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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

(1) WATER TREATMENT ENGINEERING SERVICES AGREEMENT

On 30 December 2015, the Company and Zhaojin Motian entered into the Water Treatment Engineering Services Agreement in relation to Zhaojin Motian's provision of water treatment engineering services and relevant necessary super filter membrane and equipment to the Company from 1 January 2016 to 31 December 2018.

(2) FUTURES BROKERAGE AGREEMENT

On 30 December 2015, the Company and Zhao Jin Futures entered into the Futures Brokerage Agreement in relation to Zhao Jin Futures provision of futures brokerage services to the Company in the PRC from 1 January 2016 to 31 December 2018. Pursuant to the Futures Brokerage Agreement, the Company shall place Security Deposit with Zhao Jin Futures and pay the transaction fees to Zhao Jin Futures.

CONTINUING CONNECTED TRANSACTIONS

As at the date of this announcement, Zhaojin Group is a controlling shareholder of the Company. Zhaojin Motian and Zhao Jin Futures are subsidiaries of Zhaojin Group, and are connected persons of the Company. Therefore, according to Chapter 14A of the Listing Rules, the Water Treatment Engineering Services Agreement and the Futures Brokerage Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company.

As each of the relevant percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of each of the Water Treatment Engineering Services Agreement and the Futures Brokerage Agreement is less than 5%, the Water Treatment Engineering Services Agreement, the Futures Brokerage Agreement and the transactions contemplated thereunder are subject to the annual review, reporting and announcement requirements but are exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

(1) WATER TREATMENT ENGINEERING SERVICES AGREEMENT

Date

30 December 2015

Parties

- (i) The Company; and
- (ii) Zhaojin Motian, a subsidiary of Zhaojin Group

Term of the agreement

From 1 January 2016 to 31 December 2018

Services

Zhaojin Motian agreed to provide the Company with water treatment engineering services and necessary super filter membrane and equipment. Water treatment engineering services include purification of safe quality drinking water, domestic wastewater treatment and reclaimed water recycling, and mine wastewater treatment services. Specifications in relation to the provision of necessary super filter membrane, equipment and water treatment engineering services will be set out in separate agreements to be entered into by the parties under the Water Treatment Engineering Services Agreement based on actual conditions of the time.

Terms of pricing and payment

Zhaojin Motian and the Company will conclude separate agreements or orders concerning provision of water treatment engineering services and necessary super filter membrane and equipment from time to time during the term of the Water Treatment Engineering Services Agreement, and the said separate agreements shall comply with the provisions of the Water Treatment Engineering Services Agreement; price and terms relating to water treatment engineering services, super filter membrane and equipment to be provided by Zhaojin Motian for the Company shall be determined upon fair negotiation according to normal commercial terms during the ordinary course of business. The price and terms provided for the Group shall not be less favourable than the price and terms provided by an independent third party for the Group and shall not be higher than the fee charged by Zhaojin Motian for provision of similar services in the ordinary course of business provided to independent third parties at the same time.

The Company shall pay for the super filter membrane supplied by Zhaojin Motian by telegram transfer, with delivery on payment. The Company needs to pay a deposit equivalent to 30% of the total transaction value respectively for water treatment engineering services and relevant equipment supplied by Zhaojin Motian within three working days after signing of the related agreement or order, and makes another payment equivalent to 60% of the total transaction value before delivery of the relevant equipment. For water treatment engineering services, the Company needs to pay 60% of the total transaction value within three working days after the Company installs and debugs the equipment and the two parties verify that the equipment has met the index set out in the design scheme. The remaining 10% of the total transaction value in respect of water treatment engineering services and necessary equipment shall be used as retention money and be paid by the Company upon expiry of the warranty period.

The Maximum Transaction Value

The Company expects that the maximum transaction value (“annual caps”) of the proposed transactions under the Water Treatment Engineering Services Agreement are set out below:

	<i>RMB</i>
For the year ending 31 December 2016	RMB9 million
For the year ending 31 December 2017	RMB10.8 million
For the year ending 31 December 2018	RMB13 million

The aforesaid annual caps are determined based on the following consideration: (i) amounts of historical transactions in which Zhaojin Motian was engaged to provide the Company with water treatment services; (ii) the amount of water treatment engineering services including blackish water desalination and mine wastewater treatment services provided by the Company and Zhaojin Motian in the ensuing three years will have a greater growth, the expected growth rate will be 20%, according to the future business development of the Company and the requirements of Laizhou Ruihai project, which was acquired by the Company in 2015; and (iii) an increase in demand from the Company for water treatment services as a result of the integrated production and operation management of the Company with comprehensive planning for safety management and green operation in the ensuing three years. Accordingly, the annual caps for the transaction amount for the ensuing three years were arrived at taking into account the maximum amounts of transactions during the past three years and calculated on a yearly increase of 20% basis and the annual caps for the three years ending 31 December 2018 would be RMB9 million, RMB10.8 million and RMB13 million respectively (such amounts were calculated with reference to the transactions amounts for 2014 as the historical transactions amounts for the whole year of 2015 has not yet been available to the Company).

