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SD-GOLD

SHANDONG GOLD MINING CO., LTD.

山東黃金礦業股份有限公司

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

(Stock Code: 1787)

**DISCLOSEABLE AND CONNECTED TRANSACTION
ACQUISITION OF XILING GOLD MINE EXPLORATION RIGHT**

ACQUISITION OF XILING GOLD MINE EXPLORATION RIGHT

On 26 January 2024 (after trading hours), the Company and Shandong Gold Exploration entered into the Acquisition Agreement, pursuant to which Shandong Gold Exploration agreed to sell and the Company agreed to acquire the Xiling Gold Mine Exploration Right, at a consideration of RMB10,334,248,700.

HONG KONG LISTING RULES IMPLICATIONS

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 Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Hong Kong Listing Rules and will be subject to reporting and announcement requirements under Chapter 14 of the Hong Kong Listing Rules.

SDG Group Co. is the controlling shareholder, directly and indirectly holding approximately 45.58% of the issued share capital of the Company as at the date of this announcement. Shandong Gold Exploration is an indirect wholly-owned subsidiary of SDG Group Co. Accordingly, the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules and is subject to reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The Directors, Mr. Li Hang and Ms. Wang Xiaoling, also holding senior management positions in SDG Group Co., are deemed to have material interests in the Acquisition and have abstained from voting on the relevant resolution of the Board. Except for the Directors mentioned above, none of the other Directors had any material interests in the Acquisition and was required to abstain from voting on the Board resolution approving the same.

GENERAL

The EGM will be convened for the Independent Shareholders to consider and, if thought fit, to approve, among other things, the Acquisition Agreement and the transactions contemplated thereunder. Pursuant to Rule 14A.36 of the Hong Kong Listing Rules, any Shareholder who has a material interest in the Acquisition shall abstain from voting on the resolution in relation to approving the Acquisition Agreement and the transactions contemplated thereunder at the EGM. As at the date of this announcement, SDG Group Co. and its associates hold approximately 45.58% of the issued share capital of the Company, they will be required to abstain from voting on the relevant resolution at the EGM accordingly. Save for SDG Group Co. and its associates, as at the date of this announcement, to the best knowledge of the Directors, no other Shareholder would be required to abstain from voting thereat as no other Shareholder has any interest in the Acquisition Agreement.

A circular containing, among other things, (i) information on the Acquisition; (ii) the recommendation of the Independent Board Committee in respect of the Acquisition; (iii) the advice of the Independent Financial Adviser regarding the terms of the Acquisition; and (iv) other information as required under the Hong Kong Listing Rules, shall be despatched to the Shareholders on or before 8 March 2024, so as to allow sufficient time for the preparation of the aforesaid information for inclusion in the circular.

I. ACQUISITION OF XILING GOLD MINE EXPLORATION RIGHT

On 26 January 2024 (after trading hours), the Company and Shandong Gold Exploration entered into the Acquisition Agreement, pursuant to which Shandong Gold Exploration agreed to sell and the Company agreed to acquire the Xiling Gold Mine Exploration Right, at a consideration of RMB10,334,248,700.

The main terms of the Acquisition Agreement are as follows:

Date

26 January 2024

Parties

1. Shandong Gold Exploration (as Vendor)
2. The Company (as Purchaser)

Consideration

In connection with the acquisition of the Xiling Gold Mine Exploration Right, the consideration payable to Shandong Gold Exploration by the Company under the Acquisition Agreement was RMB10,334,248,700. The consideration was determined after arm's length negotiations between the parties with reference to the appraised value of the Xiling Gold Mine Exploration Right as at 31 October 2023 after deducting the discounted value of the transfer income payable for the Xiling Gold Mine Exploration Right. According to the valuation report issued by the Valuer, the appraised value of the Xiling Gold Mine Exploration Right was RMB11,028,801,300 as of 31 October 2023. According to the Notice on Issuing the Measures for the Collection of Income from the Transfer of Mineral Rights (《關於印發〈礦業權出讓收益徵收辦法〉的通知》) (Caizong [2023] No. 10), the Valuer has estimated the transfer income which is required to be paid for the Xiling Gold Mine Exploration Right in the future, the discounted value of which is RMB691,247,900.

The Valuer engaged by the Company has assets appraisal qualifications for the securities business, is competent in providing valuation services and satisfies the independence requirements. The main parameters and conclusions of the valuation are reasonable, and the valuation report has calculated the transfer income and the discounted value of the transfer income that need to be paid in the future for the Xiling Gold Mine Exploration Right, after taking into account the fact that the Xiling Gold Mine Exploration Right has not been disposed of for consideration and no transfer income (price) has been paid. The parties negotiated and determined the final consideration based on the appraised value of the Xiling Gold Mine Exploration Right after deducting the discounted value of the transfer income payable for the exploration right. The transaction pricing method for the Acquisition was fair and reasonable.

