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ZHAOJIN

ZHAOJIN MINING INDUSTRY COMPANY LIMITED*

招金礦業股份有限公司

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

(Stock Code: 1818)

ANNOUNCEMENT

CONTINUING CONNECTED TRANSACTIONS

THE PROCESSING AND SMELTING, TREATMENT OF WASTE WATER, WASTE GAS AND WASTE RESIDUE, TESTING AND RELATED TECHNICAL SERVICES FRAMEWORK AGREEMENT

On 31 December 2019, the Company entered into the Processing and Smelting, Treatment of Waste Water, Waste Gas and Waste Residue, Testing and Related Technical Services Framework Agreement with Shandong Zhaojin Technology in relation to the provision of processing and smelting, treatment of waste water, waste gas and waste residue, testing and related technical services by Shandong Zhaojin Technology and its subsidiaries to the Group during the period from 1 January 2020 to 31 December 2022 (both days inclusive).

LISTING RULES IMPLICATIONS

As at the date of this announcement, Shandong Zhaojin is the controlling Shareholder of the Company and thus a connected person of the Company. Shandong Zhaojin Technology, being a subsidiary of the Company, is held as to 35% by Shandong Zhaojin. As Shandong Zhaojin Technology is a connected subsidiary of the Company as well as an associate of Shandong Zhaojin, Shandong Zhaojin Technology is a connected person of the Company. Accordingly, the Processing and Smelting, Treatment of Waste Water, Waste Gas and Waste Residue, Testing and Related Technical Services Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) of the highest annual cap in respect of the Processing and Smelting, Treatment of Waste Water, Waste Gas and Waste Residue, Testing and Related Technical Services Framework Agreement exceeds 0.1% but is less than 5%, the Processing and Smelting, Treatment of Waste Water, Waste Gas and Waste Residue, Testing and Related Technical Services Framework Agreement and the transactions contemplated thereunder are subject to annual review, reporting and announcement requirements, but are exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

THE PROCESSING AND SMELTING, TREATMENT OF WASTE WATER, WASTE GAS AND WASTE RESIDUE, TESTING AND RELATED TECHNICAL SERVICES FRAMEWORK AGREEMENT

Date

31 December 2019

Parties

- (i) the Company; and
- (ii) Shandong Zhaojin Technology

Duration

From 1 January 2020 to 31 December 2022 (both days inclusive)

Subject to compliance with the applicable laws and regulations, the articles of association of the Company and Shandong Zhaojin Technology, and the Listing Rules, the term of the Processing and Smelting, Treatment of Waste Water, Waste Gas and Waste Residue, Testing and Related Technical Services Framework Agreement may be extended for three years by the parties.

Services

Shandong Zhaojin Technology and its subsidiaries shall provide the processing and smelting, treatment of waste water, waste gas and waste residue, testing and related technical services to the Group, mainly including the comprehensive utilization of tailings, process investigation, technical services for improving the recovery rate of ore processing, positioning and directional measurement, aerial survey, geological prospecting research, element detection, underground ventilation, laboratory testing, chlorination gold-extraction process, biological oxidation and cyaniding tailings treatment experimental research and study on new environmental gold-extraction process – chemical pre-oxidation of knotty gold concentrates containing sulfur and arsenic, and shall submit materials and achievements in accordance with relevant business regulations.

Pricing and Payment Terms

Shandong Zhaojin Technology and its subsidiaries and the Group shall, from time to time, enter into separate agreement(s) regarding the provision of various services during the term of the Processing and Smelting, Treatment of Waste Water, Waste Gas and Waste Residue, Testing and Related Technical Services Framework Agreement to the extent that such separate agreement(s) shall comply with the terms of the Processing and Smelting, Treatment of Waste Water, Waste Gas and Waste Residue, Testing and Related Technical Services Framework Agreement. The fees and terms of the processing and smelting, treatment of waste water, waste gas and waste residue, testing and related technical services to be provided by Shandong Zhaojin Technology and its subsidiaries to the Group shall be determined in the ordinary course of business on normal commercial terms upon negotiation on an arm's length basis, and at fees and terms no less favourable to the Group than the fees and terms offered by Independent Third Parties to the Group.

The fees for the processing and smelting, treatment of waste water, waste gas and waste residue, testing and related technical services shall be paid upon the completion of inspection by the Company or its relevant subsidiaries.