Historical Transaction Amounts

Historical transaction amounts for Zhaojin Motian’s provision of water treatment services for the Company are specified below:

	For the year ended 31 December 2013	For the year ended 31 December 2014	For eleven months ended 30 November 2015
	<i>RMB’ million (approximately)</i>	<i>RMB’ million (approximately)</i>	<i>RMB’ million (approximately)</i>
Water treatment service provided by Zhaojin Motian for the Company	5.28	7.47	3.60

Reasons for and benefits of entering into the Water Treatment Engineering Services Agreement

The Company has taken environmental protection very seriously since its establishment. In line with the continuous growth of the Company and the society's rising concern towards environmental protection, our investment in environmental protection has been increasing, where investment in water treatment comprises an integral part. The Company anticipated that there will be a continuous and reasonable increase in demand of water treatment services from 2016 to 2018. The Company considers that since Zhaojin Motian is the only separation membrane materials engineering technology R&D center of provincial level in Shandong Province and has a complete industry chain spanning separation membrane technology R&D, production of membrane products and design and construction of membrane system, and its advanced separation membrane technology can be applied in solving various problems of water resources. Also, given its familiarity with actual conditions of mines owned by the Company, it can provide the Company with reasonable opinions on water treatment. Engaging Zhaojin Motian as a supplier of water treatment engineering services may help lower the cost for water treatment of the Company and bring stronger technological support.

In view of the above, the Directors (including the independent non-executive Directors) consider that the terms of the Water Treatment Engineering Services Agreement are normal commercial terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(2) FUTURES BROKERAGE AGREEMENT

Background

- (a) In order to minimise the risks of gold price fluctuations and ensure the revenue from the processing business by freezing up the cost of raw materials, the Company attempts to freeze the cost of its gold concentrates through futures transactions.
- (b) Gold financial leasing is a type of business in which banks lease gold to qualified enterprises which meet specific conditions and charge them for rents in accordance with the relevant gold leasing contract, and the enterprises are required to return gold of the same quantity and quality upon expiry. Enterprises may fulfil short-term financing by selling the leased gold. In order to reduce the cost of short-term financing, the Company intends to participate in certain gold leasing business of financing nature. Therefore, the Company intends to freeze the price of the leased gold through conducting futures transactions, so as to freeze the financing costs.

Save for the two purposes of trading mentioned above, the Company will not enter into any other futures trades.

Parties

- (i) The Company; and
- (ii) Zhao Jin Futures, a non wholly-owned subsidiary of Zhaojin Group. Zhaojin Group holds 49.96% interests of Zhao Jin Futures through its subsidiary, Zhaojin Refinery.

Principal terms

Zhao Jin Futures agrees to provide the Company with brokerage service in relation to gold futures transaction in the PRC as instructed by the Company for a term of three years commencing from 1 January 2016 and ending on 31 December 2018.

The Company entrusts Zhao Jin Futures to trade gold futures contracts at its instruction in accordance with the terms of the Futures Brokerage Agreement. A Security Deposit shall be placed by the Company in a bank account designated by Zhao Jin Futures. Such Security Deposit placed by the Company shall belong to the Company. Zhao Jin Futures shall have the right to utilise the Security Deposit in the following ways:

- (i) in accordance with the instructions by the Company;
- (ii) to pay for the Security Deposit for the Company or settle the difference;
- (iii) to pay for the sum for the completion of the futures transaction for the Company or any default sum payable by the Company in the event of breach;
- (iv) to pay for the penalty payable by the Company imposed by any regulatory authority in the event of breach of any rules or regulations;
- (v) to pay for the custodian fee or any related fee payable by the Company;
- (vi) to pay for any administrative fee, tax or other related fees payable by the Company;
- (vii) to use the Security Deposit in the manner and amount as agreed by the parties in writing; or
- (viii) in accordance with the requirement under the relevant laws, regulations or by the CSRC.

In consideration of the services to be provided by Zhao Jin Futures under the Futures Brokerage Agreement, Zhao Jin Futures will charge the Company Transaction Fees pursuant to the Futures Brokerage Agreement.

The Futures Brokerage Agreement can be terminated by either party, if terminated by Zhao Jin Futures, by giving two days written notice to the Company; if terminated by the Company, by terminating the account with Zhao Jin Futures.

Pricing policy

The Transaction Fees were calculated on the basis of RMB10 per lot. The Transaction Fees were arrived at after arm's length negotiation between the parties to the Futures Brokerage Agreement taking into account of the fee and charge to be charged by other independent service providers for providing similar services in the PRC. The terms offered by Zhao Jin Futures shall be no less favourable to the Company than terms available to the Company from independent third parties.

The Futures Brokerage Agreement also provides that the amount of fees charged by Zhao Jin Futures on the Company for providing brokerage services shall not be higher than the fee charged by Zhao Jin Futures for provision of similar services to other third parties in the ordinary course of business and the fee charged by independent third parties for provision of similar services to the Group at the same time.