Payment method

1. RMB6,707,941,800 of the consideration shall be paid by the Company in cash within one year after the effective date of the Acquisition Agreement. The specific payment arrangements are set out below:
 - (i) The Company shall pay the first instalment of RMB2,012,382,540 to Shandong Gold Exploration within 10 working days upon the approval of the Acquisition by the Shareholders' general meeting of the Company. In the event that the Acquisition is not approved by the natural resources competent authorities, Shandong Gold Exploration shall return the sum within 10 working days after receiving the notice from the Company;
 - (ii) The Company shall pay the second instalment of RMB2,012,382,540 within 30 working days after the completion of the notification of the transfer of mineral rights by the natural resources competent authorities for the Xiling Gold Mine Exploration Right; and
 - (iii) The Company shall pay the third instalment of RMB2,683,176,720 within 10 working days after the change of the proprietor stated in the certificate of the Xiling Gold Mine Exploration Right to the Company.

2. The remaining RMB3,626,306,900 shall be paid by way of separate negotiation between the parties. If both parties fail to agree on the specific payment method by 31 December 2026, the Company shall pay in cash, in which case the Company shall pay the remaining RMB3,626,306,900 in one lump sum to Shandong Gold Exploration within 20 working days upon receipt of the payment notice issued by Shandong Gold Exploration. Overdue payments shall bear an interest at the bank lending rate for the same period.

The Company intends to pay the consideration with the its self-owned funds and self-raised funds.

Completion

Shandong Gold Exploration shall, within 15 working days after the effective date of the Acquisition Agreement, hand over to the Company all the information on the Xiling Gold Mine Exploration Right and cooperate with the Company in the formalities for the transfer of the Xiling Gold Mine Exploration Right.

PROFIT GUARANTEE AND COMPENSATION

1. According to the Evaluation Report on the Exploration and Prospecting Right of Xiling Village Gold Mine Exploration in Laizhou City, Shandong Province, the Target Exploration Right's planned output will be achieved and its stable profits will be generated starting from 2031. Therefore, the profit guarantee period of Shandong Gold Exploration will be 2031, 2032 and 2033.
2. Shandong Gold Exploration guarantees that the net profit of the Target Exploration Right for the years from 2031 to 2033 after deducting the transfer income expected to be paid and without taking into account the net profit after the amortization of mineral right shall be no less than RMB2,302,091,400, RMB2,300,553,000 and RMB2,293,974,900, respectively, except for force majeure that prevents the fulfillment of the guaranteed profit.

In the event that the Target Exploration Right is put into production early after its conversion into a mining right, the profit guarantee period of Shandong Gold Exploration shall be advanced accordingly. The first full fiscal year after fully reaching its planned output shall be the first year of the guarantee period which shall last for three years. The guaranteed net profit shall remain no less than RMB2,302,091,400, RMB2,300,553,000 and RMB2,293,974,900, respectively, except for force majeure that prevents the fulfillment of the guaranteed profit.

3. After the end of each fiscal year of the performance guarantee period, the Company will engage an accounting firm to issue a special audit report on the difference between the Target Exploration Right's actual net profit and the guaranteed net profit for the year.

In the event that the accumulated actual net profit of the Target Exploration Right in each year during the performance guarantee period are lower than the accumulated guaranteed net profit, Shandong Gold Exploration shall compensate the Company in cash in an amount calculated according to the following formula:

The compensation amount for the current period = (the accumulated guaranteed net profit of the Target Exploration Right as of the end of the current period – the accumulated actual net profit of the Target Exploration Right as of the end of the current period)/the sum of the guaranteed net profit of the Target Exploration Right during the performance guarantee period × the transaction consideration – the accumulated compensated amounts.

Where the compensation amount calculated according to the above formula is negative, it shall be deemed as zero. In such case, Shandong Gold Exploration is not required to pay any profit compensation to the Company. The amounts compensated by Shandong Gold Exploration will not be reversed as a result of excess performance in subsequent years during the performance guarantee period.

4. In the event that the performance compensation conditions are triggered, Shandong Gold Exploration shall pay the amounts within 10 working days from the date on which the special audit report is issued and the Company's annual financial report is approved at the Shareholder's general meeting.

Liability for breach of contract

1. A party that commits a breach of contract shall be liable for the corresponding breach of contract.
2. If Shandong Gold Exploration fails to cooperate with the Company in completing the transfer formalities according to the Acquisition Agreement, and remains so after being reminded by the Company, Shandong Gold Exploration shall be liable for liquidated damages of one ten-thousandth of the consideration for each overdue day; and if the Company fails to pay the consideration according to the contract, the Company shall be liable for liquidated damages of one ten thousandth of the outstanding amount payable for each overdue day.

