) **Valuation method and major assumptions adopted in the Valuation of the mineral rights**

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 on the two mining rights 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;

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## LETTER FROM THE BOARD

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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.

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## LETTER FROM THE BOARD

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### *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 discounted cash flow method was adopted for the valuation.

### **INFORMATION ON THE PARTIES, REASONS FOR AND BENEFITS OF THE ACQUISITIONS OF DIKUANG LAIJIN AND HONGSHENG MINING, OPINION FROM THE BOARD, HONG KONG LISTING RULES IMPLICATIONS**

Please refer to the section headed “FURTHER INFORMATION ON THE ACQUISITIONS” below.

The proposals have been considered and approved at the 10th meeting of the sixth session of the Board and are hereby submitted to the EGM for consideration and approval.

### **FURTHER INFORMATION ON THE ACQUISITIONS**

#### **Royalty Fees**

In accordance with the “Notice of the Ministry of Finance and the Ministry of Land and Resources on despatching the “Interim Measures for the Collection and Management of Income from the Transfer of Mining Rights” and the “Interim Measures for the Collection and Management of Income from the Transfer of Mining Rights”, the following are the key points which sets out the basis for the payment of the Royalty Fees:

1. Conditions requiring the payment of Royalty Fees: if the exploration right license has not been converted into a mining right license, the Royalty fee will be payable to the PRC government at the time of mining right license being granted by way of contract.
2. Time of payment of the Royalty Fee: The Royalty Fee shall be collected when the mining rights licenses are newly established. For mining right licenses which have paid the Royalty Fee, if there are new resource reserves or new mining types within the mining area, the Royalty Fees for the new resource reserves and the mining rights shall be collected by entering a new agreement with the government. Among them, those that only involve new resource reserves can be levied after the resource reserves corresponding to the Royalty Fees are exhausted.
3. Recipient to the Royalty Fees: The mineral resources department of the local authorities is responsible for the collection of the Royalty Fees. Central Government and the local authorities shall share the Royalty Fees in the ratio of 4:6.

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## LETTER FROM THE BOARD

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4. Basis of determining the Royalty Fees: If the mining right is transferred through an agreement, the Royalty Fee is determined based on the assessed value of the mining right and the market benchmark price. The market benchmark price is regularly set by the local mineral resources authorities with reference to similar market conditions, and announced and implemented after the approval of the provincial people's government. To the best of the Directors' knowledge, the local government will convene a public tendering process for hiring a valuer, which will then assess the market value for the said mining right.

Given the material uncertainty as to the local authorities' assessment on the mining right license and its corresponding market benchmark price of the Royalty Fees as at the time of application, Beijing Pan-China and Headmen confirm that no contingent royalty fees had impacted the valuation of Tiancheng Mining and Ludi Gold Mine.

### Issues in relation to the Acquisitions

As set out under "REASONS FOR AND BENEFITS OF THE ACQUISITIONS", the Company has made the Acquisitions for the purposes of consolidating mining areas within the metallogenic belt of Jiaojia and Xincheng that the Group owns, so as to strictly comply with the current legal policy as set out in the Approval. Under the current legal policy, the Company will be obliged to make application to the local authorities to obtain a set of mining right license as well as a safety production license for the metallogenic belt of Jiaojia and Xincheng. The Company has concrete plans to make formal application for the integration of above three mining permits within the scope of this resources integration, namely the mining right of Tiancheng Mining Dongji mine area, the mining right of Matang mining area and the mining right of Hongbu mine area which is due to expire, and will apply for a production safety license for the new mining rights after integration. Upon completion of the equity interest acquisition, these mining permits within the scope of integration will be integrated by the same mining permit holder into one mining permit in accordance with the principle of regional proximity. The safety production license will only be handled in accordance with relevant laws and regulations after the new mining permit is obtained and upon completion of safety facility design, infrastructure construction and trial production. The specific timetable is expected to be as follows:

<b>Program</b>	<b>Estimated completion time frame</b>
Completion of the Acquisitions	By end of 2021
Obtaining the integrated mining permit	By end of June 2022
Completion of review on safety facility design	By end of December 2022
Completion of construction of infrastructure and safety facilities	By end of December 2023
Trial Production	By end of May 2024
Completion and acceptance	By end of August 2024
Obtaining the safety production license	By end of August 2024

*Note:* This timetable is prepared according to the information available to the Company and thus the dates are subject to changes due to actual circumstances. For the avoidance of any doubt, the above mentioned scheme does not represent a undertaking of results made by the Company.

Insofar as the acquisition for Tiancheng Mining is concerned, the safety production license pertaining to the mining permit for Dongji mine area and the safety production license pertaining to the mining permit for Matang II mine area are still in the process of application. To this end, SDG Group Co. undertakes that upon acquisition of 100% equity interest in Tiancheng Mining by SDG Mining (Laizhou), SDG Group Co. will actively cooperate in integrating the mineral resources within relevant area and

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## LETTER FROM THE BOARD

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obtaining the relevant permits; if actual losses are incurred as a result of the failure to obtain or renew the safety production license due to reasons existed prior to the Completion of the equity interest in Tiancheng Mining, SDG Group Co. will compensate SDG Mining (Laizhou) for the relevant losses, provide that the amount of such compensation will not exceed the appraised value of the mining permits as assessed by the third-party appraiser at the time of this acquisition.

Meanwhile, after communication with the government authorities, the Company are aware that, in order to ensure the completion of such integration task on schedule, relevant competent departments of Shandong Provincial People's Government are formulating complementary policies and measures to expedite the procedures for the change of mining permits to open a green channel in the administrative approval process, so as to expedite the procedures for the change of mining permits related to the integration of mineral resources of gold mines across Yantai City.

The Company has consulted its PRC legal adviser and its PRC legal adviser is of the opinion that after Shandong Gold Mining (Laizhou) completes the aforesaid integration of mineral resources and obtains the new mining permit in accordance with provisions of the "Approval of Shandong Provincial People's Government on the Mineral Resource Integration Plan of Gold Mines Across 8 Districts (Cities) in Yantai City" (Lu Zheng Zi [2021] No. 133), there will be no material obstacle in law for it to eventually obtain the safety production license, if the relevant procedures are completed in accordance with the aforesaid timetable and the relevant documents and information are submitted to the authority issuing the safety production license in accordance with relevant provisions of the safety production license laws.

As to the mining rights for the ZhuguoLijia Gold Mine of Jinsheng Mining and the Shaling Gold Mine of Huijin Mining, both under Hongsheng Mining, the reason why the safety production licenses have not been obtained in respect of the above-mentioned mining rights was that the ZhuguoLijia Gold Mine and the Shaling Gold Mine were not mines in production, thus the safety production licenses have not been obtained. After completion of infrastructure required for the construction of related mining by the relevant main body, the Company will procure the relevant main entities to apply for a safe production license.

### ***Reasons for Selection of Asset-based approach by Beijing Pan-China in its business valuation reports***

#### *Valuation approach*

Basic approaches for enterprise value appraisal include the asset-based approach, the income approach and the market approach.

The asset-based approach for enterprise value appraisal, also known as the cost approach, refers to the valuation method that determines the value of a valuation subject by appraising the value of its various assets and liabilities on balance sheet and various identifiable assets and liabilities off balance sheet, with reference to the balance sheet of the valued entity as at the valuation reference date. As the information required by the asset-based approach can be provided by Tiancheng Mining, Dikuang Laijin, Hongsheng Mining and Ludi Gold Mine or collected by the valuers from external sources, the valuers are able to conduct comprehensive an inspection and assessment of their assets and liabilities, therefore, the asset-based approach is applicable to the four appraised entities above.

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## LETTER FROM THE BOARD

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The income approach for enterprise value appraisal refers to the valuation method that determines the value of a valuation subject by capitalising or discounting its expected income. The specific methods commonly involved when using the income approach include the dividend discount method and the discounted cash flow method. The income approach is the assessment of the value of an enterprise by its profitability, which is based on the economics theory of expected utility.

For Tiancheng Mining, its main asset is mining rights. There are four mining rights and two prospecting rights. The four mining areas involved are Dongji mining area, Matang mining area, Matang second mining area and Hongbu mining area. The Dongji mining area has been suspended at present, and its safety production license is still in the process of processing; the Hongbu mining area is affected by the Yantai mine accident and is in production shutdown. It can only resume production after rectification and acceptance. Based on the above reasons, it is impossible to make a reasonable prediction of the future risks and benefits of Tiancheng Mining. At the same time, the mining rights are all owned by the principal. Headmen was entrusted to conduct the evaluation using a reasonable evaluation approach and incorporate it into the evaluation conclusions. Therefore, the evaluation does not use the income approach. Dikuang Laijin and Hongsheng Mining are both management platforms, mainly for the investment and management of subsidiaries. There is no source of income. Therefore, the future profitability of the said companies cannot be reasonably estimated, and the risk of future income cannot be reasonably quantified. In view of this, the income approach is not used for this assessment; Ludi Gold Mine has not officially launched its business operations, and its future earnings and risks are difficult to reasonably quantify. At the same time, its main asset is the Nanlu-Xinmu prospecting right in Laizhou City, Shandong Province. The Company has entrusted Headmen evaluates it using the discounted cash flow approach. The relevant evaluation results have been incorporated into the evaluation conclusions. Therefore, the income approach is not applied.

The market approach in enterprise value evaluation refers to the evaluation approach that compares the evaluation object with comparable listed companies or comparable transaction cases to determine the value of the evaluation object. Two specific approaches commonly used in market are the listed company comparison method and the transaction case comparison approach. Since Tiancheng Mining, Dikuang Laijin, Hongsheng Mining, and Ludi Gold Mine are all non-listed companies, the business structure, business model, enterprise scale, asset allocation and use situation of the listed companies in the same industry, the operating stage of the enterprise, factors such as growth, operating risks, financial risks and the assessed company are quite different, and there are fewer transactions, acquisitions, and mergers of comparable companies in the same industry in China near the assessment base date, so the operation and finance of relevant and reliable comparable transaction cases data is difficult to obtain, and it is impossible to calculate an appropriate value ratio. Therefore, the market method is not applicable to this assessment.

Based on the above analysis, Tiancheng Mining, Dikuang Laijin, Hongsheng Mining, and Ludi Gold Mine all adopted the asset-based method for assessment.

### *Assessment hypothesis*

1. Transaction assumption: Assuming that all assets to be evaluated are already in the process of trading, the valuer conducts valuation based on the simulated market such as the trading conditions of the assets to be evaluated.

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## LETTER FROM THE BOARD

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2. Open market hypothesis: The open market hypothesis is an assumption about the conditions of the market that the asset intends to enter and what kind of influence the asset will receive under such market conditions. The open market refers to fully developed and complete market conditions. It refers to a competitive market with willing buyers and sellers. In this market, buyers and sellers are equal, and both have the opportunity and time to obtain sufficient market information. The transactions between the two parties are carried out on voluntary, sensible, non-mandatory or unrestricted conditions.
3. Continuous use hypothesis: The continuous use hypothesis is an assumption about the conditions under which the asset intends to enter the market and the asset state of the asset under such market conditions. First, the asset being evaluated is in use, and secondly, it is assumed that the asset in use will continue to be used. Under the assumption of continuous use, the use of assets conversion or optimal utilization conditions are not considered, and the scope of use of the evaluation results is limited.
4. Enterprise Continuing Operation Assumption: It is an evaluation assumption made with the overall assets of the enterprise as the object of evaluation. That is to say, the enterprise as the main body of operation, in the external environment, in accordance with the business objectives, continue to operate. The business operator is responsible and capable of taking responsibility; the business operates legally and is able to obtain appropriate profits to maintain the ability to continue operations.
5. Data authenticity assumption: It is assumed that the financial and accounting data provided by the company and other materials related to the evaluation are true, accurate, and complete, and there are no false, misleading, or major omissions.

Special assumptions:

6. It is assumed that the qualifications required for production and operation, such as mining licenses, exploration licenses, and safety production licenses held by the assessed entity, can be renewed normally after expiration.

This evaluation result is valid on the Valuation Reference Date under the above assumptions. When there are significant changes to the above assumptions, the signatory asset appraiser and the evaluation agency will not bear the responsibility of deriving different evaluation conclusions due to the changes in the assumptions.

### **Selection of Valuer and the application of each valuation reports**

The Company has through competitive tender selected Beijing Pan-China and Headmen as the valuers for the business valuation (including all assets except mining rights) of each appraised entity to be acquired and the valuation of the mining rights/exploration rights respectively as at the Valuation Reference Date.

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## LETTER FROM THE BOARD

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Beijing Pan-China has verified that the evaluation scope, evaluation purpose, and evaluation reference date stated in the mining right evaluation report issued by Headmen are consistent with its business valuation report. It meets the requirements of a business valuation report and accordingly Beijing Pan-China has made references of the valuation conclusion by Headmen in its said report. For the avoidance of any doubt, there are no adjustments in the figures of Headmen when making such references.

### **Selection of Income Based Approach and Discounted Cash Flow Approach**

According to the “China Mining Rights Evaluation Standards”, the income based approach is applicable to the evaluation of mining rights in which the scale of mineral resources reserves and the scale of mine production are both small; it is applicable to the evaluation of mining rights in production mines with a short service life. In this assessment, the scale of mineral resource reserves and mine production in the Matang mine area, Matang II mine area and Dongji mine area are all small; the mineral resource reserves of Hongbu mine area are small and the mine service life is relatively short. The above four mining rights are in line with the application of the income equity method, so the income equity method is used for evaluation.

According to the “China Mining Rights Evaluation Standards”, the discounted cash flow method is applicable to: detailed investigation and above exploration stage prospecting rights evaluation and general survey prospecting rights evaluation of stable sedimentary large and medium-sized deposits; proposed, under construction, and renovation Evaluation of mining rights for expansion mines, and evaluation of mining rights for production mines that meet the applicable conditions of the discounted cash flow method. The extent of exploration of the Hongbu prospecting right has reached detailed investigation, the reserve scale is medium-sized, and a feasibility study report has been compiled, which meets the applicable conditions of the discounted cash flow method evaluation, and has the technical and economic parameters required by the method, so discounted cash flow method is used for evaluation. Applying the same logic as set out above, other prospecting rights with detailed investigations or above and the mining rights of the proposed or under construction mines in this project are all assessed using the discounted cash flow method.