Annual Caps

The Company expects that the annual caps for the transactions contemplated under the Processing and Smelting, Treatment of Waste Water, Waste Gas and Waste Residue, Testing and Related Technical Services Framework Agreement are as follows:

	<i>RMB</i>
For the year ending 31 December 2020	27.5 million
For the year ending 31 December 2021	29 million
For the year ending 31 December 2022	29 million

The above annual caps are determined based on: (i) the historical transaction amounts regarding the processing and smelting, treatment of waste water, waste gas and waste residue, testing and related technical services provided by Shandong Zhaojin Technology and its subsidiaries to the Group; (ii) the improvement of scientific research and breakthrough capabilities of Shandong Zhaojin Technology and its subsidiaries; and (iii) the expected continuous increase in the technical investments for the next three years, due to the increase in the efforts on technical breakthrough for the next three years, resulting in the combination of the overall business development and the comprehensive planning of technical innovation of the Group in the next three years.

Historical Transaction Amounts

The historical transaction amounts regarding the processing and smelting, treatment of waste water, waste gas and waste residue, testing and related technical services provided by Shandong Zhaojin Technology to the Company are set out below:

	For the year ended 31 December 2018	From 1 January 2019 to 30 November 2019
	<i>RMB million</i> <i>(approximately)</i>	<i>RMB million</i> <i>(approximately)</i>
The processing and smelting, treatment of waste water, waste gas and waste residue, testing and related technical services provided by Shandong Zhaojin Technology and its subsidiaries to the Group	0.72	2.66

The Company confirms that the transaction amount for the provision of processing and smelting, treatment of waste water, waste gas and waste residue, testing and related technical services provided by Shandong Zhaojin Technology and its subsidiaries to the Group in 2019 is below the de minimis threshold under Rule 14A.76 of the Listing Rules.

REASONS FOR AND BENEFITS OF ENTERING INTO THE PROCESSING AND SMELTING, TREATMENT OF WASTE WATER, WASTE GAS AND WASTE RESIDUE, TESTING AND RELATED TECHNICAL SERVICES FRAMEWORK AGREEMENT

Shandong Zhaojin Technology possesses robust professional and technical strength. Relying on national technology-center enterprises and Shandong Applied Research Center of Gold Nanotechnology* (山東省黃金工程技術研究中心) and with a solid foothold in the scientific research and development of gold projects, Shandong Zhaojin Technology has a number of institutes doing research into underground mining, ore processing, metallurgy, environment and testing and has a strong team comprised of experts and outstanding engineers, providing vigorous technical support for the development of technical services. In addition, Shandong Zhaojin Technology boasts advanced laboratories and testing centers for the ore processing and smelting and treatment of waste water, waste gas and waste residue, together with various processing and smelting experimental instruments and advanced domestically and internationally laboratory testing facilities, so that it can carry out mineralogical studies for relevant processes, processing and smelting tests and researches and laboratory testing. Furthermore, Shandong Zhaojin Technology has lower costs of service, and the unit prices of various projects in cooperation with the Company gave it great competitive edges over other enterprises and were much lower than those as stated in the national standards.

The Company believes that Shandong Zhaojin Technology can offer efficient and effective technical services. Since its establishment, Shandong Zhaojin Technology has been carrying out business cooperation with the Group in the fields such as the technical researches on gold ore processing and smelting process, bio-oxidation projects and the optimization of processes and flows in the processing plants. They also helped the Group with technical breakthrough and assisted business units to achieve improvements in the recovery rate of ore processing and the optimization of processes and flows in the processing plants, as well as significant results in areas such as ore testing and elemental analysis, which brought about good economic and social benefits to the Company.

In view of the reasons above, the Directors (including independent non-executive Directors) are of the opinion that, the Processing and Smelting, Treatment of Waste Water, Waste Gas and Waste Residue, Testing and Related Technical Services Framework Agreement were entered into on normal commercial terms in the ordinary and usual course of business of the Company, and the terms thereof are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

LISTING RULES IMPLICATIONS

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As the highest of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Processing and Smelting, Treatment of Waste Water, Waste Gas and Waste Residue, Testing and Related Technical Services Framework Agreement exceeds 0.1% but is less than 5%, the Processing and Smelting, Treatment of Waste Water, Waste Gas and Waste Residue, Testing and Related Technical Services Framework Agreement and the transactions contemplated thereunder are subject to annual review, reporting and announcement requirements, but are exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

APPROVAL OF THE BOARD

The Processing and Smelting, Treatment of Waste Water, Waste Gas and Waste Residue, Testing and Related Technical Services Framework Agreement has been approved by the Board on 31 December 2019 and none of the voting Directors had any material interest in the transactions contemplated thereunder. Mr. Weng Zhanbin and Mr. Liu Yongsheng have voluntarily abstained from voting on the Company's Board resolution approving the entering into of the Processing and Smelting, Treatment of Waste Water, Waste Gas and Waste Residue, Testing and Related Technical Services Framework Agreement and the transactions contemplated thereunder.