Effective Conditions of the Acquisition Agreement

The Acquisition Agreement shall become effective on the date when all the following conditions have been fulfilled:

1. Shandong Gold Exploration having obtained valid approval of the Acquisition;
2. the Company having obtained approval of the Acquisition from the Shareholders' general meeting; and
3. the approval of the Acquisition by the mineral resources competent authorities having been obtained.

II. PROFIT GUARANTEE AND COMPENSATION

(I) Comparison of the Appraised Value and Book Value of the Exploration Right

The book value of the Xiling Gold Mine Exploration Right as of the Valuation Reference Date was RMB791,492,900, the appraised value of the Target Exploration Right increased by RMB10,237,308,400 compared with the book value, and the appreciation rate was 1,293.42%. Shandong Gold Exploration obtained the Xiling Gold Mine Exploration Right for the first time on 15 December 2000 through prior application. Shandong Gold Exploration completed the exploration of the mineral right through its own funds and independent exploration methods, which is accounted as exploration costs, thus the book value is lower. Using the discounted cash flow method to value exploration right in the exploration phase is currently a common valuation method used by mining right valuation. Due to the huge reserves and high value of the Xiling Gold Mine Exploration Right, therefore, the premium rate is higher. The Company has set up installment payment terms and profit guarantee compensation terms for the mineral right transfer price, which can effectively safeguard the interests of the listed company.

(II) Profit Guarantee Period and Guaranteed Profits

According to the Mineral Right Valuation Report issued by the Valuer, upon the conversion of the Xiling Gold Mine Exploration Right into a mining right and the completion of project construction, the planned output will be achieved and stable profits will be generated starting from 2031. Therefore, the profit guarantee period of Shandong Gold Exploration in respect of the Acquisition will be 2031, 2032 and 2033, and in the event that the total net profit of the Xiling Gold Mine Exploration Right for the respective fiscal years are less than the total guaranteed net profit for the corresponding years, Shandong Gold Exploration shall compensate the Company. Based on the net profit of the Xiling Gold Mine Exploration Right for the years from 2031 to 2033 as predicted in the Mineral Right Valuation Report, Shandong Gold Exploration guarantees that the net profit of the Target Exploration Right for the years from 2031 to 2033 after deducting the transfer income expected to be paid and without taking into account the net profit after the amortization of mineral right (the "**Net Profit**") shall be no less than RMB2,302,091,400, RMB2,300,553,000 and RMB2,293,974,900, respectively, except for force majeure.

In the event that the Xiling Gold Mine Exploration Right is put into production early after its conversion into a mining right, the profit guarantee period of Shandong Gold Exploration shall be advanced accordingly. The first full fiscal year after fully reaching its planned output shall be the first year of the guarantee period which shall last for three years. The guaranteed Net Profit shall remain no less than RMB2,302,091,400, RMB2,300,553,000 and RMB2,293,974,900.

After the end of each fiscal year of the performance guarantee period, the Company will engage an accounting firm to issue a special audit report on the difference between the Target Exploration Right's actual Net Profit and the guaranteed Net Profit for the year.

(III) Profit Compensation

In the event that the accumulated actual Net Profit of the Target Exploration Right in each year during the profit guarantee period are lower than the accumulated guaranteed Net Profit, Shandong Gold Exploration shall compensate the Company in cash in an amount calculated according to the following formula:

The compensation amount for the current period = (the accumulated guaranteed Net Profit of the Target Exploration Right as of the end of the current period – the accumulated actual Net Profit of the Target Exploration Right as of the end of the current period)/the sum of the guaranteed Net Profit of the Target Exploration Right during the performance guarantee period × the transaction consideration – the accumulated compensated amounts.

Where the compensation amount calculated according to the above formula is negative, it shall be deemed as zero. In such case, Shandong Gold Exploration is not required to pay any profit compensation to the Company. The compensated amounts will not be reversed as a result of excess performance in subsequent years during the performance guarantee period.

In the event that the performance compensation conditions are triggered, Shandong Gold Exploration shall pay the amounts within 10 working days from the date on which the special audit report is issued and the Company's annual financial report is approved at the Shareholder's general meeting.

III. INFORMATION ON THE XILING GOLD MINE EXPLORATION RIGHT

1. Basic Information on the Exploration Right

Exploration right holder: Shandong Gold Geological Mine Exploration Co., Ltd.