### **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.

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## LETTER FROM THE BOARD

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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 at the Latest Practicable Date, SDG Group Co. directly and indirectly holds approximately 45.08% of the Company's issued share capital.

As at 31 May 2021 and 31 December 2020, SDG Group Co. has total assets of approximately RMB127,229.0 million (unaudited) and RMB120,463 million (audited) and cash and cash equivalents of RMB6,396.3 million (unaudited) and RMB5,002.5 million (audited) respectively. Further, SDG Group Co. was awarded a credit rating of AAA with its rating outlook as "stable" on 12 August 2021 by the credit rating committee of China Chengxin International Credit Rating Co., Ltd. (中誠信國際信用評級有限責任公司) during the issuance of the "Proposed Issuance of Seventh Phase Mid-term Notes by SDG Group Co. (公司擬發行的山東黃金集團有限公司2021年度第七期中期票據)". All in all, SDG Group Co. has sufficient cash and assets and is creditworthy. Indeed, the Company has entered into various contracts with SDG Group Co. since its listing on the Hong Kong Stock Exchange and has not met with any legal obstacles in obtaining payment from SDG Group Co. as stipulated under the said contracts. In the event of any default to the Agreements, the Company will duly enforce all its legal obligations under the Agreements.

### **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台市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 (《關於呈批煙台市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."

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## LETTER FROM THE BOARD

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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, reducing connected transaction 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. In relation to the acquisition of Tiancheng Mining, it also further reduce the connected transaction between SDG Group Co. and the Company.

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## LETTER FROM THE BOARD

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### **(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 are of the view that the terms of the Agreements are fair and reasonable, the transactions contemplated under the 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 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 also made to the Announcements, 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.

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## LETTER FROM THE BOARD

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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

#### Independent Board Committee

In compliance with the Hong Kong Listing Rules, the Independent Board Committee has been established to consider the terms of the Agreements and to advise the Independent Shareholders as to whether they are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole and to give its recommendation as to the voting in respect of the resolution to be proposed at the EGM for approving the Acquisitions, after taking into account the recommendation of the Independent Financial Adviser. In this connection, the Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders regarding the terms of the Acquisitions. The text of the letter from the Independent Board Committee is set out on page 74 of this circular and the text of the letter from the Independent Financial Adviser containing its advice is out on pages 75 to 111 of this circular.

The proposals have been considered and approved at the 10th meeting of the sixth session of the Board and are hereby submitted to the EGM for consideration and approval.

#### **(4) RESOLUTION REGARDING ESTIMATE OF NEW DAILY CONNECTED TRANSACTIONS AFTER THE MAJORITY-OWNED SUBSIDIARY ACQUIRES THE EQUITY OF SHANDONG TIANCHENG MINING CO., LTD.**

Reference is made to the announcement of the Company dated 5 August 2021. For details of the new estimated daily connected transactions after the acquisition of Tiancheng Mining (the “**Daily Connected Transactions**”), please refer to Appendix I to this circular.

#### Implication under Hong Kong Listing Rules

As each of the applicable percentage ratio of the Daily Connected Transactions is less than 0.1%, they constitute de minimis transactions pursuant to Rule 14A.76(1) of the Hong Kong Listing Rules and are fully exempt from Shareholders’ approval, annual review and all disclosure requirements under Chapter 14A of the Hong Kong Listing Rules. For the sake of prudence, an ordinary resolution will be proposed at the EGM to seek for approval of the Daily Connected Transactions. As the Daily Connected Transactions to be provided by the Company is subject to Shareholders’ approval for the sake of prudence, the information regarding the Daily Connected Transactions contained in this circular is not prepared in accordance with Chapter 14 or Chapter 14A of the Hong Kong Listing Rules but only prepared to provide information for the Shareholders.

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## LETTER FROM THE BOARD

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### EGM

The EGM is proposed to be held at the conference room of the Company, No. 2503, Jingshi Road, Licheng District, Jinan, Shandong Province, the PRC at 9:00 a.m. on Friday, 24 September 2021. The notice of the EGM is set out in Appendix III to this circular.

Any Shareholder entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a Shareholder. If you intend to appoint a proxy to attend the EGM and vote on your behalf, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return it, by hand, by post or by facsimile, to the Company's H share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (for H Shareholders only) as soon as possible and in any event not later than 24 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be) (i.e. before 9:00 a.m. on Thursday, 23 September 2021). Completion and return of the proxy form will not preclude you from attending and voting at the EGM or any adjournment thereof should you so wish.

### CLOSURE OF REGISTER OF MEMBERS

For the purpose of ascertaining the Shareholders who are entitled to attend and vote at the EGM, the register of members of the Company will be closed from Monday, 20 September 2021 to Friday, 24 September 2021, both dates inclusive, during which period no transfers of Shares will be effected.

In order to qualify to attend and vote at the EGM, all transfer instruments accompanied by the relevant share certificates must be lodged by holders of H Shares with the Company's H Share Registrar, namely, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Friday, 17 September 2021.

### VOTING

Pursuant to Rule 13.39(4) of the Hong Kong Listing Rules and Article 119 of the Articles of Association, unless the chairman makes a decision in the spirit of honesty and credibility and agrees that the resolutions on relevant procedures or administrative matters shall be voted on by show of hands, voting for a general meeting shall be held by ballot.

Pursuant to Article 111 of the Articles of Association, Shareholders (including proxies) shall exercise their voting rights according to the number of voting shares they represent, with one vote for each share. Pursuant to Article 120 of the Articles of Association, on a poll taken at a meeting, a Shareholder (including proxy) entitled to two or more votes need not cast all his votes in the same way.

Pursuant to Rule 14A.36 of the Hong Kong Listing Rules, any Shareholder who has a material interest in the Agreements shall abstain from voting to approve the Agreements and the Acquisitions at the EGM. As at the Latest Practicable Date, SDG Group Co., being the controlling Shareholder, directly or indirectly holds approximately 45.08% of the issued share capital of the Company and is also the sole shareholder of Dikuang Laijin, Hongsheng Mining, Tiancheng Mining and Ludi Gold Mine, 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 Latest Practicable Date, 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 Agreements.

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## LETTER FROM THE BOARD

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### RECOMMENDATION

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that the terms of the Agreements are on normal commercial terms and is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution approving the Acquisitions at the EGM.

In light of the above, the Directors believe that all the proposed resolutions at the EGM are in the best interests of the Company and its Shareholders. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolutions to be proposed at the EGM.

### ADDITIONAL INFORMATION

Your attention is drawn to the information set out in the appendices to this circular.

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



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)**

8 September 2021

*To the Independent Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION  
IN RELATION TO THE ACQUISITIONS OF (1) 100% EQUITY INTERESTS OF  
DIKUANG LAIJIN AND 45% EQUITY INTERESTS OF HONGSHENG MINING,  
(2) 100% EQUITY INTERESTS OF TIANCHENG MINING AND (3) 100% EQUITY  
INTERESTS OF LUDI GOLD MINE**

We refer to the circular of the Company dated 8 September 2021 (the “Circular”) of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to consider and advise the Independent Shareholders as to whether, in our opinion, the terms of the Agreements, details of which are set out in the letter from the Board contained in the Circular, are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

The Independent Board Committee considers that (i) the terms of the Agreements are on normal commercial terms and is fair and reasonable, and (ii) entering into the Agreements is in the interests of the Company and the Shareholders as a whole.

Having considered the terms of the Agreements and the advice of the Independent Financial Adviser in relation thereto as set out on pages 75 to 111 of this Circular, we are of the opinion that the terms of the Agreements are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Independent Shareholders and the Company as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Acquisitions.

Yours faithfully,

For and on behalf of the Independent Board Committee  
**Mr. Wang Yunmin, Mr. Liew Fui Kiang and Ms. Zhao Feng**  
*Independent non-executive Directors*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the full text of a letter of advice from Dongxing Securities (Hong Kong) Company Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of Acquisitions, which was prepared for the purpose of inclusion in this Circular.*



DONGXING SECURITIES (HONG KONG)  
COMPANY LIMITED

6805-06A, 68/F  
International Commerce Centre  
1 Austin Road West  
Kowloon

8 September 2021

*To the Independent Board Committee and the Independent Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION  
IN RELATION TO THE ACQUISITION OF  
(1) 100% EQUITY INTERESTS OF DIKUANG LAIJIN AND  
45% EQUITY INTERESTS OF HONGSHENG MINING,  
(2) 100% EQUITY INTERESTS OF TIANCHENG MINING AND  
(3) 100% EQUITY INTERESTS OF LUDI GOLD MINE**

### INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in connection with the acquisitions of (1) 100% equity interests of Dikuang Laijin and 45% equity interests of Hongsheng Mining, (2) 100% equity interests of Tiancheng Mining and (3) 100% equity interests of Ludi Gold Mine (the “**Acquisitions**”), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 8 September 2021 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

On 5 August 2021 (after trading hours), the Company (as the purchaser) and SDG Group Co. (as the vendor), entered into the Agreements, pursuant to which, the Company conditionally agreed to purchase, and SDG Group Co. conditionally agreed to sell, (1) 100% equity interests of Dikuang Laijin and 45% equity interests of Hongsheng Mining, (2) 100% equity interests of Tiancheng Mining and (3) 100% equity interests of Ludi Gold Mine at a consideration of RMB4,667,014,358.15, RMB431,031,818.49 and RMB2,034,195,071.54 respectively.

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. Pursuant to Rules 14.22 and 14.23 and 14A.81 and 14A.82 of the Hong Kong Listing Rules, the above-mentioned acquisition, together with the Acquisitions, are entered with SDG Group Co. and involve the acquisitions of mining

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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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 constitutes discloseable transactions of the Company under Chapter 14 of the Hong Kong Listing Rules. Further, 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.

Pursuant to Rule 14A.36 of the Hong Kong Listing Rules, any Shareholder who has a material interest in the Agreements shall abstain from voting to approve the Agreements and the Acquisitions at the EGM. As at the date of this Circular, 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 Circular, 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.

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 advise the Independent Shareholders in respect of the terms of the Agreements and the transactions contemplated thereunder. As the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in such regard.

### INDEPENDENCE

During the past two years, there was no engagement between the Group and us other than the current appointment in relation to the Acquisitions. As at the Latest Practicable Date, we did not have any relationships or interests in the Company or SDG Group Co. that could reasonably be regarded as relevant to our independence. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received any fees or benefits from the Company or any other parties. Accordingly, we are qualified to give independent advice in respect of the Acquisitions.

### BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information provided by the Group including the Agreements; (iii) the opinions expressed by and the representations of the Directors and the management of the Company (the “**Management**”); and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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are true at the time they were made and continue to be true as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the Management and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the Management. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the Management are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the EGM.

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

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation, we have taken into account the principal factors and reasons set out below:

#### 1. Background of the Company and SDG Mining (Laizhou)

##### (i) *Principal activities*

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 SSE 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).

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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(ii) *Financial performance*

Set out below is a summary of the audited consolidated financial results of the Company for the three years ended 31 December 2020, as extracted from the Company's annual report for the year ended 31 December 2019 (the "2019 Annual Report") and the Company's annual report for the year ended 31 December 2020 (the "2020 Annual Report").

	For the year ended 31 December 2020 ("FY2020") RMB'000	For the year ended 31 December 2019 ("FY2019") RMB'000	For the year ended 31 December 2018 ("FY2018") RMB'000
Revenue	63,645,351	62,613,141	56,250,494
Gross profit	6,556,437	5,011,347	4,036,579
Profit for the year	2,496,302	1,412,314	1,020,797
Profit attributable to the owners of the Company	2,231,533	1,290,503	964,411

As illustrated by the above table, the Group's revenue and gross profit for FY2019 increased by approximately 11.3% and 24.1% respectively, as compared to those for FY2018. With reference to the 2019 Annual Report, the increase in revenue was mainly due to the increase in both sales price and sales volume of gold, and the increase in gross profit was mainly due to the increase in the gross profit from sales of the Group's self-produced gold. The profit for FY2019 increased by 38.4% to RMB1,412.3 million as compared to that for FY2018 was mainly attributable to the increase in gross profit and set off the increase in the general and administrative expenses by 22.3%, which was mainly due to increase in compensation and insurance costs.

The Group's revenue and gross profit further increased by approximately 1.6% and 30.8% respectively, for FY2020 as compared to those for FY2019. With reference to the 2020 Annual Report, the aforesaid increase in gross profit was mainly due to the increase in the gross profit from sales of the Group's self-produced gold. The profit for FY2020 increased by 76.8% to RMB2,496.3 million as compared to that for FY2019 was mainly attributable to the increase in gross profit and combining the effect of the increase in the general and administrative expenses by 31.1%, which was mainly due to increase in intermediary agency fees, consultation fees and insurance costs.

Further, reference is made to the profit warning announcement of the Company dated 14 July 2021, based on the preliminary review and assessment of the unaudited consolidated management accounts of the Group for the six months ended 30 June 2021 (the "2021 1st Half") prepared pursuant to China Accounting Standards for Business Enterprises, it is expected the Group will record a loss attributable to the shareholders of the Company of RMB1,360 million (net profit attributable to the shareholders of the Company for the corresponding period of last year: RMB1,153 million) as the Company's production capacity was greatly affected due to the shutdowns of certain mines owned by the Company in Shandong Province and had to carry out safety inspections since February 2021 in accordance with the requirements of the local authorities resulting from the two mines of two local enterprises which are not owned by the Company,

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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encountered safety incidents, and the gold production volume during the 2021 1st Half was 9.80 tons, representing a decrease of 10.23 tons or 51.07% as compared to corresponding period of the last year.