INTERNAL CONTROL MEASURES

The Company has developed various internal control measures to ensure that the transactions contemplated under the Processing and Smelting, Treatment of Waste Water, Waste Gas and Waste Residue, Testing and Related Technical Services Framework Agreement shall comply with the pricing policy and that the price and terms of the Processing and Smelting, Treatment of Waste Water, Waste Gas and Waste Residue, Testing and Related Technical Services Framework Agreement are on normal commercial terms and shall not be less favourable than the price and terms provided by an Independent Third Party for the provision of similar services so far as the Company is concerned. The internal control measures primarily comprise:

- (i) the manager(s) supervising the transactions will regularly review the terms thereof to ensure that the fees charged by Shandong Zhaojin Technology reflect the prevailing market rate and is determined on normal commercial terms and on an arm's length basis;
- (ii) the Company's business department will, on a monthly basis, calculate the transaction amounts incurred in the previous month under the agreement and report the results to the management of the Company and the Board. In the event that any of the annual caps of the agreement is likely to be exceeded, the business department shall inform the management of the Company and the Board on a timely basis;
- (iii) the external auditor of the Company will issue a letter to the Board each year to report on the pricing policy and annual caps of the Company's continuing connected transactions (including the transactions contemplated under the Processing and Smelting, Treatment of Waste Water, Waste Gas and Waste Residue, Testing and Related Technical Services Framework Agreement) conducted during the previous financial year pursuant to the Listing Rules; and

- (iv) the independent non-executive Directors of the Company will conduct annual reviews on the continuing connected transactions conducted by the Company in the previous financial year and confirm the transaction amounts and terms of the continuing connected transactions in the annual report of the Company pursuant to the requirement of the Listing Rules, so as to ensure that the continuing connected transactions are entered into on normal commercial terms, fair and reasonable and are conducted in accordance with the terms of relevant agreement governing the continuing connected transactions.

Through the implementation of the above procedures and measures, the Directors consider that the Company has established an adequate internal control system to ensure that the relevant continuing connected transactions contemplated under the Processing and Smelting, Treatment of Waste Water, Waste Gas and Waste Residue, Testing and Related Technical Services Framework Agreement are conducted in accordance with the terms thereof, on normal commercial terms (or terms no less favourable to the Company than the terms offered by an Independent Third Party for the provision of similar services), which are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

GENERAL INFORMATION

The Group is principally engaged in gold exploration, mining, ore processing and smelting, and processing and sale of by-products in the PRC.

Shandong Zhaojin Technology is principally engaged in technical services for prospecting and processing and smelting tests, technical services for the treatment of waste water, waste gas and waste residue, inspection and testing, management of construction projects and consulting services for ore processing technologies.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following capitalised terms used shall have the following meanings:

“Board”	the board of Directors of the Company
“Company”	Zhaojin Mining Industry Company Limited* (招金礦業股份有限公司) (Stock Code: 1818), a joint stock limited company established in the PRC on 16 April 2004, the issued H Shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries

“H Shares”	H shares with a nominal value of RMB1 each in the share capital of the Company which are listed on the Stock Exchange
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	a person(s) or company(ies) who or which is/are independent of and not connected to the Company and its connected persons (within the meaning of the Listing Rules)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China and for the purpose of the announcement only, excluding Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan
“Processing and Smelting, Treatment of Waste Water, Waste Gas and Waste Residue, Testing and Related Technical Services Framework Agreement”	the processing and smelting, treatment of waste water, waste gas and waste residue, testing and related technical services framework agreement entered into between the Company and Shandong Zhaojin Technology on 31 December 2019 in relation to the provision of processing and smelting, treatment of waste water, waste gas and waste residue, testing and related technical services by Shandong Zhaojin Technology and its subsidiaries to the Group
“RMB”	Renminbi, the lawful currency of the PRC
“Shandong Zhaojin”	Shandong Zhaojin Group Company Limited* (山東招金集團有限公司), the controlling Shareholder of the Company
“Shandong Zhaojin Technology”	Shandong Zhaojin Technology Company Limited* (山東招金科技有限公司), as described in the section headed “GENERAL INFORMATION”
“Shareholder(s)”	shareholder(s) of the Company

“Stock Exchange”

The Stock Exchange of Hong Kong Limited

“%”

per cent

By order of the Board
Zhaojin Mining Industry Company Limited*
Weng Zhanbin
Chairman

Zhaoyuan, the PRC, 31 December 2019

As at the date of this announcement, the Board comprises Mr. Weng Zhanbin, Mr. Dong Xin and Mr. Wang Ligang as executive Directors; Mr. Xu Xiaoliang, Mr. Liu Yongsheng, Mr. Gao Min and Mr. Huang Zhen as non-executive Directors; and Ms. Chen Jinrong, Mr. Choy Sze Chung Jojo, Mr. Wei Junhao and Mr. Shen Shifu as independent non-executive Directors.

* *For identification purpose only*