License no.: T3700002009084010033093

Exploration project name: Exploration and Prospecting Right of Xiling Village Gold Mine in Laizhou City, Shandong Province

Location: Laizhou City, Shandong Province

Drawing no.: J50E016024

Exploration area: 4.59 square kilometers

Validity period: 20 April 2023 to 19 April 2028

Issuing authority: Department of Natural Resources of Shandong Province (山東省自然資源廳)

Shandong Gold Exploration, the exploration right holder of Xiling Gold Mining Exploration Right, has legally obtained the exploration license with clear ownership, 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, within the scope of the exploration right, the reviewed and filed (measured+indicated+inferred) resources include an amount of gold ore of 147.2787 million tonnes, and an amount of Au metal of 592,186.00 kg, with an average Au grade of 4.02 g/t; the associated (inferred) resources include an amount of silver ore of 144.9937 million tonnes, and an amount of Ag metal of 590,850.00 kg, with an average Ag grade of 4.08 g/t, and an amount of associated pure S of 3,617,079.00 tonnes, with an average S grade of 2.49%. In addition, there are gold ore of 1.1122 million tonnes, and Au metal of 4,393 kg, with an average Au grade of 3.95 g/t, which are still difficult to be utilized.

2. History of Exploration Right

On 15 December 2000, Shandong Gold Geological Mine Exploration Co., Ltd. (formerly known as “Laizhou Geological Mine Exploration Co., Ltd. (萊州市地質礦產勘查有限公司)”) obtained its first mineral resources exploration license (Certificate No.: 3700000010435) for “General Exploration of Gold Mine in Xiling Village Mine Area in Laizhou City, Shandong Province” on a first-application basis. The issuing authority is Shandong Provincial Department of Land and Resources, the ore type of exploration is gold, the validity period is from 15 December 2000 to 17 May 2001, and the exploration area is 8.53 km². This exploration right has been effectively extended and changed several times, and the history of the mineral right is shown as follows:

Exploration right holder	Exploration license no.	Area (km ²)	Validity period	Reasons for changes	Remark
Laizhou Geological Mine Exploration Co., Ltd.	3700000010435	8.53	15 December 2000 to 17 May 2001	First registration	Prospecting
	3700000120100		18 May 2001 to 30 December 2003	Extension	Prospecting
	3700000330694		3 December 2003 to 30 December 2005	Extension	Prospecting
	3700000531298		3 December 2005 to 30 December 2007	Extension	Prospecting
	3700000730919		31 December 2007 to 30 September 2009	Extension	Prospecting
	T37120090802033093		18 August 2009 to 30 June 2011	Extension	Prospecting
Shandong Gold Geological Mine Exploration Co., Ltd.	T37120090802033093	8.39	1 July 2011 to 31 December 2012	Change	Prospecting
			1 January 2013 to 31 December 2014	Extension	General Exploration
		6.17	1 January 2015 to 31 December 2016	Change	General Exploration
			1 January 2017 to 31 December 2018	Extension	Detailed Exploration
	T3700002009084010033093	4.59	20 April 2023 to 19 April 2028	Change	Detailed Exploration

Note: From 31 December 2018 to 20 April 2023, the partial scope of the mineral right overlaps with the ecological redline (2016 version). The overlapped scope has been transferred out of the new ecological redline and after the new ecological redline was formally implemented, the exploration license for the new phase was obtained.

On 1 July 2011, the company name of exploration right holder was changed from “Laizhou Geological Mine Exploration Co., Ltd.” to “Shandong Gold Geological Mine Exploration Co., Ltd.”, and the exploration area was changed to 8.39 km². On 1 January 2013, the exploration phase of the exploration right was upgraded, and the exploration project was named “General Exploration of Gold Mine in Xiling Village, Laizhou City, Shandong Province”. On 1 January 2015, the area of the exploration right was curtailed and the exploration area was changed to 6.17 km². On 1 January 2017, the exploration phase of the exploration right was upgraded, and the exploration project was named “Detailed Exploration of Gold Mine in Xiling Village, Laizhou City, Shandong Province”. After the expiration of the mining right certificate on 31 December 2018, the issuance of mining right certificate was suspended due to the overlap between the partial scope of the mining right and the ecological redline protection zone (2016 version). The overlapped scope has been transferred out of the new ecological redline and after the new ecological protection redline was formally implemented, the exploration license for the new phase was obtained on 20 April 2023. The area of the exploration right was curtailed and the exploration area was changed to 4.59 km². There were no minable and utilizable ore bodies and no resource partitioning was involved within the cut area, and the license will be valid until 19 April 2028.

3. Approval Procedures Required for the Transfer of Exploration Right

The transfer of exploration right contemplated under the Acquisition is subject to the approval of and registration procedures with the competent natural resources authorities.

4. Production Conditions for Mine Mining

There are currently no production activities involving the Xiling Gold Mine Exploration Right. After the Completion, the Xiling Gold Mine Exploration Right will be integrated with the existing mining right of Sanshandao Gold Mine owned by Shandong Gold Mining (Laizhou) Co., Ltd. (山東黃金礦業(萊州)有限公司), a wholly-owned subsidiary of the Company, into a new mining right, and be jointly developed and utilized. Sanshandao Gold Mine is currently an active mine and will continue to maintain normal production during the resource integration period.