As at the date of the above profit warning announcement, the resumption of work and production of the mines in Shandong Province owned by the Company is as follows: Shandong Gold Mining (Laixi) Co., Ltd., Shandong Jinzhou Mining Group Co., Ltd., Shandong Gold Mining (Xinhui) Co., Ltd. and Shandong Gold Mining (Yinan) Co., Ltd. have resumed normal production; Sanshandao Gold Mine of Shandong Gold Mining (Laizhou) Co., Ltd., Xincheng Gold Mine of Shandong Gold Mining Co., Ltd., Jiaojia Gold Mine of Shandong Gold Mining (Laizhou) Co., Ltd. and Dongfeng mining area of Shandong Gold Mining (Linglong) Co., Ltd. (“**Linglong Gold Mine**”) have passed the inspection and acceptance of the resumption of work and gradually resumed production, yet, the above-mentioned four major domestic mines currently have not reached their respective designated production capacity, and their daily combined production capacity as of 13 July 2021 represented 29.74% of their average daily combined production capacity in the previous year; the two enterprises, namely Shandong Gold Group Penglai Mining Co., Ltd. and Shandong Gold Guilaizhuang Mining Co., Ltd. and the other mining areas of Linglong Gold Mine are actively applying to the relevant competent authorities for the resumption of work and production

### 2. Reasons for and benefits of the Acquisitions

As disclosed in the Letter from the Board, the Company considered the following 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台市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 (《關於呈批煙台市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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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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, reducing connecting transaction 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. In relation to the acquisition of Tiancheng Mining, it also further reduces the connected transaction between SDG Group Co. and the 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.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Having considered above, in particular, (i) the principal business of the Group; (ii) the reasons and benefits of the Acquisitions; and (iii) the Acquisitions are in line with the development strategy of the Group and the trend of the regulatory outlook, we concur with the Directors' view that the Acquisitions are in the ordinary and usual course of business of the Group and are in the interests of the Company and its Shareholders as a whole.

### 3. Principal terms of the Agreements

#### *Consideration*

The consideration of RMB4,667,014,358.15, RMB431,031,818.49 and RMB2,034,195,071.54 payable by SDG Mining (Laizhou) under the Agreements in connection with (1) 100% equity interests of Dikuang Laijin and 45% equity interests of Hongsheng Mining, (2) 100% equity interests of Tiancheng Mining and (3) 100% equity interests of Ludi Gold Mine, respectively, were determined based on the appraised value of the relevant equity interests of the same amount as at the Valuation Reference Date (i.e. 31 May 2021) in the valuation reports issued by Beijing Pan-China. For further details, please refer to the section headed "5. Evaluation of the consideration" in this letter.

#### *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 interests of the Target Companies. The Group intends to pay the consideration with the Group's internal financial resources, external credit facilities and available financing channels.

We have reviewed the 2021 first quarterly report of the Company dated 29 April 2021 and noted that the cash and cash equivalent in the unaudited consolidated financial statements of the Company amounted to RMB3,669.4 million. We have further discussed with the Management regarding the shortfall of the aggregate consideration and we are given to know that the Company currently has sufficient external credit facilities and available financing channels and there is no obstacle to the source of funds for payment of the consideration for the Acquisitions. We have also noted from the annual reports of the Company that the Company had been able to obtain external financing to fund previous acquisitions. As such, we are of the view that the payment method is on normal commercial terms.

#### *Completion*

SDG Group Co. irrevocably agrees that the delivery of the subject equity shall take place within 7 working days after all the conditions precedent have been fulfilled. SDG Group Co. shall complete the transfer and registration of the subject equity on the date of delivery, and SDG Mining (Laizhou) shall legally enjoy and assume all the rights and obligations of shareholders of the subject equity from the date of delivery. SDG Group Co. shall provide the necessary assistance to ensure successful completion of the delivery of the subject equity from the date of Completion onward. SDG Mining (Laizhou) shall provide the necessary assistance to ensure the smooth completion of the delivery of the subject equity.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Conditions precedent*

Completion is conditional upon the following conditions precedent being satisfied:

- (1) The board of directors and the shareholders' meeting of SDG Mining (Laizhou) and the Board have approved the matters relating to the Agreements;
- (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 Agreements by Independent Shareholders;
- (3) SDG Mining (Laizhou) and the Company have obtained all approvals (if any) required by applicable laws and regulations; and
- (4) SDG Group Co. has completed all procedures and obtained all necessary resolutions and authorisations in respect of the matters relating to the Agreements in accordance with the laws and regulations of its place of incorporation, articles of association of SDG Group Co. and the Target Companies.

### *Default and compensation*

Any breach, non-performance or incomplete performance by either party of any of its obligations, representations, warranties and undertakings under the Agreements 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 Agreements within 15 days after the expiry thereof or breaches its obligations under the Agreements, SDG Mining (Laizhou) shall have the right to terminate the Agreements 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 Agreements.

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 subject equity interest, and such facts or circumstances will materially and adversely affect the ongoing lawful and normal operation of the Target Companies after the Completion, SDG Mining (Laizhou) has the right to terminate the relevant Agreements 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 Transition Period*

During the period from the Valuation Reference Date to the date of Completion (the date when the subject equity 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).

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As disclosed in the Letter from the Board, pursuant to Article 23 of the “Measures for the Supervision and Administration of the Transactions of State-owned Assets of Enterprises”, once parties to the agreement signed an equity transfer agreement, both parties shall not adjust the agreed consideration and conditions based on the operating profit and loss of the business during the period of transaction. Accordingly, any profit or loss for the transitional period will not be considered as adjustments to the consideration. We are of the view that as the adjustment mechanism is not permitted under the relevant PRC regulations, the profit and loss for the transition period being enjoyed by the Company would serve the same purpose. In addition, as stated above in the “Default and Compensation” clause of the Agreements, 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 subject equity interest, and such facts or circumstances will materially and adversely affect the ongoing lawful and normal operation of the Target Companies after the Completion, SDG Mining (Laizhou) has the right to terminate the relevant Agreements and to require SDG Group Co. to jointly and severally assume responsibility for the payment of liquidated damages and other obligations. This will offer protection to the Company during the transition period. In view of the above, such term is fair and reasonable so far the Independent Shareholders are concerned.

### *Further Undertaking by SDG Group Co. in respect of Tiancheng Mining and Ludi Gold Mine*

1. According to the current policy, Tiancheng Mining’s “Deep and Peripheral Gold Mine Exploration Right of Matang II Mine Area, Laizhou City, Shandong Province” (“**Matang II Prospecting Right**”) is required to pay Royalty Fee when applying to transfer from exploration right to mining right in the future. SDG Group Co. undertakes that as of the base date of this equity transfer, the resources of the Matang II Prospecting Right shall be based on the evaluation report of the mineral rights in the “Evaluation Report on the Exploration and Prospecting Rights of the Deep and Peripheral Gold Mines in the Matang II Mine Area, Laizhou City, Shandong Province” (Headmen Ping Bao Zi (2021) No. 016 Total No. 2665). The Royalty Fee corresponding to the assessed resource amount shall be borne by SDG Group Co. After payment is made by Tiancheng Mining, SDG Group Co. shall within 30 working days reimburse the same. The supplementary responsibility undertaken by SDG Group Co. is limited to the evaluation value of the above-mentioned valuation report.
2. According to the current policy, the “Shandong Tiancheng Mining Co., Ltd. Hongbu Mining Rights” (“**Hongbu Mining Rights**”) to which Tiancheng Mining belongs to Peripheral gold prospecting rights” (“**Hongbu Prospecting Rights**”) will need to pay Royalty Fee when applying to transfer from exploration right to mining right in the future. SDG Group Co. undertakes that as of the base date of this equity transfer, the resources of the Hongbu Mining Rights and Hongbu Prospecting Rights shall be based on the mineral rights evaluation report “Shandong Tiancheng Mining Co., Ltd. Hongbu Mining Area Mining Rights Evaluation Report” (Headmen Ping Bao Zi [2021] No. 015 Total No. 2664) and “Hongbu Mining Area, Laizhou City, Shandong Province” The Evaluation Report on Exploration and Prospecting Rights for Deep and Peripheral Gold Mines (Headmen Ping Bao Zi [2021] No. 023 Total No. 2672). The Royalty Fee corresponding to the assessed resources shall be borne by SDG Group Co. After the payment is made by Tiancheng Mining, SDG Group Co. will reimburse the same within 30 working days. The supplementary responsibility undertaken by SDG Group Co. is limited to the evaluation value of the above-mentioned valuation reports.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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3. According to the current policy, Ludi Gold Mine's "Exploration Right of the Gold Mine at Nanlv-Xinmu District in Laizhou City, Shangdong Province" is required to pay royalty fee when applying to transfer from exploration right to mining right in the future. SDG Group Co. undertakes that the royalty fee corresponding to the assumed resources of the exploration right of Nanlv-Xinmu as of the base date of the equity transfer according to the "Valuation Report on Exploration Right of the Gold Mine in Nanlv-Xinmu Area in Laizhou, Shangdong Province" (Headmen Ping Bao Zi [2021] No. 017 of Total No. 2666) shall be borne by SDG Group Co. after actual payment made by Ludi Gold Mine. SDG Group Co. shall reimburse within 30 working days. The reimbursement liability is limited to the consideration of the Acquisition.

In regards to the undertakings by SDG Group Co. for the royalty reimbursement arrangement, we have discussed with the Management and as disclosed in the Letter from the Board, the Royalty Fee shall be collected when the mining rights licenses are newly established. For mining right licenses which have paid the Royalty Fee, if there are new resource reserves or new mining types within the mining area, the Royalty Fees for the new resource reserves and the mining rights shall be collected by entering a new agreement with the government. Among them, those that only involve new resource reserves can be levied after the resource reserves corresponding to the Royalty Fees are exhausted. As such, the Royalty Fee will be determined at a later stage by the relevant mineral resources authorities and therefore it is not recorded in the book of the relevant Target Companies and accordingly not taken into account in the respective consideration. We are of the view that the undertakings by SDG Group Co. are for the purpose of reflecting the responsibility of the contingent liabilities of the relevant Target Companies and offer further protections to the Company, which is in the interest of the Company so far Independent Shareholders are concerned.

To further assess the financial capability of SDG Group Co. whether the Company would be able to receive the royalty fee, we understand that and as disclosed in the Letter from the Board, As at 31 May 2021 and 31 December 2020, SDG Group Co. has total assets of approximately RMB127,229.0 million (unaudited) and RMB120,463 million (audited) and cash and cash equivalents of RMB6,396.3 million (unaudited) and RMB5,002.5 million (audited) respectively. Further, SDG Group Co. was awarded a credit rating of AAA with its rating outlook as "stable" on 12 August 2021 by the credit rating committee of China Chengxin International Credit Rating Co., Ltd. (中誠信國際信用評級有限責任公司) during the issuance of the "Proposed Issuance of Seventh Phase Mid-term Notes by SDG Group Co. (公司擬發行的山東黃金集團有限公司2021年度第七期中期票據)". All in all, SDG Group Co. has sufficient cash and assets and is creditworthy. Indeed, the Company has entered into various contracts with SDG Group Co. since its listing on the Hong Kong Stock Exchange and has not met with any legal obstacles in obtaining payment from SDG Group Co. as stipulated under the said contracts. In the event of any default to the Agreements, the Company will duly enforce all its legal obligations under the Agreements. In view of the above, we concur with Directors' view that SDG Group Co. has sufficient cash and assets and is creditworthy.

Taking into account the principal terms of the Agreements as set out above, we consider that the terms of the Agreements are fair and reasonable so far as the Independent Shareholders are concerned.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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#### 4. Information on the Target Companies and their respective mineral rights

##### (i) *Dikuang Laijin and Hongsheng Mining*

Dikuang Laijin is principally engaged in mineral exploration technology development and consulting while Hongsheng Mining is principally engaged in investment in commercial mineral exploration, mineral development, mining rights management projects, and mining geological technology consulting services.

Dikuang Laijin has 55% equity interests in Hongsheng Mining, and 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**”), has a mining license for 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 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.

##### *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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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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.

*(ii) Tiancheng Mining*

Tiancheng Mining is principally engaged in gold mining and smelting. The major assets of Tiancheng Mining to be acquired in this transaction involved a total of six mineral rights, including four mining rights and two exploration rights.

Tiancheng Mining currently has four mining licenses and supporting assets related to production and operation, namely mining right of Shandong Tiancheng Mining Co., Ltd. Dongji mine area with a production scale of 45,000 tons/year, mining right of Shandong Tiancheng Mining Co., Ltd. Matang mine area with a production scale of 40,000 tons/year, mining right of Shandong Tiancheng Mining Co., Ltd. Matang II mine area with a production scale of 40,000 tons/year and mining right of Shandong Tiancheng Mining Co., Ltd. Hongbu mine area with a production scale of 60,000 tons/year. Among them, the mining right of Dongji mine area has been suspended pending the completion of procedures for the change of production scale due to capacity expansion, and the safety production license has not been obtained for the time being. Tiancheng Mining is actively handling the procedures for the change of production scale and the renewal of the safety production license, and currently has obtained the “Reply Slip of Receipt” issued by the Department of Emergency Management of Shandong Province. Each of the other three mine areas has obtained the Safety Production License issued by the Department of Emergency Management of Shandong Province, and belongs to the mine in production. The safety production license for Matang mine area is valid from 6 September 2020 to 5 September 2023; and the safety production license for Matang II mine area is valid from 2 July 2018 to 1 July 2021. At present, Tiancheng Mining is actively promoting the renewal procedures of the safety production license for Matang II mine area. The safety production license for Hongbu mine area is valid from 30 September 2018 to 29 September 2021. The production requirements relevant to mining in the above three mine areas are in place.

*Financial position of Tiancheng Mining*

The main financial indicators of Tiancheng Mining are as follows:

	<b>For the year ended 31 December</b>	
	<b>2019</b>	<b>2020</b>
	<b>audited</b>	<b>audited</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	230,221	378,827
Net (loss)/profit before tax	(3,546)	97,301
Net (loss)/profit after tax	(3,875)	96,032

Tiancheng Mining's profit in 2020 increased significantly compared with last year, mainly due to the significant increase in domestic gold price in 2020 as a result of the rising international gold price. The original acquisition cost of Tiancheng Mining is RMB736 million. The net asset value of Tiancheng Mining as at 31 May 2021 were RMB100,630,000.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### (iii) *Ludi Gold Mine*

Ludi Gold Mine has no operation since establishment. The mineral right acquired under the Acquisition is exploration right, which has not yet been transferred to mining or put into production, with the expected date of transfer from exploration right to mining right being July 2022.