5. Valuation of the Xiling Gold Mine Exploration Right

According to the valuation report, the appraised value of the Xiling Gold Mine Exploration Right as at the Valuation Reference Date was RMB11,028,801,300.

Valuation method

The discounted cash flow method was adopted for this valuation.

According to the “China Mineral Rights Evaluation Standards”, there are three types of valuation methods for mineral right valuation, namely, the income approach, the cost approach and the market approach. In accordance with the applicable scope and prerequisites of various valuation methods under the “China Mineral Rights Evaluation Standards”, the valuation methods shall be appropriately selected in light of the characteristics of the valuation target and scope as well as the valuation information collection and other relevant conditions, in order to form a valuation conclusion. Where the valuation information conditions are available and it is appropriate to adopt different valuation methods, two or more valuation methods shall be adopted for the valuation, and valuation conclusions shall be reasonably formed through comparative analysis; where it is not possible to adopt two or more valuation methods for the valuation due to applicability of the methods, operational constraints, etc., the valuation can be carried out by adopting a single method.

Due to the geographic and geological specificities of the exploration right, the exploration work has submitted a large deposit resource, and no cases of the same or similar transactions have been collected, and therefore it is not possible to adopt the market comparative adjustment method based on the transaction cases on the market.

The cost evaluation method of mineral rights includes the exploration cost-utility method and the geological element ranking method. The cost evaluation method is suitable for exploration right with lower stages of geological work. For exploration right that has a high degree of geological exploration and has been submitted and evaluated with development prospects, the cost evaluation method is no longer suitable. This entrusted valuation project is an exploration right valuation in the advanced exploration stage, whose reserves have been filed and relevant designs have been prepared. Therefore, the exploration cost-utility method and the geological element ranking method are not applicable for the valuation.

Income valuation method includes the income and equity method and the discounted cash flow method. The production scale of the mine is large, and the mine is classified as large mine in terms of the size of its resource reserves, and its service life is greater than 5 years, therefore, it does not qualify for the income and equity method of valuation. Shandong Gold Geological Mine Exploration Co., Ltd. prepared the “Exploration Report on the Xiling Gold Mine in the Sanshandao Mine Area of Laizhou City, Shandong Province” in May 2023; China ENFI Engineering Corporation prepared the “Feasibility Study on the Exploration of the Xiling Gold Mine in the Sanshandao Mine Area of Laizhou City, Shandong Province”; the main technical and economic parameters designed for resource development and utilization are available for selection and utilization in the valuation, and the conditions for selection of various valuation parameters are basically in place. The exploration right is of a certain scale, has independent measurable profitability, and its future revenue and risks borne can be measured in monetary terms. As future revenue can be predicted, the economic and technical parameters designed in the Feasibility Study Report can basically satisfy the requirements for valuation using the discounted cash flow method. According to the “Mineral Rights Evaluation Management Measures (Trial)” and the “China Mineral Rights Evaluation Standards”, it is determined that this valuation adopts the discounted cash flow method.

Valuation assumption

The appraised value referred to in the valuation report are fair value opinions expressed based on the listed valuation purpose, the Valuation Reference Date and the following underlying assumptions:

- (1) the degree of geological survey work as well as the internal and external conditions of the valuation target have no major change but remain current status;
- (2) the relevant policies, laws and systems followed have no major change but remain current status and the related social, political and economic environment as well as the development technologies and conditions, etc. have no major change but remain current status;
- (3) it will not take into account the impact on the appraised value of encumbrance 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;
- (4) the exploration right can be successfully converted into mining right and the mining license can be obtained. Its subsequent development and utilization methods can be smoothly implemented according to the plans set out in the feasibility study, and the obtained mining license can be smoothly extended until the expiration of the evaluated life; and
- (5) there is no other significant impact caused by force majeure and unpredictable factors.

Main valuation parameters

Within the scope of the exploration right, the reviewed and filed (measured+indicated+inferred) resources include an amount of gold ore of 147,278,666 tonnes, and an amount of Au metal of 592,186.00 kg, with an average Au grade of 4.02 g/t (including 2,022,909.00 tonnes of low-grade gold ore that can be mined on a consolidated basis and 3,942.00 kg of Au metal); the associated (inferred) resources include an amount of ore of 144,993,673 tonnes, and an amount of associated Ag metal of 590,850.00 kg, with an average Ag grade of 4.08 g/t, and an amount of associated pure S of 3,617,079.00 tonnes, with an average S grade of 2.49%. In addition, there are gold ore of 1.1122 million tonnes, and Au metal of 4,393 kg, with an average Au grade of 3.95 g/t, which are still difficult to be utilized.

An amount of gold ore of 10,736,744.00 tonnes and an amount of metal of 18,682.00 kg from the resource reserves that are difficult to be utilized, associated minerals and the increase and decrease estimated through remodeling in the design will not be used in the valuation. The credibility coefficient is 1.0 for measured + indicated resources, and 0.7 for inferred resources. The resource reserves used in the valuation include an amount of gold ore of 121,506,978.00 tonnes and an amount of Au metal of 512,967.40 kg, with an average Au grade of 4.22 g/t.

The loss in the design includes an amount of gold ore of 6,464,132.10 tonnes and an amount of Au metal of 20,068.54 kg. The mining loss includes an amount of gold ore of 11,504,284.59 tonnes and an amount of Au metal of 49,289.89 kg with a mining recovery rate of 90%.

The minable reserve used in the valuation includes an amount of gold ore of 103,538,558.25 tonnes and an amount of Au metal of 443,978.80 kg, with an average Au grade of 4.29 g/t. Among them: gold ore of 41,768,086.23 tonnes, and Au metal of 193,624.08 kg, with an average Au grade of 4.64 g/t, is in the upper part of phase I; gold ore of 34,854,481.53 tonnes, and Au metal of 145,668.50 kg, with an average Au grade of 4.18 g/t, is in the lower part of phase I; and gold ore of 26,915,990.49 tonnes, and Au metal of 104,686.22 kg, with an average Au grade of 3.89 g/t, is in phase II.

The product solution is finished gold (Au) (trading variety grade Au9995 (secondary gold ingot, containing gold $\geq 99.95\%$, $< 99.99\%$, i.e., national standard No. 2 gold)).

Ore dilution rate is 8%; production scale is 3.30 million tonnes/year; theoretical service life of the mine (the upper part of phase I + the lower part of phase I + phase II) is 36 years, and the evaluated life is 43 years (including the infrastructure period).

Based on the original fixed assets of RMB1,468.8901 million, the additional investment in fixed assets in the upper part of phase I is RMB3,387.23 million, the additional investment in fixed assets in the lower part of phase I is RMB537.1 million, and the additional investment in fixed assets for phase II is RMB1,064.92 million; based on the original intangible assets of RMB23.0707 million, the increase is RMB8.48 million. The gold metal price is RMB369.45/g, and the gold return rate is 97.5%. The discount rate is 8.40%.

Explanations on valuation

- (1) The Xiling Gold Mine Exploration Right has not been disposed of for consideration, and no transfer income (price) has been paid. According to the Notice on Issuing the Measures for the Collection of the Income from the Transfer of Mineral Rights (《關於印發〈礦業權出讓收益徵收辦法〉的通知》) (Caizong [2023] No. 10) issued by the Ministry of Finance, the Ministry of Natural Resources and the State Taxation Administration, gold ore processing products shall be subject to annual payment of the transfer income of the mining right at the rate of 2.3% of the sales revenue. Based on this forecast future income, the total amount of mining rights income to be paid in future years is RMB3,531.2194 million. The discounted value is RMB691.2479 million based on the discount rate adopted in this valuation. As there are no unified regulations in the industry regarding specific treatment of the transfer income in the valuation conclusion, the valuation conclusion contains the transfer income of mining rights of liability nature.
- (2) There are an amount of gold ore of 1.1122 million tonnes and an amount of Au metal of 4,393 kg, with an average Au grade of 3.95 g/t, within the scope of the exploration right which have been filed but yet difficult to be utilized. As it has not been designed for utilization in the Feasibility Study Report used as the basis for this valuation, the impact on the appraised value of possible utilization of such part of the resources has not been considered in the valuation conclusion.

IV. INFORMATION OF THE RELEVANT PARTIES

The Company

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, Fujian Province and Argentina, South America and Ghana, Africa.

Shandong Gold Exploration

Shandong Gold Exploration is a company established in the PRC with limited liability on 3 January 2003 and is held as to 100% by Shandong Gold Resources Development Co., Ltd., which in turn is held as to 100% by SDG Group Co.. Shandong Gold Exploration is principally engaged in mineral resources exploration, and geological exploration for metal and non-metal mineral resources.

SDG Group Co.

As the controlling shareholder, SDG Group Co. was established in the PRC in July 1996. SDG Group Co. 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 Co. are mainly located in the PRC.

V. REASONS FOR AND BENEFITS OF THE ACQUISITION

(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**”). In order to actively implement the opinions set out in the Approval, the Company promotes the mineral rights consolidation work in respect of the mineral rights relating to the metallogenic belt of Sanshandao Gold Mine under the Company and SDG Group to ensure that the Xiling Gold Mine Exploration Right will be injected into the Company as soon as possible.