Ludi Gold Mine had no revenue and profit in 2019 and 2020. The original acquisition cost of Ludi Gold Mine is RMB599.95 million. The net asset value of Ludi Gold Mine as at 31 May 2021 were RMB27,958,200.

## 5. Evaluation of the consideration

### (i) *Dikuang Laijin*

#### *Basis of the consideration*

As stated in the Letter from the Board, the consideration of RMB2,612,929,494.01 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.

The specific valuation results are summarized in the following table:

*Unit: RMB'0,000*

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	–	–	–	–
Of which: Land use rights	–	–	–	–
Others	–	–	–	–
<b>Total assets</b>	<b>13,461.32</b>	<b>264,073.76</b>	<b>250,612.44</b>	<b>1,861.72%</b>
Current liabilities	1,474.32	1,474.32	–	–
Non-current liabilities	1,306.49	1,306.49	–	–
<b>Total liabilities</b>	<b>2,780.81</b>	<b>2,780.81</b>	<b>–</b>	<b>–</b>
<b>Net assets (total shareholders' equity)</b>	<b>10,680.51</b>	<b>261,292.95</b>	<b>250,612.44</b>	<b>2,346.45%</b>

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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According to our independent research, Beijing Pan-China is a firm of qualified PRC valuer which is designated by the relevant governmental authorities to conduct asset valuation including state-owned assets. It is authorised by the Ministry of Finance of the PRC and China Securities Regulatory Commission to provide valuation services in the PRC.

We have reviewed and discussed with Beijing Pan-China the basis and assumptions adopted for the valuation of the Dikuang Laijin. We consider that the basis and assumptions adopted by Beijing Pan-China are appropriate for valuing the Dikuang Laijin. Based on our discussion with Beijing Pan-China, we understand that the valuation of the Dikuang Laijin has been prepared in compliance with the relevant PRC regulatory requirements and professional standards. We have also interviewed Beijing Pan-China as to its independence and expertise, reviewed its terms of engagement, performed work as required under note (1)(d) to Rule 13.80 of the Hong Kong Listing Rules in relation to Beijing Pan-China and the valuation of the Dikuang Laijin.

As advised by Beijing Pan-China, income-based approach is not adopted for the valuation of equity interest of Dikuang Laijin because it is a management platform, mainly for investment and management of subsidiaries, with no source of income. The income and risk in the future are therefore hard to be quantified. We concur with Beijing Pan-China's view that income-based approach is not appropriate, since it requires numerous assumptions which are subjective in nature and thus it is difficult to predict future cash flow of the Dikuang Laijin. It is further advised by Beijing Pan-China that since Dikuang Laijin is not a listed company. There are significant differences in the business structure, business model, enterprise scale, asset allocation and usage, the business stage of the company, growth, business risk, financial risk as compared to listed peers, and there are fewer transactions of comparable companies in the same industry in China close to the Valuation Reference Date. Therefore, it is difficult to obtain relevant and reliable operating and financial data of comparable transactions, and market-based approach is not adopted. Based on our independent research of listed companies on the Hong Kong Stock Exchange, Shenzhen Stock Exchange and Shanghai Stock Exchange which are principally engaged in gold exploration, mining, processing, smelting and sales, we are not aware of any comparable transactions in the PRC within the last three years from the Latest Practicable Date, as such, we concur with Beijing Pan-China that market-based approach is not adopted.

On the other hand, Beijing Pan-China considers that it is more appropriate to adopt asset-based approach to appraise the value of the Dikuang Laijin as it can reflect the fair market value of assets from an asset replacement perspective. We consider that asset-based approach is an appropriate valuation methodology to value Dikuang Laijin, since the relevant PRC regulatory requirements and professional standards have been complied with in using the asset-based approach.

We noted that from the above table, the increase of RMB2,506.1 million in the appraised value as compared to the carrying amount of Dikuang Laijin was mainly due to the increase of RMB2,505.9 million in long-term equity investment. The long-term equity investment solely represents 55% equity interest in Hongsheng Mining, which in turn indirectly holds two mining assets, namely 100% interests in Mining right of Laizhou Jinsheng Mining Investment Co., Ltd. Zhuguolijia gold mine and 39% interests in Mining right of Laizhou Huijin Mining Investment Co., Ltd. Shaling gold mine. The business valuation of Hongsheng Mining will be further discussed in "(ii) Hongsheng Mining" below.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Meanwhile, we understand from Beijing Pan-China that the appraised value of mineral right in the valuation report issued by Beijing Pan-China adopted the conclusion in the two valuation reports of the mining rights issued by Headmen Mining Right Appraisal Firm (General Partnership) (北京海地人礦業權評估事務所(普通合夥)) (“**Headmen**”), which is further discussed below.

- (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)

According to our independent research, Headmen is a qualified professional mining rights evaluation agency for engaging in the appraisal of the mineral prospecting right and mining right within the territory of the People’s Republic of China or other sea areas under the jurisdiction of the People’s Republic of China, Headmen has received the Administration of Appraisal Qualifications for the Mineral Prospecting Right and Mining Right from the Ministry of Land and Resources of the People’s Republic of China.

We have reviewed and discussed with Headmen the basis and assumptions adopted for the valuation of mineral right. We consider that the basis and assumptions adopted by Headmen are appropriate for valuing the mineral right. Based on our discussion with Headmen, we understand that the valuation of the mineral right has been prepared in compliance with the relevant PRC regulatory requirements and professional standards. We have also interviewed Headmen as to its independence and expertise, reviewed its terms of engagement, performed work as required under note (1)(d) to Rule 13.80 of the Hong Kong Listing Rules in relation to Headmen and the valuation of the mineral right.

We have further reviewed the valuation report of the mining right and discussed with Headmen, we understood the followings from Headmen:

Based on the purpose of the valuation and the specific characteristics and information of the mining right, the mining 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 discounted cashflow method. Accordingly, Headmen is of the opinion that the mining right generally meet the requirements of the discounted cashflow method. Further, since the appraised subject is a mining right and the cost-based appraisal method is not applicable according to the relevant mining valuation standards. It is also not aware of similar recent transactions to serve 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 discounted cashflow method was adopted for the valuation. Having considered the above, as cost-based appraisal method is not applicable and based on our independent research as mentioned above on the lack of recent comparable transactions, we consider the adoption of discounted cashflow method is fair and reasonable.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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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 by estimation.

As disclosed in the letter from the board, the parameters adopted is as follows:

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.

As advised by Headmen, the parameters adopted are either referenced from ore reserve report/exploration report, the feasibility study report which provide the operating data or the relevant mining valuation standard. We have discussed with Headmen and understood that the ore reserve report/exploration report with estimated resources reserve has been reviewed and filed with the competent authorities while the feasibility report was issued by Shandong Gold Group Yantai Design and Research Engineering Co., Ltd., which possess the Engineering Consulting Qualification Certificate (Class A). We have further obtained and reviewed the relevant reports and noted that the parameters are correctly extracted, as such, we do not cast doubt on the parameters adopted.

Further to our review and discussion with Headmen on the basis and assumptions adopted for the valuation of the aforesaid Mining Right of the Gold Mine regarding the mining extraction schedules, operating expenditure and capital expenditure, we have also reviewed the calculation of the financial projection and noted that the parameters are correctly applied. As such, we do not cast doubt on the financial projection.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (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)

According to our independent research, Headmen is a qualified professional mining rights evaluation agency for engaging in the appraisal of the mineral prospecting right and mining right within the territory of the People's Republic of China or other sea areas under the jurisdiction of the People's Republic of China, Headmen has received the Administration of Appraisal Qualifications for the Mineral Prospecting Right and Mining Right from the Ministry of Land and Resources of the People's Republic of China.

We have reviewed and discussed with Headmen the basis and assumptions adopted for the valuation of mineral right. We consider that the basis and assumptions adopted by Headmen are appropriate for valuing the mineral right. Based on our discussion with Headmen, we understand that the valuation of the mining right has been prepared in compliance with the relevant PRC regulatory requirements and professional standards. We have also interviewed Headmen as to its independence and expertise, reviewed its terms of engagement, performed work as required under note (1)(d) to Rule 13.80 of the Hong Kong Listing Rules in relation to Headmen and the valuation of the mineral right.

We have further reviewed the valuation report of the mining right and discussed with Headmen, we understood the followings from Headmen:

Based on the purpose of the valuation and the specific characteristics and information of the mining right, the mining 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 discounted cashflow method. Accordingly, Headmen is of the opinion that the mining right generally meet the requirements of the discounted cashflow method. Further, since the appraised subject is a mining right and the cost-based appraisal method is not applicable according to the relevant mining valuation standards. It is also not aware of similar recent transactions to serve 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 discounted cashflow method was adopted for the valuation. Having considered the above, as cost-based appraisal method is not applicable and based on our independent research as mentioned above on the lack of recent comparable transactions, we consider the adoption of discounted cashflow method is fair and reasonable.

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 by estimation.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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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 1.30g/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.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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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%.

As advised by Headmen, the parameters adopted are either referenced from ore reserve report/exploration report, the feasibility study report which provide the operating data or the relevant mining valuation standard. We have discussed with Headmen and understood that the ore reserve report/exploration report with estimated resources reserve has been reviewed and filed with the competent authorities while the feasibility report was issued by Shandong Gold Group Yantai Design and Research Engineering Co., Ltd., which possess the Engineering Consulting Qualification Certificate (Class A). We have further obtained and reviewed the relevant reports and noted that the parameters are correctly extracted, as such, we do not cast doubt on the parameters adopted.

Further to our review and discussion with Headmen on the basis and assumptions adopted for the valuation of the mining right regarding the mining extraction schedules, operating expenditure and capital expenditure, we have also reviewed the calculation of the financial projection and noted that the parameters are correctly applied. As such, we do not cast doubt on the the financial projection.

**(ii) *Hongsheng Mining***

*Basis of the consideration*

As stated in the Letter from the Board, the consideration of RMB2,054,084,864.14 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.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The specific valuation results are summarized in the following table:

*Unit: RMB'0,000*

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	–	–	–	–
Of which: Land use rights	–	–	–	–
Others	199.33	–	–199.33	–100.00%
<b>Total assets</b>	<b>33,224.47</b>	<b>488,680.65</b>	<b>455,456.18</b>	<b>1,370.85%</b>
Current liabilities	31,247.32	31,247.32	–	–
Non-current liabilities	970.02	970.02	–	–
<b>Total liabilities</b>	<b>32,217.35</b>	<b>32,217.34</b>	<b>–</b>	<b>–</b>
<b>Net assets (total shareholders' equity)</b>	<b>1,007.12</b>	<b>456,463.31</b>	<b>455,456.18</b>	<b>45,223.63%</b>

According to our independent research, Beijing Pan-China is a firm of qualified PRC valuer which is designated by the relevant governmental authorities to conduct asset valuation including state-owned assets. It is authorised by the Ministry of Finance of the PRC and China Securities Regulatory Commission to provide valuation services in the PRC.

We have reviewed and discussed with Beijing Pan-China the basis and assumptions adopted for the valuation of the Hongsheng Mining. We consider that the basis and assumptions adopted by Beijing Pan-China are appropriate for valuing the Hongsheng Mining. Based on our discussion with Beijing Pan-China, we understand that the valuation of the Hongsheng Mining has been prepared in compliance with the relevant PRC regulatory requirements and professional standards. We have also interviewed Beijing Pan-China as to its independence and expertise, reviewed its terms of engagement, performed work as required under note (1)(d) to Rule 13.80 of the Hong Kong Listing Rules in relation to Beijing Pan-China and the valuation of the Hongsheng Mining.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As advised by Beijing Pan-China, income-based approach is not adopted for the valuation of equity interest of Hongsheng Mining because it is a management platform, mainly for investment and management of subsidiaries, with no source of income. The income and risk in the future are therefore hard to be quantified. We concur with Beijing Pan-China's view that income-based approach is not appropriate, since it requires numerous assumptions which are subjective in nature and thus it is difficult to predict future cash flow of the Hongsheng Mining. It is further advised by Beijing Pan-China that since Hongsheng Mining is not a listed company. There are significant differences in the business structure, business model, enterprise scale, asset allocation and usage, the business stage of the company, growth, business risk, financial risk as compared to listed peers, and there are fewer transactions of comparable companies in the same industry in China close to the Valuation Reference Date. Therefore, it is difficult to obtain relevant and reliable operating and financial data of comparable transactions, and market-based approach is not adopted. Based on our independent research of listed companies on the Hong Kong Stock Exchange, Shenzhen Stock Exchange and Shanghai Stock Exchange which are principally engaged in gold exploration, mining, processing, smelting and sales, we are not aware of any comparable transactions in the PRC within the last three years from the Latest Practicable Date, as such, we concur with Beijing Pan-China that market-based approach is not adopted.

On the other hand, Beijing Pan-China considers that it is more appropriate to adopt asset-based approach to appraise the value of the Hongsheng Mining as it can reflect the fair market value of assets from an asset replacement perspective. We consider that asset-based approach is an appropriate valuation methodology to value Hongsheng Mining, since the relevant PRC regulatory requirements and professional standards have been complied with in using the asset-based approach.

We noted that from the above table, the increase of RMB4,554.6 million in the appraised value as compared to the carrying amount of Hongsheng Mining was mainly due to the increase of RMB4,548.1 million in long-term equity investment. The long-term equity investment represents 100% equity interest in Jinsheng Mining, which holds the Mining right of Laizhou Jinsheng Mining Investment Co., Ltd. ZhuguoLijia gold mine; and 39% equity interest in Huijin Mining, which holds Mining right of Laizhou Huijin Mining Investment Co., Ltd. Shaling gold mine. The increase in long-term equity investment is mainly due to the appreciation of the two mining rights.