(II) Increasing resources reserve, expanding production scale and leveraging synergies to improve the asset scale and profitability of the Company

Gold resource reserves determine the future development potential and space of gold companies. The Xiling Gold Mine Exploration Right, the target asset of the Acquisition, is the largest (world-class giant) single gold deposit explored in the PRC to date with abundant resources reserves. The implementation of the Acquisition will be conducive to further increasing the Company’s gold resource reserves, expanding its production scale and strengthening the scale effect, and thus enhancing the core competitiveness of the Company.

Xiling Gold Mine is located on the eastern side of Sanshandao Gold Mine and is an extension of the ore body of Sanshandao Gold Mine along the strike and inclination, which is feasible for the consolidation of the mining rights and can realise geographical concentration. Upon completion of the consolidation, the Xiling Gold Mine Exploration Right and the mining right of Sanshandao Gold Mine will be merged into one mineral right. The resource advantages of Xiling Gold Mine can be fully utilised with the existing infrastructure and mining and processing system, engineering facilities and staffing of Sanshandao Gold Mine, which is conducive to realising intensive mining and reducing mining costs, improving resources utilisation efficiency and enhancing the Company’s profitability. Upon the completion of the Acquisition, by organising the project construction on a scientific basis, the construction cycle of the mine can be

shortened, the costs of engineering facilities can be reduced, the early exploitation and early utilisation of resources can be achieved and thus economic benefits can be realised as soon as possible.

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

The implementation of the Acquisition can inject existing gold mineral rights that meet the listing requirements under SDG Group into the Company. This will not only help realise the overall listing of high-quality gold resources within SDG Group, but also reduce horizontal competition between SDG Group and the Company, and does not involve increase of connected transactions, thereby further implementing regulatory requirements for the listed company.

(IV) The Company has adequate liquidity and smooth financing channels, which will not adversely affect the liquidity of the Company

At present, the Company has sound reserve of liquidity, as well as sufficient external credit facilities and smooth financing channels. There is no obstacle for payment of the consideration for the Acquisition and the liquidity for the Company's normal production and operation will not be adversely affected. Upon completion of the Acquisition, the exploration right of Xiling Gold Mine will be integrated and developed with the mining right of Sanshandao Gold Mine, as a result, the commencement of production will last longer, and the contribution to the net profit of the Company will need to be released on a yearly basis. The financial costs incurred from payment of the consideration for the Acquisition will have a certain diluted effect on the Company's profit in the short run. The Target Exploration Right will contribute to the Company's long-term and sustainable profit in the future after being put into production, which will also have a positive impact on the Company's ability to improve its profitability and core competitiveness in the long term.

(V) The connected transaction does not involve any change in management, personnel resettlement, land leasing, etc.

The Acquisition does not involve any change in management, personnel resettlement and land leasing of Shandong Gold Exploration, Shandong Gold Mining (Laizhou) Co., Ltd. (山東黃金礦業(萊州)有限公司) and Sanshandao Gold Mine. The land involved will be included in the coordination and consideration for development and utilisation plan of Sanshandao Gold Mine integration area after the Acquisition.

Opinion from the Board

The Directors (excluding the independent non-executive Directors who will express their views in the circular after taking into consideration the advice of the Independent Financial Adviser) are of the view that although the Acquisition is not entered into in the ordinary course of business of the Group, the terms of the Acquisition are on normal commercial terms, which are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole.

The Directors, Mr. Li Hang and Ms. Wang Xiaoling, also holding senior management positions in SDG Group Co., are deemed to have material interests in the Acquisition and have abstained from voting on the relevant resolution of the Board. Save for the Directors mentioned above, none of the other Directors had any material interests in the Acquisition and was required to abstain from voting on the Board resolution approving the same.

VI. HONG KONG LISTING RULES IMPLICATIONS

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 Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Hong Kong Listing Rules and will be subject to reporting and announcement requirements under Chapter 14 of the Hong Kong Listing Rules.

SDG Group Co. is the controlling shareholder, directly and indirectly holding approximately 45.58% of the issued share capital of the Company as at the date of this announcement. Shandong Gold Exploration is an indirect wholly-owned subsidiary of SDG Group Co. Accordingly, the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules and is subject to reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

VII. GENERAL

The Independent Board Committee, comprising all the independent non-executive Directors, has been established to consider the terms of the Acquisition Agreement 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.