Meanwhile, we understand from Beijing Pan-China that the appraised value of the mining rights in the valuation report adopted the conclusion in the two valuation reports of the mining rights issued by Headmen, which is further discussed below.

- (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)

For details, please refer to the relevant discussion set out in “Dikuang Laijin — 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 letter.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (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)

For details, please refer to the relevant discussion set out in “Dikuang Laijin — 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 letter.

### (iii) *Tiancheng Mining*

#### *Basis of the consideration*

As stated in the Letter from the Board, the consideration of RMB431,031,818.49 was determined based on the appraised value of Tiancheng Mining of RMB431,031,818.49 as at the Valuation Reference Date in the valuation report issued by Beijing Pan-China.

The specific valuation results are summarized in the following table:

*Unit: RMB'0,000*

Item name	Carrying amount	Appraised value	Increase/ Decrease in value	Appreciation rate
Current assets	3,056.26	3,055.76	-0.50	-0.02%
Non-current assets	59,922.19	91,960.42	32,038.23	53.47%
Of which:				
Long-term equity investment	-	-	-	-
Investment properties	93.29	4,176.27	4,082.98	4,376.65%
Fixed assets	51,002.69	63,608.30	12,605.61	24.72%
Construction in progress	1,672.15	1,212.01	-460.14	-27.52%
Intangible assets	6,681.09	22,351.81	15,670.72	234.55%
Of which: Land use rights	1,692.16	17,183.13	15,490.97	915.46%
Others	472.97	612.02	139.05	29.40%
<b>Total assets</b>	<b>62,978.45</b>	<b>95,016.18</b>	<b>32,037.73</b>	<b>50.87%</b>
Current liabilities	50,409.57	49,407.12	-1,002.45	-1.99%
Non-current liabilities	2,505.88	2,505.88	-	-
<b>Total liabilities</b>	<b>52,915.46</b>	<b>51,913.00</b>	<b>-1,002.45</b>	<b>-1.89%</b>
<b>Net assets (total shareholders' equity)</b>	<b>10,062.99</b>	<b>43,103.18</b>	<b>33,040.18</b>	<b>328.33%</b>

According to our independent research, Beijing Pan-China is a firm of qualified PRC valuer which is designated by the relevant governmental authorities to conduct asset valuation including state-owned assets. It is authorised by the Ministry of Finance of the PRC and China Securities Regulatory Commission to provide valuation services in the PRC.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We have reviewed and discussed with Beijing Pan-China the basis and assumptions adopted for the valuation of the Tiancheng Mining. We consider that the basis and assumptions adopted by Beijing Pan-China are appropriate for valuing the Tiancheng Mining. Based on our discussion with Beijing Pan-China, we understand that the valuation of Tiancheng Mining has been prepared in compliance with the relevant PRC regulatory requirements and professional standards. We have also interviewed Beijing Pan-China as to its independence and expertise, reviewed its terms of engagement, performed work as required under note (1)(d) to Rule 13.80 of the Hong Kong Listing Rules in relation to Beijing Pan-China and the valuation of Tiancheng Mining.

As advised by Beijing Pan-China, income-based approach is not adopted for the valuation of equity interest of Tiancheng Mining because the major assets of Tiancheng Mining are mineral rights including four mining rights and two exploration rights, in which Dongji mine area has been suspended pending the completion of procedures for the change of production scale due to capacity expansion, and both Dongji mine area and Matang II mine area is promoting the renewal procedures of the safety production license. The income and risk in the future are therefore hard to be quantified. We concur with Beijing Pan-China's view that income-based approach is not appropriate, since it requires numerous assumptions which are subjective in nature and thus it is difficult to predict future cash flow of the Tiancheng Mining. It is further advised by Beijing Pan-China that since Tiancheng Mining is not a listed company. There are significant differences in the business structure, business model, enterprise scale, asset allocation and usage, the business stage of the company, growth, business risk, financial risk as compared to listed peers, and there are fewer transactions of comparable companies in the same industry in China close to the Valuation Reference Date. Therefore, it is difficult to obtain relevant and reliable operating and financial data of comparable transactions, and market-based approach is not adopted. Based on our independent research of listed companies on the Hong Kong Stock Exchange, Shenzhen Stock Exchange and Shanghai Stock Exchange which are principally engaged in gold exploration, mining, processing, smelting and sales, we are not aware of any comparable transactions in the PRC within the last three years from the Latest Practicable Date, as such, we concur with Beijing Pan-China that market-based approach is not adopted.

On the other hand, Beijing Pan-China considers that it is more appropriate to adopt asset-based approach to appraise the value of Tiancheng Mining as it can reflect the fair market value of assets from an asset replacement perspective. We consider that asset-based approach is an appropriate valuation methodology to value Tiancheng Mining, since the relevant PRC regulatory requirements and professional standards have been complied with in using the asset-based approach.

We noted from the table above that the increase of RMB330.4 million in the appraised value as compared to the carrying amount of Tiancheng Mining is mainly due to the increase in the appraised value of (i) investment properties of RMB40.8 million; (ii) fixed assets of RMB126.1 million; and (iii) intangible assets of RMB156.7 million, of which the land use rights has increased by RMB15.5 million and partially offset by decrease of RMB13.1 million in the mineral rights.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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For the investment properties, we have reviewed and discussed with Beijing Pan-China, market-based approach was adopted in the valuation of investment properties and land use rights of intangible asset, since there were number of recent transactions in the areas nearby the appraised assets, and the market of the investment properties and land use rights are relatively active, which can objectively reflect the market value of the investment properties and land use rights. We have reviewed and discussed the comparable that Beijing Pan-China adopted and the adjustment that Beijing Pan China they have taken including factors of transaction conditions, transaction date and location. We consider that market-based approach is an appropriate valuation methodology to value the investment properties and land use rights of intangible assets, since the relevant PRC regulatory requirements and professional standards have been compiled with in using the market-based approach.

For the land use rights of intangible assets, we have reviewed and discussed with Beijing Pan-China, both market-based approach and benchmark land price coefficient modification approach was adopted in the valuation of land use rights of intangible assets, since there were number of recent transactions in the areas nearby the appraised assets, and the market of the land use rights are relatively active, which can objectively reflect the market value of the land use rights. Besides that, benchmark land price coefficient modification approach also considered the regional conditions and individual conditions of the parcel to be assessed are compared with the average conditions of the area in which they are located, and the correction coefficient table is compared Select the corresponding correction coefficient to modify the base land price, so as to obtain a valuation method for the price of the parcel to be assessed on the base date of valuation. The Laizhou Municipal People's Government issued the latest Laizhou urban benchmark land price in 2020. The land use rights was assessed and is within the range of Laizhou urban benchmark land price, therefore, the benchmark land price coefficient modification approach is strongly applicable. We consider that both market-based approach and benchmark land price coefficient modification approach are appropriate valuation methodologies to value the land use rights of intangible assets, since the relevant PRC regulatory requirements and professional standards have been compiled with in using the both market-based approach and benchmark land price coefficient modification approach.

For the fixed assets, we have reviewed and discussed with Beijing Pan-China, replacement cost approach was adopted in the valuation of both the buildings and equipment of the fixed assets, since most of the buildings are non-standard factory buildings with long estimated time span and different structure type, there would be lack of comparable for adopting the market-based approach for both buildings and equipment, and the income generated by buildings and equipment alone is difficult to separate from the overall income of Tiancheng, so the income method cannot be adopted. The replacement cost approach therefore was adopted. We consider that replacement cost approach is an appropriate valuation methodology to value the both the buildings and equipment of the fixed assets, since the relevant PRC regulatory requirements and professional standards have been compiled with in using the replacement cost approach.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Meanwhile, we understand from Beijing Pan-China that the appraised value of mineral right in the valuation report issued by Beijing Pan-China adopted the conclusion in the six valuation reports issued by Headmen. The appraised value of the mineral rights is summarized as follows:

No.	Name of mineral right	Type of mineral right	Appraised Value (RMB)
1	Mining right of Shandong Tiancheng Mining Co., Ltd. Matang mine area	Mining right	9,750,000
2	Mining right of Shandong Tiancheng Mining Co., Ltd. Matang II mine area	Mining right	8,879,100
3	Mining right of Shandong Tiancheng Mining Co., Ltd. Dongji mine area	Mining right	13,689,700
4	Mining right of Shandong Tiancheng Mining Co., Ltd. Hongbu mine area	Mining right	14,273,800
5	Exploration right of the gold mine at the deep level and outer rim of the Matang II mine area in Laizhou, Shandong Province	Exploration right	561,700
6	Exploration right of the gold mine at the deep level and outer rim of Hongbu mine area in Laizhou, Shandong Province	Exploration right	0

(1 - 4) Mining right of Shandong Tiancheng Mining Co., Ltd. Matang mine area (山東天承礦業有限公司馬塘礦區) / Mining right of Shandong Tiancheng Mining Co., Ltd. Matang II mine area (山東天承礦業有限公司馬塘二礦區) / Mining right of Shandong Tiancheng Mining Co., Ltd. Dongji mine area (山東天承礦業有限公司東季礦區) / Mining right of Shandong Tiancheng Mining Co., Ltd. Hongbu mine area (山東天承礦業有限公司紅布礦區)

According to our independent research, Headmen is a qualified professional mining rights evaluation agency for engaging in the appraisal of the mineral prospecting right and mining right within the territory of the People's Republic of China or other sea areas under the jurisdiction of the People's Republic of China, Headmen has received the Administration of Appraisal Qualifications for the Mineral Prospecting Right and Mining Right from the Ministry of Land and Resources of the People's Republic of China.

We have reviewed and discussed with Headmen the basis and assumptions adopted for the valuation of mineral rights. We consider that the basis and assumptions adopted by Headmen are appropriate for valuing the mineral rights. Based on our discussion with Headmen, we understand that the valuation of the mineral rights has been prepared in compliance with the relevant PRC regulatory requirements and professional standards. We have also interviewed Headmen as to its independence and expertise, reviewed its terms of engagement, performed work as required under note (1)(d) to Rule 13.80 of the Hong Kong Listing Rules in relation to Headmen and the valuation of the mineral rights.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We have further reviewed the valuation reports of the mineral rights and discussed with Headmen, we understood the followings from Headmen:

Although the mines had suspended productions as at the date of the valuation reports, the mines were on normal operations before the suspension. In addition, the estimated resource reserves of the mines have been assessed by and filed with the competent authorities. Headmen is of the view that, since the appraised subject is a mining right and the cost-based appraisal method is not applicable according to the relevant mining valuation standards. Further, it is not aware of any recent similar transactions which can serve as reference, market-based appraisal method was not adopted. Based on the purpose of the valuation and the specific characteristics and information of the mining rights, the mining rights entrusted to be appraised and the mining operation scale are relatively small, income equity method is adopted. Having considered the above, as cost-based appraisal method is not applicable and based on our independent research as mentioned above on the lack of recent comparable transactions, we consider the adoption of income equity method is fair and reasonable.

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 is determined to be RMB9,750,000, RMB8,879,100, RMB13,689,700 and RMB14,273,800 by estimation for mining right of Shandong Tiancheng Mining Co., Ltd. Matang mine area, mining right of Shandong Tiancheng Mining Co., Ltd. Matang II mine area, mining right of Shandong Tiancheng Mining Co., Ltd. Dongji mine area and mining right of Shandong Tiancheng Mining Co., Ltd. Hongbu mine area, respectively.

Main parameters used in the valuation of Mining right of Shandong Tiancheng Mining Co., Ltd. Matang mine area within its scope as of the Valuation Reference Date are as follows: 407,800 tons of gold ore, 879 kg of gold metal, with an average grade of 2.16 g/t; 407,800 tons of associated silver ore, 2,928 kg of silver metal, with an average grade of 7.18g/t; 407,800 tons of associated sulfur ore, 9,013 tons of pure sulfur, with an average grade of 2.21%. The resource reserves used in the valuation are as follows: 397,300 tons of ore, 859.60 kg of gold metal, 2,852.47 kg of silver metal, 8,780 tons of pure sulfur, with an average grade of 2.16 g/t for gold, 7.18 g/t for silver and 2.21% for sulfur. The product plan is alloyed gold and alloyed silver, and the selling price is RMB307.74/g for alloyed gold and RMB3,764.06/kg for alloyed silver. The mining recovery rate is 94.15%, the ore depletion rate is 6.90%, the processing recovery rate is 94.73% for Au and 87.10% for Ag, the gold return rate is 97.70% and the silver return rate is 55%. The recoverable reserves used in the valuation are 374,100 tons. The production scale is 40,000 tons/year and the mine service life is 10.05 years. The discount rate is 8.07% and the mining right interest factor is 6.2%.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Main parameters used in the valuation of Mining right of Shandong Tiancheng Mining Co., Ltd. Matang II mine area within its scope as of the Valuation Reference Date are as follows: 313,600 tons of gold ore, 795 kg of gold metal, with an average grade of 2.53 g/t; 313,600 tons of associated silver ore, 3,384 kg of silver metal, with an average grade of 10.79 g/t; 313,600 tons of associated mineral ore, 6,900 tons of pure sulfur, with an average grade of 2.20%. The ore reserves used in the valuation are as follows: 282,700 tons of ore, 708.60 kg of gold metal, 3,050.56 kg of silver metal, 6,219 tons of pure sulfur, with an average grade of 2.51 g/t for gold, 10.79 g/t for silver and 2.20% for sulfur. The product plan is alloyed gold and alloyed silver, and the selling price is RMB307.74/g for alloyed gold and RMB3,764.06/kg for alloyed silver. The mining recovery rate is 92.90%, the ore depletion rate is 7%, the processing recovery rate is 94.73% for Au and 87.10% for Ag, the gold return rate is 97.70% and the silver return rate is 55%. The recoverable reserves used in the valuation are 262,600 tons. The production scale is 40,000 tons/year and the mine service life is 7.06 years. The discount rate is 8.07% and the mining right interest factor is 6.2%.

Main parameters used in the valuation of Mining right of Shandong Tiancheng Mining Co., Ltd. Dongji mine area within its scope as of the Valuation Reference Date are as follows: 634,200 tons of gold ore, 1,647 kg of gold metal, with an average grade of 2.60 g/t. The resource reserves used in the valuation are as follows: 526,500 tons of ore, 1,346.40 kg of gold metal, with an average grade of 2.56 g/t. The product plan is alloyed gold, and the selling price is RMB307.74/g. The mining recovery rate is 90%, the ore depletion rate is 10%, the processing recovery rate is 94.58%, and the gold return rate is 97.50%. The recoverable reserves used in the valuation are 473,900 tons. The production scale is 45,000 tons/year and the mine service life is 11.70 years. The discount rate is 8.12% and the mining right interest factor is 6.3%.

Main parameters used in the valuation within its scope as of the Valuation Reference Date are as follows: 443,800 tons of gold ore, 1,254 kg of gold metal, with an average grade of 2.83 g/t; 443,800 tons of associated silver ore, 1,508 kg of silver metal, with an average grade of 3.40 g/t. The ore reserves used in the valuation are as follows: 408,400 tons of ore, 1,153.20 kg of gold metal, 1,388.42 kg of silver metal, with an average grade of 2.82 g/t for gold and 3.40 g/t for silver. The product plan is alloyed gold and alloyed silver, and the selling price is RMB307.74/g for alloyed gold and RMB3,764.06/kg for alloyed silver. The mining recovery rate is 93.10%, the ore depletion rate is 7.3%, the processing recovery rate is 94.73% for Au and 87.10% for Ag, the gold return rate is 97.70% and the silver return rate is 55%. The recoverable reserves used in the valuation are 380,200 tons. The production scale is 60,000 tons/year and the mine service life is 6.84 years. The discount rate is 8.07% and the mining right interest factor is 6.2%.

As advised by Headmen, the parameters adopted are either referenced from ore reserve report/exploration report, the feasibility study report which provide the operating data or the relevant mining valuation standard. We have discussed with Headmen and understood that the ore reserve report/exploration report with estimated resources reserve has been reviewed and filed with the competent authorities while the feasibility report was issued by Shandong Gold Group Yantai Design and

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Research Engineering Co., Ltd., which possess the Engineering Consulting Qualification Certificate (Class A). In addition, regarding to the suspension of safety license of Mining right of Shandong Tiancheng Mining Co., Ltd. Dongji mine area, we have further discussed with Headmen and understood that Headmen has already taken into account the circumstance on the selection of risk return rate (which in turn affecting the discount rate) during the course of valuation. We have further obtained and reviewed the relevant reports and noted that the parameters are correctly extracted, as such, we do not cast doubt on the parameters adopted.

Further to our review and discussion with Headmen the basis and assumptions adopted for the valuation of the mining rights regarding the mining extraction schedules, mining right interest factor, discount rates, etc., we have also reviewed the calculation of the financial projection and noted that the parameters are correctly applied. As such, we do not cast doubt on the aforesaid basis of the financial projection.

- (5) Exploration right of the gold mine at the deep level and outer rim of the Matang II mine area in Laizhou, Shandong Province (山東省萊州市馬塘二礦區深部及外圍金礦)

According to our independent research, Headmen is a qualified professional mining rights evaluation agency for engaging in the appraisal of the mineral prospecting right and mining right within the territory of the People's Republic of China or other sea areas under the jurisdiction of the People's Republic of China, Headmen has received the Administration of Appraisal Qualifications for the Mineral Prospecting Right and Mining Right from the Ministry of Land and Resources of the People's Republic of China.

We have reviewed and discussed with Headmen the basis and assumptions adopted for the valuation of mineral right. We consider that the basis and assumptions adopted by Headmen are appropriate for valuing the mineral right. Based on our discussion with Headmen, we understand that the valuation of the mineral right has been prepared in compliance with the relevant PRC regulatory requirements and professional standards. We have also interviewed Headmen as to its independence and expertise, reviewed its terms of engagement, performed work as required under note (1)(d) to Rule 13.80 of the Hong Kong Listing Rules in relation to Headmen and the valuation of the mineral right.

We have further reviewed the valuation report of the exploration right and discussed with Headmen, we understood the followings from Headmen:

As the current level of actual survey of the appraised subject has only reached the general survey. The exploration technical conditions of the exploration area such as hydrology, engineering, environmental geology, etc. have not been understood. The ore quality and ore processing and smelting performance has not been analyzed and no ore was found in the construction drilling. In light of the above, Headmen is of the view that the lack of the above information, it is unable to adopt geological

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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element evaluation method to value the exploration right. Further, it is not aware of any recent similar transactions which can serve as reference, market-based appraisal method was not adopted. Based on the purpose of the valuation and the specific characteristics and information of the exploration right, exploration cost effectiveness method is adopted.

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 exploration right and through reasonable valuation methods and parameters, the appraised value of “exploration right of the gold mine at the deep level and outer rim of the Matang II mine area in Laizhou, Shandong Province” is determined to be RMB561,700 by estimation.

Main parameters used in the valuation within its scope as of the Valuation Reference Date are as follows: the effective physical workload is 1/2,000 geological survey of 0.97km<sup>2</sup> and drilling of 374.26m. The direct replacement cost is RMB432,100, the overhead expenses is RMB129,600, the replacement cost is RMB561,700, and the effectiveness factor is 1.00.

As advised by Headmen, the parameters adopted are either referenced from prospecting report or the relevant mining valuation standard. We have further obtained and reviewed the relevant reports and noted that the parameters are correctly extracted, as such, we do not cast doubt on the parameters adopted.

Further to our review and discussion with Headmen the basis and assumptions adopted for the valuation of the exploration right regarding the replacement cost, the level of survey work completed, the benchmark cost of various survey work, etc., we have also reviewed the calculation of the financial projection and noted that the parameters are correctly applied. As such, we do not cast doubt on the financial projection.

- (6) Exploration right of the gold mine at the deep level and outer rim of Hongbu mine area in Laizhou, Shandong Province (山東省萊州市紅布礦區深部及外圍金礦)

According to our independent research, Headmen is a qualified professional mining rights evaluation agency for engaging in the appraisal of the mineral prospecting right and mining right within the territory of the People’s Republic of China or other sea areas under the jurisdiction of the People’s Republic of China, Headmen has received the Administration of Appraisal Qualifications for the Mineral Prospecting Right and Mining Right from the Ministry of Land and Resources of the People’s Republic of China.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We have reviewed and discussed with Headmen the basis and assumptions adopted for the valuation of mineral right. We consider that the basis and assumptions adopted by Headmen are appropriate for valuing the mineral right. Based on our discussion with Headmen, we understand that the valuation of the mineral right has been prepared in compliance with the relevant PRC regulatory requirements and professional standards. We have also interviewed Headmen as to its independence and expertise, reviewed its terms of engagement, performed work as required under note (1)(d) to Rule 13.80 of the Hong Kong Listing Rules in relation to Headmen and the valuation of the mineral right.

We have further reviewed the valuation report of the exploration right and discussed with Headmen, we understood the followings from Headmen:

Based on the purpose of the valuation and the specific characteristics and information of the exploration right, the 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 discounted cashflow method. Accordingly, Headmen is of the opinion that the exploration right generally meet the requirements of the discounted cashflow method. As the mine 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. Further, it is not aware of similar recent transactions which can serve 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 discounted cashflow method was adopted for the valuation. Having considered the above, as cost-based appraisal method is not applicable and based on our independent research as mentioned above on the lack of recent comparable transactions, we consider the adoption of discounted cashflow method is fair and reasonable.

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 exploration right and through reasonable valuation methods and parameters, the present value of net cash flow of “exploration right of the gold mine at the deep level and outer rim of Hongbu mine area in Laizhou, Shandong Province” is determined to be –RMB233,015,700 by estimation. The appraised value of “exploration right of the gold mine at the deep level and outer rim of Hongbu mine area in Laizhou, Shandong Province” is nil.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Main parameters used in the valuation are as below:

Item name		Unit	<b>Exploration right of the gold mine at the deep level and outer rim of Hongbu mine area</b>	
			<b>Wang'ershan belt</b>	<b>Jiaojia belt</b>
Resource reserves as of the Valuation Reference Date	Ore	10,000 tons	270.91	400.33
	Gold metal	kg	8,715.00	10,651.00
	Silver metal	kg	9,940.00	14,370.00
	Average grade of gold	g/t	3.22	2.66
	Average grade of silver	g/t	3.67	3.59
Resource reserves used in the valuation	Ore	10,000 tons	191.19	294.07
	Gold metal	kg	6,245.70	7,765.90
	Silver metal	kg	7,016.50	10,557.20
	Average grade of gold	g/t	3.27	2.64
	Average grade of silver	g/t	3.67	3.59
Recoverable reserves in the valuation	Ore	10,000 tons	176.50	271.49
Production scale		10,000 tons/year	24.00	24.00
Mining loss rate		%	7.68	7.68
Ore depletion rate		%	7.63	7.63
Appraised service life		Year	7.96	12.25
Processing recovery rate	Gold	%	95.57	94.80
	Silver	%	87.55	85.09
Gold return rate		%	97.70	97.70
Silver return rate		%	35.00	40.00
Investment in fixed assets		RMB0'000	52,760.46	7,422.24
Total cost		RMB/ton	628.93	669.35
Operating cost		RMB/ton	482.34	496.73
Discount rate		%	8.62	

As advised by Headmen, the parameters adopted are either referenced from ore reserve report/exploration report, the feasibility study report which provide the operating data or the relevant mining valuation standard. We have discussed with Headmen and understood that the ore reserve report/exploration report with estimated resources reserve has been reviewed and filed with the competent authorities while the feasibility report was issued by Shandong Gold Group Yantai Design and Research Engineering Co., Ltd., which possess the Engineering Consulting Qualification Certificate (Class A). We have further obtained and reviewed the relevant reports and noted that the parameters are correctly extracted, as such, we do not cast doubt on the parameters adopted.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As disclosed in the Letter from the Board, despite the estimated negative net cash flow, the Company emphasizes that the aforesaid analysis is made on the assumption that the costs of the fixed assets are solely for the Hongbu mine area. The Company has concrete plans to consolidate all the mining areas within the metallogenic belt of Jiaojia and Xincheng and thus the fixed assets that are applicable for utilization in the area can also be used in the Hongbu mine area. As a result, the Company is of the view that the fixed costs arising from the Hongbu mine area will be significantly lower than its estimation. We have discussed with the Management and understood that the Company could continue to explore the mine with limited cost and further unlock the potential and synergy before deciding to commercialise the production. It can also lead to a positive assessment value if more resources are explored. However, in the event that it is still considered to be of negative net present value after the exploration and considering the potential synergy effect, the subsequent mining will not be carried out. Given the consideration is nil, we concur with the Directors' view that despite the estimated negative net present value at the moment, the potential synergy that may be created may help turn the mine into positive net present value and acquiring such mine is in the interests of the Company.

### (iv) *Ludi Gold Mine*

#### *Basis of the consideration*

As stated in the Letter from the Board, the consideration of RMB2,034,195,071.54 was determined based on the appraised value of Ludi Gold Mine of RMB2,034,195,071.54 as at the Valuation Reference Date in the valuation report issued by Beijing Pan-China.

The specific valuation results are summarized in the following table:

*Unit: RMB'0,000*

Item name	Carrying amount	Appraised value	Increase/ Decrease in value	Appreciation rate
Current assets	24,213.02	224,836.70	200,623.68	828.58%
Of which:				
Inventories	24,198.01	224,821.70	200,623.69	829.09%
Non-current assets	—	—	—	—
Of which:				
Long-term equity investment	—	—	—	—
Investment properties	—	—	—	—
Fixed assets	—	—	—	—
Construction in progress	—	—	—	—
Intangible assets	—	—	—	—
Of which: Land use rights	—	—	—	—
Others	—	—	—	—
<b>Total assets</b>	<b>24,213.02</b>	<b>224,836.70</b>	<b>200,623.68</b>	<b>828.58%</b>
Current liabilities	21,417.20	21,417.19	-0.01	—
Non-current liabilities	—	—	—	—
<b>Total liabilities</b>	<b>21,417.20</b>	<b>21,417.19</b>	<b>-0.01</b>	<b>—</b>
<b>Net assets (total shareholders' equity)</b>	<b>2,795.82</b>	<b>203,419.51</b>	<b>200,623.69</b>	<b>7,175.84%</b>

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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According to our independent research, Beijing Pan-China is a firm of qualified PRC valuer which is designated by the relevant governmental authorities to conduct asset valuation including state-owned assets. It is authorised by the Ministry of Finance of the PRC and China Securities Regulatory Commission to provide valuation services in the PRC.

We have reviewed and discussed with Beijing Pan-China the basis and assumptions adopted for the valuation of Ludi Gold Mine. We consider that the basis and assumptions adopted by Beijing Pan-China are appropriate for valuing Ludi Gold Mine. Based on our discussion with Beijing Pan-China, we understand that the valuation of Ludi Gold Mine has been prepared in compliance with the relevant PRC regulatory requirements and professional standards. We have also interviewed Beijing Pan-China as to its independence and expertise, reviewed its terms of engagement, performed work as required under note (1)(d) to Rule 13.80 of the Hong Kong Listing Rules in relation to Beijing Pan-China and the valuation of Ludi Gold Mine.

As advised by Beijing Pan-China, income-based approach is not adopted for the valuation of equity interest of Ludi Gold Mine because Ludi Gold Mine has not started its business operation and the income and risk in the future are therefore hard to be quantified. We concur with Beijing Pan-China's view that income-based approach is not appropriate, since it requires numerous assumptions which are subjective in nature and thus it is difficult to predict future cash flow of the Ludi Gold Mine. It is further advised by Beijing Pan-China that since Ludi Gold Mine is not a listed company. There are significant differences in the business structure, business model, enterprise scale, asset allocation and usage, the business stage of the company, growth, business risk, financial risk as compared to listed peers, and there are fewer transactions of comparable companies in the same industry in China close to the Valuation Reference Date. Therefore, it is difficult to obtain relevant and reliable operating and financial data of comparable transactions, and market-based approach is not adopted. Based on our independent research of listed companies on the Hong Kong Stock Exchange, Shenzhen Stock Exchange and Shanghai Stock Exchange which are principally engaged in gold exploration, mining, processing, smelting and sales, we are not aware of any comparable transactions in the PRC within the last three years from the Latest Practicable Date, as such, we concur with Beijing Pan-China that market-based approach is not adopted.