The EGM will be convened for the Independent Shareholders to consider and, if thought fit, to approve, among other things, the Acquisition Agreement and the transactions contemplated thereunder. Pursuant to Rule 14A.36 of the Hong Kong Listing Rules, any Shareholder who has a material interest in the Acquisition shall abstain from voting on the resolution in relation to approving the Acquisition Agreement and the transactions contemplated thereunder at the EGM. As at the date of this announcement, SDG Group Co. and its associates hold approximately 45.58% of the issued share capital of the Company, they will be required to abstain from voting on the relevant resolution at the EGM accordingly. Save for SDG Group Co. and its associates, as at the date of this announcement, to the best knowledge of the Directors, no other Shareholder would be required to abstain from voting thereat as no other Shareholder has any interest in the Acquisition Agreement.

A circular containing, among other things, (i) information on the Acquisition; (ii) the recommendation of the Independent Board Committee in respect of the Acquisition; (iii) the advice of the Independent Financial Adviser regarding the terms of the Acquisition; and (iv) other information as required under the Hong Kong Listing Rules, shall be despatched to the Shareholders on or before 8 March 2024, so as to allow sufficient time for the preparation of the aforesaid information for inclusion in the circular.

DEFINITIONS

In this announcement, unless otherwise indicated in the context, the following expressions have the meanings set out below:

“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;
“Acquisition”	the acquisition of the Xiling Gold Mine Exploration Right by the Company from Shandong Gold Exploration in accordance with the terms and conditions of the Acquisition Agreement;
“Acquisition Agreement”	the exploration right transfer contract in respect to the Acquisition signed by the Company and Shandong Gold Exploration on 26 January 2024;
“associate(s)”	has the meaning as ascribed to it under the Hong Kong Listing Rules;
“Board”	the board of Directors of the Company;
“Company”	Shandong Gold Mining Co., Ltd. (山東黃金礦業股份有限公司), a joint stock company incorporated in the PRC under the laws of the People’s Republic of China with limited liability on 31 January 2000;
“Completion”	the completion of the Acquisition in accordance with the terms and conditions of the Acquisition Agreement;
“connected person(s)”	has the meaning as ascribed to it under the Hong Kong Listing Rules;
“connected transaction”	has the meaning as ascribed to it under the Hong Kong Listing Rules;
“controlling shareholder(s)”	has the meaning as ascribed to it under the Hong Kong Listing Rules;
“Director(s)”	the director(s) of the Company;
“EGM”	the extraordinary general meeting to be convened and held by the Company to consider and, if thought fit, approve the Acquisition Agreement and the transactions contemplated thereunder;
“Group”	the Company and its subsidiaries;

“H Share(s)”	the overseas-listed foreign invested share(s) in the Company’s share capital, with a nominal value of RMB0.1 each, which are listed on the Hong Kong Stock Exchange;
“Hong Kong”	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;
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors, established for the purpose of advising the Independent Shareholders on the terms of the Acquisition Agreement and the transactions contemplated thereunder;
“Independent Financial Adviser” or “Lego”	Lego Corporate Finance Limited, a licensed corporation under the Securities and Futures Ordinance to carry on Type 6 (advising on corporate finance) regulated activity, being the independent financial adviser appointed for the purposes of advising the Independent Board Committee and the Independent Shareholders in respect of the Acquisition Agreement and the transactions contemplated thereunder;
“Independent Shareholders”	Shareholders other than SDG Group Co. and its associates;
“RMB”	Renminbi, the lawful currency of the PRC;
“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 company established in the PRC with limited liability on 16 July 1996. As of the date of this announcement, SDG Group Co. is held as to 70%, 20% and 10% by Shandong Provincial People’s Government State-owned Assets Supervision and Administration Commission (山東省人民政府國有資產監督管理委員會), Shandong Guohui Investment Holding Group Co., Ltd. (山東國惠投資控股集團有限公司) and Shandong Caixin Assets Operation Co., Ltd. (山東省財欣資產運營有限公司), respectively. Shandong Guohui Investment Holding Group Co., Ltd. is a limited liability company established in the PRC and is held as to 100% by Shandong Provincial People’s Government State-owned Assets Supervision and Administration Commission;

“Shandong Gold Exploration”	Shandong Gold Geological Mine Exploration Co., Ltd. (山東黃金地質礦產勘查有限公司), a company established in the PRC with limited liability on 3 January 2003;
“Share(s)”	shares in the share capital of the Company, with a nominal value of RMB1.00 each, comprising our A Shares and our H Shares;
“Shareholder(s)”	holder(s) of the Share(s);
“SSE”	the Shanghai Stock Exchange;
“Valuation Reference Date”	31 October 2023;
“Valuer”	Beijing Zhongzhicheng International Assets Appraisal Co., Ltd. (北京中致成國際資產評估有限公司), an independent valuer with assets appraisal qualifications for the securities business;
“Xiling Gold Mine Exploration Right” or “Target Exploration Right”	the exploration and prospecting right of the gold mine at Xiling Village in Laizhou City, Shandong Province; and
“%”	percent.

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

Jinan, the PRC, 26 January 2024

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