On the other hand, Beijing Pan-China considers that it is more appropriate to adopt asset-based approach to appraise the value of Ludi Gold Mine as it can reflect the fair market value of assets from an asset replacement perspective. We consider that asset-based approach is an appropriate valuation methodology to value Ludi Gold Mine, since the relevant PRC regulatory requirements and professional standards have been complied with in using the asset-based approach.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We noted that from the above table, the increase of RMB2,006.2 million in the appraised value as compared to the carrying amount of Ludi Gold Mine was solely due to the increase of RMB2,006.2 million in the exploration rights included in the current assets. We have discussed with the Management and as disclosed in the Letter from the Board, such value appreciation mainly because the carrying amount of inventories represents the exploration costs expended on and accounted for the Nanlv — Xinmu exploration permits as at the valuation reference date, while the appraised value was derived by Headmen based on the measured resource and price level as at the Valuation Reference Date under the discounted cash flow method, after taking into account of key factors, including measured reserve during the exploration process in the mine, as well as the stable high price of gold in recent years, and thus causing a significant difference between the appraised value and the carrying amount. In addition, as discussed above in the “(c) Business Valuation of Ludi Gold Mine”, the contingent Royalty Fee can only be determined in a later stage by the relevant mineral resources authorities and not yet recorded on the book of Ludi Gold Mine as the condition for payment of Royalty Fee (i.e. Ludi Gold Mine has not yet applied for the mining right license) are not fulfilled as of now, and thus causing a significant difference between the carrying amount and the appraised value.

Meanwhile, we understand from Beijing Pan-China that the appraised value of mineral right in the valuation report issued by Beijing Pan-China adopted the conclusion in the Valuation Report on Exploration Right of the Gold Mine in Nanlv — Xinmu Area in Laizhou, Shandong Province issued by Headmen: the appraised value of the exploration right of the gold mine at Nanlv — Xinmu District in Laizhou City, Shandong Province included in this valuation was RMB2,248,217,000.

According to our independent research, Headmen is a qualified professional mining rights evaluation agency for engaging in the appraisal of the mineral prospecting right and mining right within the territory of the People’s Republic of China or other sea areas under the jurisdiction of the People’s Republic of China, Headmen has received the Administration of Appraisal Qualifications for the Mineral Prospecting Right and Mining Right from the Ministry of Land and Resources of the People’s Republic of China.

We have reviewed and discussed with Headmen the basis and assumptions adopted for the valuation of mineral right. We consider that the basis and assumptions adopted by Headmen are appropriate for valuing the mineral right. Based on our discussion with Headmen, we understand that the valuation of the mineral right has been prepared in compliance with the relevant PRC regulatory requirements and professional standards. We have also interviewed Headmen as to its independence and expertise, reviewed its terms of engagement, performed work as required under note (1)(d) to Rule 13.80 of the Hong Kong Listing Rules in relation to Headmen and the valuation of the mineral right.

As such, we have further reviewed the valuation report of the mineral right and discussed with Headmen, we understood the followings from Headmen:

Based on the purpose of the valuation and the specific characteristics and information of the exploration right, the 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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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parameters required by the discounted cashflow method. Accordingly, Headmen is of the opinion that the exploration right generally meet the requirements of the discounted cashflow method. As the mine 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. Further, it is not aware of similar recent transactions which can serve 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 discounted cashflow method was adopted for the valuation. Having considered the above, as cost-based appraisal method is not applicable and based on our independent research as mentioned above on the lack of recent comparable transactions, we consider the adoption of discounted cashflow method is fair and reasonable.

After on-site investigation by the Headmen and analysis of the local market, in accordance with the principles and procedures for the valuation of exploration rights and through appropriate valuation methods and parameters, the appraised value of “exploration right of the gold mine at Nanlv — Xinmu District in Laizhou City, Shandong Province” is determined to be RMB2,248,217,000 by estimation.

Main parameters used in the valuation within its scope as of the Valuation Reference Date are as follows: 42,446,900 tons of gold ore, 133,135.00 kg of gold metal, with an average grade of 3.14 g/t; 8,284,800 tons of associated mineral silver (333) ore, 52,501 kg of silver metal, with an average grade of 6.34 g/t. The resource reserves used in the valuation are as follows: 35,163,400 tons of ore, 109,870.00 kg of gold metal with an average grade of 3.12 g/t and a comprehensive recovery rate of 93.92%. On the Valuation Reference Date, the estimated recoverable reserves are 33,025,500 tons, ore depletion rate is 6.08%, and production scale is 1,980,000 tons per year. The mine service life is 18.43 years, and the estimated service life is 24.43 years (including 6 years of infrastructure construction period).

The product plan is finished gold; the comprehensive processing recovery rate is 94.00%; the gold return rate is 97.50%; the selling price of finished gold is RMB314.43/g; the investment in fixed assets is RMB1,104,604,000. The intangible assets — land cost is RMB644,000; the total unit cost is RMB445.13/ton and the unit operating cost is RMB408.36/ton; and the discount rate is 8.62%.

As advised by Headmen, the parameters adopted are either referenced from ore reserve report/exploration report, the feasibility study report which provide the operating data or the relevant mining valuation standard. We have discussed with Headmen and understood that the ore reserve report/exploration report with estimated resources reserve has been reviewed and filed with the competent authorities while the feasibility report was issued by Shandong Gold Group Yantai Design and Research Engineering Co., Ltd., which possess the Engineering Consulting Qualification Certificate (Class A). We have further obtained and reviewed the relevant reports and noted that the parameters are correctly extracted, as such, we do not cast doubt on the parameters adopted.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We have reviewed and discussed with Headmen the basis and assumptions adopted for the valuation of the aforesaid exploration right regarding the mining extraction schedules, operating expenditure and capital expenditure, we have no doubt on the aforesaid basis of the financial projection.

### 6. Financial effect of the Acquisitions

#### *Consolidation*

Following the completion of the Acquisitions, Dikuang Laijini, Hongsheng Mining, Tiancheng Mining and Ludi Gold Mine will become wholly-owned subsidiaries of the Company and their results will be consolidated in full in the financial statements of the Company.

#### *Statement of financial position*

It is expected that the cash and cash equivalent will decrease significantly and the borrowings will increase for the payment of the consideration of the Acquisitions. In contrast, the property, plant and equipment as well as intangible assets of mining rights and exploration rights will increase significantly.

#### *Statement of profit and loss*

It is expected that the overall revenue would increase, which is mainly attributable to the revenue to be generated by the acquired mineral rights following the expected gradual resumption of productions. Meanwhile, the operating cost the Group is expected to be increased due to the increase in number of mining rights and exploration rights, and the increase in finance costs in relation to the borrowings to satisfy the payment of the consideration of the Acquisitions.

### RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Acquisitions are on normal commercial terms and are fair and reasonable; and (ii) the Acquisitions are conducted in the ordinary and usual course of the business of the Group and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Acquisitions and we recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

Yours faithfully,  
For and on behalf of  
**Dongxing Securities (Hong Kong) Company Limited**  
**TSANG Wing Ngai**  
*Executive Director*  
*Investment Banking Department*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*Mr. TSANG Wing Ngai is a licensed person registered with the Securities and Future Commission since 2008 and is currently a responsible officer of Dongxing Securities (Hong Kong) Company Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. Mr. TSANG has over 13 years of experience in the corporate finance industry, and has participated in the provision of independent financial advisory services for various connected transactions involving companies listed in Hong Kong.*

Stock Code: 600547

Stock Abbreviation: SD GOLD

Announcement No.: Lin 2021-052

**SHANDONG GOLD MINING CO., LTD.  
ANNOUNCEMENT ON THE ESTIMATE OF  
NEW DAILY CONNECTED TRANSACTIONS AFTER  
THE CONTROLLING SUBSIDIARY  
ACQUIRES THE EQUITY OF  
SHANDONG TIANCHENG MINING CO., LTD.**

The Company and all members of its board of directors guarantee that there are no false representations and misleading statements contained in, or materials omissions from, this announcement, and severally and jointly accept the responsibility in respect of the truthfulness, accuracy and completeness of the content.

Important Notice:

- The estimate of new daily connected transactions (the “**New Daily Connected Transactions**”) after Shandong Gold Mining (Laizhou) Co., Ltd. (“**Laizhou Company**”), a majority-owned subsidiary of the Company, acquires the equity of Shandong Tiancheng Mining Co., Ltd. (“**Tiancheng Mining**”) are to be submitted to the general meeting of the Company for consideration.
- The New Daily Connected Transactions are related to the Company’s day-to-day operation, with prices determined by negotiation on the basis of market levels, are fair and reasonable and will not have any adverse impact on the ability of the Company in operating as a going concern, its profitability or independence of assets, nor will they result in any reliance of the Company on its related parties.

**I. BASIC INFORMATION OF THE NEW DAILY CONNECTED TRANSACTIONS**

**(i) Consideration procedures performed for the New Daily Connected Transactions**

1. At the tenth meeting of the sixth session of the Board of the Company held on 5 August 2021, the Resolution on the Estimate of the New Daily Connected Transactions after the Majority-owned Subsidiary Acquires the equity of Shandong Tiancheng Mining Co., Ltd. was considered and passed. When the Board was considering this resolution, Li Guohong, Wang Lijun and Wang Xiaoling, being interested Directors, abstained from voting in respect of this resolution, while all disinterested Directors unanimously passed this resolution.

2. At the fifth meeting of the sixth session of the Supervisory Committee held on 5 August 2021 by the Company, the Resolution on the Estimate of the New Daily Connected Transactions after the Majority-owned Subsidiary Acquires the equity of Shandong Tiancheng Mining Co., Ltd. was considered and passed by the Supervisory Committee of the Company.
3. This resolution has obtained prior consents of the independent non-executive Directors who have expressed independent opinions in agreement.

The independent non-executive Directors of the Company are of the opinion that:

- (1) The Company's estimate of the New Daily Connected Transactions after Shandong Gold Mining (Laizhou) Co., Ltd. acquires 100% equity of Shandong Tiancheng Mining Co., Ltd. is necessary for its daily production and operation. For Tiancheng Mining's purchase of goods and services and receipt of labor services from related parties, and sales of goods to related parties, prices are fair and reasonable and do not compromise the interests of the Company and disinterested shareholders. All of the related parties selected by the Company have good business reputation and financial condition, which could reduce the operation risks of the Company and facilitate the Company to proceed with its normal operations. The connected transactions would not result in the reliance of the Company's principal businesses on the related parties, nor would they have any influence on the independence of the Company.
- (2) The interested Directors abstained from voting when the Board was considering the resolution. The voting procedures comply with the relevant requirements of relevant laws, regulations and the Articles of Association, and the resolution made at the meeting is legal and valid.
- (3) It is unanimously agreed that matters related to the estimate of connected transactions will be submitted to the second extraordinary general meeting of 2021 of the Company for consideration.

(ii) **Estimated amount and category of the New Daily Connected Transactions after the subsidiary acquires the equity of Shandong Tiancheng Mining Co., Ltd.**

*Unit: RMB'0,000*

Nature of transaction	Counterparty name	Content of transaction	Actual transaction amount from January to July 2021	Estimated transaction amount from August to December 2021
Purchase of goods/receipt of services	SDG Electricity Co., Ltd.	Experimenting services, electricity, electric appliances and circuit testing services	396.19	410.50
	SDG Design and Consultancy Co., Ltd.	Spare parts, equipment and facilities, design services and assessment services	0.70	35.00
	Shandong Gold Senior Technical School	Education and training services	–	55.00
		<b>Sub-total</b>	<b>396.89</b>	<b>500.50</b>
Connected lease	SDG Group Laizhou Mining Co., Ltd.	Lease of a complex	–	80.00
			<b>Sub-total</b>	<b>–</b>
		<b>Total</b>	<b>396.89</b>	<b>580.50</b>

**II. PROFILES OF RELATED PARTIES AND THE RELATIONSHIPS****(i) Basic information of the related parties****1. *SDG Electricity Co., Ltd.***

Domicile: East Jiaojia Village, Jincheng Town, Laizhou, Yantai City, Shandong Province

Registered capital: RMB40.91 million

Shareholder: Shandong Gold Group Co., Ltd. holding 100% of equity

Business scope: sale of electricity, installation (repair, testing) of electricity facilities; design and construction of electrical projects; manufacturing and sale of electrical equipment; provision of electricity technical services (for items that are subject to approval according to laws, operation activities may not be commenced until the approval has been obtained from the relevant authorities).

Relationship with the Company: a fellow subsidiary under the control of the same parent company.

**2. *SDG Design and Consultancy Co., Ltd.***

Domicile: 18/F, Financial Tower, 141 Yingchun Avenue, Laishan District, Yantai City, Shandong Province

Registered capital: RMB50 million

Shareholder: Shandong Gold Group Co. Ltd., holding 100% of equity

Business scope: turnkey contracting business for construction projects and project management and corresponding technical and management services within the scope stipulated in the Engineering Design Qualification Certificate; mine design; development of new mining and processing technology research and experiment achievements and related transfer, consultation and technical services; computer software development, design and transfer services; design, manufacturing and installation of grinding equipment, grading equipment, washing and processing equipment, transportation equipment, scrapers, underground trackless equipment, electromechanical equipment and accessories; manufacture and sale of mining equipment (excluding special equipment) and accessories; construction of mining projects and building projects, labor services (excluding labor dispatch); import and export of goods and technologies; consultation services related to systems and technologies for hierarchical control of work safety risks and for potential risk identification and control; general freight handling; lease of houses and machinery

equipment (for items that are subject to approval according to laws, operation activities may not be commenced until the approval has been obtained from the relevant authorities).

Relationship with the Company: a fellow subsidiary under the control of the same parent company.

**3. *Shandong Gold Senior Technical School***

Domicile: No. 23 Fenglin Road, Laishan District, Yantai City

Controller: Shandong Gold Group Co., Ltd.

Business scope: cultivating mid- and high-level technical talents for the society, assuming the responsibility of post skills training, and providing secondary vocational education to adults.

**4. *SDG Group Laizhou Mining Co., Ltd.***

Domicile: 609 Laizhou North Road, Laizhou City, Shandong Province

Registered capital: RMB220 million

Shareholders: a top-ranking asset management company holding 96.05% of equity, Shandong Gold Group Co., Ltd. holding 3.95% of equity

Business scope: gold smelting and refining, and sale of self-made products.

Relationship with the Company: a fellow subsidiary under the control of the same parent company.

**(ii) Relationship with the Company**

Among the aforesaid related parties, each of those parties is a fellow subsidiary under the control of the same parent company, which falls within the connected relationship as defined in Paragraph (2) of Article 8 of the Implementation Guidelines for Discloseable and Connected Transactions of Listed Companies on Shanghai Stock Exchange (《上海證券交易所上市公司關聯交易實施指引》).

**(iii) Analysis of the implementation and performance ability of historical similar connected transactions**

Each of the aforesaid related parties has a long-term cooperation with the Company and a good track record in implementing the similar connected transactions. Therefore, each of them has a good ability in performing the contract.

**III. REASONABLENESS, PRICING POLICY AND FAIRNESS OF THE NEW DAILY CONNECTED TRANSACTIONS****(i) Reasonableness of connected transactions**

The foresaid connected transactions are necessary for the daily operation and development of Tiancheng Mining after the Company's majority-owned subsidiary acquires Tiancheng Mining, and therefore are reasonable. The said connected transactions do not affect the truthfulness of the Company's business performance and have no adverse impact on the Company.

**(ii) Pricing Policy and Fairness**

1. According to the High Voltage Electricity Supply Contract, the Service Contract for the Spring Testing of 35KV Transformer Substation and the Service Contract for Inspections and Maintenance of External Circuits signed between Tiancheng Mining and SDG Electricity Co., Ltd., the pricing for goods and services procured by Tiancheng Mining from SDG Electricity Co., Ltd., such as experimenting services, electricity, electric appliances and circuit testing services, was determined by mutual negotiation with reference to the market-based fair pricing level of similar goods and services in the market and industry practice, which was fair and reasonable, and there was no situation where the pricing of the connected transactions was unfair.
2. According to the Service Contract for the Upgrading of Hongbu 35KV Transformer Substation and the Design of Diesel-driven Generator signed between Tiancheng Mining and SDG Design and Consultancy Co., Ltd., the pricing for goods and services procured by Tiancheng Mining from SDG Design and Consultancy Co., Ltd., such as spare parts, equipment and facilities, design services and assessment services, was determined by mutual negotiation with reference to the market-based fair pricing level of similar goods and services in the market and industry practice, which was fair and reasonable, and there was no situation where the pricing of the connected transactions was unfair.
3. According to the Training Agreement signed between Tiancheng Mining and Shandong Gold Senior Technical School, the pricing for education and training services procured by Tiancheng Mining from Shandong Gold Senior Technical School was determined by mutual negotiation with reference to the market-based fair pricing level of similar services in the market and industry practice, which was fair and reasonable, and there was no situation where the pricing of the connected transactions was unfair.

4. According to the Property Lease Agreement signed between Tiancheng Mining and SDG Group Laizhou Mining Co., Ltd., the rental price of the complex leased by Tiancheng Mining to Shandong Gold Group Laizhou Mining Co., Ltd. was determined by mutual negotiation with reference to the market-based fair pricing level of similar services in the market and industry practice, which was fair and reasonable, and there was no situation where the pricing of the connected transactions was unfair.

#### **IV. PURPOSE OF CONNECTED TRANSACTIONS AND IMPACT ON THE COMPANY**

The Company's estimate of the New Daily Connected Transactions after the majority-owned subsidiary acquires the equity of Tiancheng Mining are necessary for the Company's daily production and operation, and for the purpose of ensuring the continuous and effective production and operation of the Company. The Company has selected the related parties based on its knowledge on their operation management, creditability and performance ability and the geographical convenience, which would reduce the procurement and sales cost and broaden the financing channels. The terms of the connected transactions are fair and reasonable, and will not compromise the interests of the Company and minority shareholders. In addition, the connected transactions will not have any adverse impact on the ability of the Company in operating as a going concern, its profitability or independence, nor will they result in any reliance of the Company on its related parties.

The announcement is hereby made.

**The Board of Directors of Shandong Gold Mining Co., Ltd.**

5 August 2021

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS

### (A) Directors', Supervisors' and Chief Executive's Interests and Short Positions in the Shares, the Underlying Shares and Debentures

Save as disclosed below, as at the Latest Practicable Date, none of the Directors, Supervisors or chief executive of the Company has any interest or short position in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO); (b) to be recorded in the register required to be kept by the Company pursuant to section 352 of the SFO; or (c) to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code, in accordance with information received by the Company.

Name of Director	Title	Nature of interest	Class of Shares	Number of Shares	Long/Short position	Approximate percentage of shareholding in the relevant class Shares	Approximate percentage of shareholding in the total issued share capital
Mr. Tang Qi	Executive Director	Beneficial Interest	A Shares	149,056	Long	0.0041%	0.0033%

**(B) Substantial Shareholders' and Other Persons' Interests and Short Positions in the Shares, Underlying Shares and Debentures**

So far as is known to the Directors and chief executive of the Company, as at the Latest Practicable Date, the following persons (other than the Directors, Supervisors and chief executive of the Company) had interests or short positions in the Shares and underlying Shares, which were required to be notified to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Substantial Shareholders	Nature of interest	Class of Shares	Number of Shares or underlying Shares interested	Long/Short position	Approximate percentage of shareholding in the relevant class Shares	Approximate percentage of shareholding in the total issued share capital
SDG Group Co.	Beneficial owner	A Shares	1,671,709,197	Long	46.25%	37.37%
	Interest held by controlled corporation (Note 1)	A Shares	345,073,733	Long	9.55%	7.71%
Shandong Gold Geological Mine Exploration Co., Ltd.	Beneficial owner	A Shares	194,872,049	Long	5.39%	4.36%
Schroders PLC	Investment manager	H Shares	145,866,700	Long	16.98%	3.26%
Gold Virtue Limited	Beneficial owner	H Shares	95,689,655	Long	11.14%	2.14%
China Structural Reform Fund Corporation Limited (中國國有企業結構調整基金股份有限公司)	Beneficial owner	H Shares	76,639,270	Long	8.92%	1.71%
CEB-GFAM-China Structural Reform Fund Asset Management Account No. 1 (廣發資管-國調基金1號定向資產管理計劃)	Trustee	H Shares	76,639,270	Long	8.92%	1.71%
Schroder International Selection Fund – Emerging Asia Fund	Beneficial owner	H Shares	43,255,100	Long	5.04%	0.97%

*Note 1:* These 345,073,733 A Shares comprise 194,872,049 A Shares held by SDG Exploration, 115,477,482 A Shares held by SDG Non-ferrous, 31,467,157 A Shares held by Shandong Gold Group Qingdao Gold Co., Ltd. (“**Qingdao Gold**”) and 3,257,045 A Shares held by SDG (Beijing) Industry Investment Co., Ltd. (“**SDG Beijing**”). SDG Exploration is wholly-owned by SDG Resources Development. Each of SDG Resources Development, SDG Capital Management, Qingdao Gold and SDG Beijing is wholly-owned by SDG Group Co.. SDG Group Co. holds 95.65% interest of SDG Non-ferrous. As such, SDG Group Co. is deemed to be interested in the Shares held by SDG Exploration, SDG Non-ferrous, SDG Capital Management, Qingdao Gold and SDG Beijing for the purpose of the SFO.

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any other persons (other than the Directors, Supervisors and the chief executive of the Company) who had any interest or short position in the Shares or underlying Shares that was required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, or which would fall to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

### **3. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

### **4. COMPETING INTERESTS**

As at the Latest Practicable Date, the Directors are not aware of any business or interest of the Directors nor any of their respective associates (as defined in the Hong Kong Listing Rules) that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group (as would be required to be disclosed under Rule 8.10 of the Hong Kong Listing Rules as if each of them was a controlling Shareholder).

### **5. INTERESTS IN CONTRACT OR ARRANGEMENTS**

As at the Latest Practicable Date, none of the Directors was materially interested in contract or arrangement subsisting which is significant in relation to the business of the Group, nor has any Director had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2020, the date to which the latest published audited consolidated financial statements of the Group were made up.

### **6. LITIGATION**

As at the Latest Practicable Date, so far as the Directors are aware, no member of the Group was engaged in any litigation, arbitration or claim of material importance and there was no litigation, arbitration or claim of material importance known to the Directors to be pending or threatening against any member of the Group.

### **7. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2020, the date to which the latest published audited consolidated financial statements of the Group were made up.

**8. EXPERT AND CONSENT**

The following is the qualification of the experts who have given opinion or advice which is contained in this circular:

<b>Name</b>	<b>Qualification</b>
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
Beijing Pan-China Assets Appraisal Co., Ltd* (北京天健興業資產評估有限公司)	independent valuer
Headmen Mining Right Appraisal Firm (General Partnership)* (北京海地人礦業權評估事務所 (普通合夥))	independent valuer

Each of the above experts has given and confirmed that it has not withdrawn its written consent to the issue of this circular with the inclusion herein of its statements and/or references to its name in the form and context in which it appears. Each of the above experts has further confirmed that as at the Latest Practicable Date, it was not interested in the share capital of any member of the Group, nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group. It was not interested in any assets which have been, since 31 December 2020 (being the date to which the Company's latest audited financial statements were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

**9. CORPORATE INFORMATION OF THE COMPANY**

Registered office and headquarters in the PRC	No. 2503, Jingshi Road, Licheng District, Jinan, Shandong Province, the PRC
Principal place of business in Hong Kong	Rooms 4003-06, China Resources Building, No. 26 Harbour Road, Hong Kong
H share registrar	Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong
Joint Company secretaries	Mr. Tang Qi Ms. Ng Sau Mei (FCG, FCS)

**10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours on any business day at the principal place of business of the Company in Hong Kong at Rooms 4003-06, China Resources Building, No. 26 Harbour Road, Hong Kong from the date of this circular up to and including 24 September 2021.

- (a) the Agreements;
- (b) the valuation reports from Beijing Pan-China and Headmen regarding the entire equity interest in the Target Companies; and
- (c) this circular.



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)**

**NOTICE OF 2021 SECOND EXTRAORDINARY GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that the 2021 Second Extraordinary General Meeting (“EGM”) of Shandong Gold Mining Co., Ltd. (the “**Company**”) will be held at the conference room of the Company, No. 2503, Jingshi Road, Licheng District, Jinan, Shandong Province, the PRC at 9:00 a.m. on Friday, 24 September 2021 for the purpose of considering and, if thought fit, passing the following resolutions:

**ORDINARY RESOLUTIONS**

1. to approve the resolution regarding the cash acquisition and related party transaction of 100% equity interest in Shandong Tiancheng Mining Co., Ltd. by controlling subsidiary and the connected transaction
2. to approve the resolution regarding the cash acquisition and related party transaction of 100% equity interest in Shandong Laizhou Ludi Gold Mine Company Limited by controlling subsidiary and the connected transaction
3. to approve the resolution regarding the cash acquisition and related party transaction of 100% equity interest in Shandong Dikuang Laijin Co., Ltd. and 45% equity interest in Laizhou Hongsheng Mining Investment Co., Ltd. by controlling subsidiary and the connected transaction
4. to approve the resolution on the estimate of new daily connected transactions after the controlling subsidiary acquires the equity of Shandong Tiancheng Mining Co., Ltd.

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

Jinan, the PRC  
8 September 2021

*As at the date of this notice, 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.*

*Notes:*

1. All holders of H Shares whose names appear on the register of members of the Company on Monday, 20 September 2021 are entitled to attend the EGM and should bring along their identity cards or passports when attending the EGM. Holders of the Company's H Shares should note that the register of members of the Company will be closed from Monday, 20 September 2021 to Friday, 24 September 2021 (both dates inclusive), during which period no transfers of H Shares will be effected. The record date and arrangements in respect of the holders of A Shares of the Company who are entitled to attend the EGM will be determined and announced separately in the PRC.
2. Any shareholder entitled to attend and vote at the EGM is entitled to appoint a proxy or more proxies (who need not be a shareholder of the Company) to attend the EGM and vote thereat in his stead. For any shareholder who appoints more than one proxy, the voting right can only be exercised by his/her proxies on a poll.
3. Any shareholder who intends to appoint a proxy to attend the EGM shall put it in writing, with the proxy form to be signed by the appointer or his attorney duly authorized in writing. If the appointer is a corporation, the proxy form must be affixed with its common seal, or signed by any of its directors or attorney duly authorized in writing. If the proxy form is signed by an attorney authorized by the appointer, the power of attorney or other authorization documents must be notarially certified. The notarially certified power of attorney or other authorization documents together with the proxy form must be delivered to the Company's H share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (for H shareholders only) not later than 24 hours before the time appointed for the holding of the EGM (i.e. before 9:00 a.m. on Thursday, 23 September 2021). Completion and return of the proxy form will not affect the rights of the shareholders to attend and vote at the EGM in person.
4. Proxies of holders of the Company's H Shares shall bring along the proxy form, instrument(s) for appointing a proxy (if applicable) and the proxies' identity cards or passports to attend the EGM.
5. According to Article 108 of the Articles of Association, an ordinary resolution shall be passed by more than half of the votes cast by the shareholders (including proxies) present at the general meeting, while a special resolution shall be passed by more than two-thirds of the votes cast by the shareholders (including proxies) present at the general meeting.
6. Directors, supervisors and senior management of the Company and the witnessing lawyers and other relevant personnel employed by the Company will attend the EGM.