As the overall annual production of the Company is expected to increase by 10%, taking into account of other factors such as the trends of gold price, production and marketing strategies, the Company expects an increasing annual cap for the transaction as contemplated under the Futures Brokerage Agreement for the three years ending 31 December 2018.

Annual caps

The expected transaction volume of the Company through futures market in the next three years will be not more than 10,000 kilograms of gold, 30,000 kilograms of silver and 50,000 tonnes of copper per year.

The Company estimates the average prices of gold, silver and copper in 2016 will be approximately RMB240/gram, RMB3,500/kilograms and RMB42,000/tonne, respectively. Therefore, the aggregate Security Deposit will be approximately RMB376.5 million. The Company expected the three futures products are unlikely to reach their respective caps at the same time and therefore based on the calculation of 65% of the aggregate amount, the required Security Deposit will be not more than approximately RMB245 million for the year ending 31 December 2016.

The Company expects the commodity price trend will be bottoming out in the next few years. In addition, with the increase in production volume, the annual caps of Security Deposit for 2017 and 2018 will be based on that for 2016 and increase by 5% per year. The annual caps of Security Deposit for the future three years will be determined as follows and such amounts included the commission charged by Zhao Jin Futures in each year:

RMB245 million for the year ending 31 December 2016;

RMB257 million for the year ending 31 December 2017;

RMB270 million for the year ending 31 December 2018.

Of which: the estimated annual Transaction Fees payable by the Company to Zhao Jin Futures for each of the three years ending 31 December 2018 will be approximately RMB1.9 million, RMB1 million and RMB1.1 million respectively.

The proposed annual caps of the Security Deposit to be placed by the Company with Zhao Jin Futures are estimated based on the amount of gold concentrates, silver and copper to be bought and the amount of gold to be leased for the three years ending 31 December 2018.

The proposed annual caps for the Transaction Fees are estimated based on the amount of gold concentrates, silver and copper to be bought and the amount of gold to be leased for the three years ending 31 December 2018.

Historical figures

The amounts of commissions paid by the Company to Zhao Jin Futures for two years ended 31 December 2013 and 31 December 2014 and the eleven months ended 30 November 2015 are set out as follows:

	For the year ended 31 December 2013 <i>RMB'000</i> <i>(approximately)</i>	For the year ended 31 December 2014 <i>RMB'000</i> <i>(approximately)</i>	For eleven months ended 30 November 2015 <i>RMB'000</i> <i>(approximately)</i>
Fees payable by the Company to Zhao Jin Futures for futures brokerage services	136	295	220

Reasons for and benefits of entering into the Futures Brokerage Agreement

- (1) Trading of futures on the Shanghai Futures Exchange can only be done by members of the Shanghai Futures Exchange. As the Company is not a member of the Shanghai Futures Exchange, it must engage a brokerage firm to trade the futures contract on the Shanghai Futures Exchange on its behalf.
- (2) It is in the interest of the Company to use the futures brokerage service provided by Zhao Jin Futures as it is conducive to the confidentiality of trading.
- (3) Zhao Jin Futures is a qualified and reputable licenced brokerage firm registered with and regulated by the CSRC in the PRC with stringent internal control policies and risk management system. It has a professional market research team which is able to provide professional guidance and advice to the Company. As Zhao Jin Futures has extensive experience and expertise to monitor the transactions in a timely manner and enable the Company to identify and react to the fluctuation in the gold futures trading market. The Directors consider that the engagement of the service of Zhao Jin Futures will be beneficial to the Company.
- (4) The Security Deposit placed with Zhao Jin Futures are well protected pursuant to the following laws and regulations of the PRC:
 - (i) the Interim Measures on Separate Management of Security Deposit Taken by Futures Brokers (《期貨經紀公司保證金封閉管理暫行辦法》) specifies that, in order to safeguard the rights and interests of investors, the security deposit taken by futures brokers shall be subject to separate management, which shall be under the supervision from futures brokers' own capital accounts. Therefore, even if the futures brokers run into operational difficulties, the security deposit of the clients will not be misappropriated or affected. Article 69 of the Measures for Administration of Futures Companies (《期貨公司管理辦法》) (Order No. 43 of China Securities Regulatory Commission) also stipulates that futures security deposit placed at futures brokers vest in the clients. Other than the transfer under Article 29 of Administrative Rules for Futures Trading (《期貨交易管理條例》), no entity or individual shall be allowed to use or misappropriate security deposit of the clients in any manner. If a futures company goes into bankruptcy or liquidity, its clients' security deposit or other property used as security deposit shall not be taken as property subject to bankruptcy or liquidity proceedings. No seizure, freeze, transfer or enforcement shall be imposed on the clients'

security deposit or other property used as security deposit in cases other than clients in debts or other circumstances as provided by laws and administrative regulations. The security deposit of the clients shall be independent from and managed separately with the future companies' own capital.

- (ii) pursuant to the Interim Measures for Administration of the Futures Investors Protection Fund (《期貨投資者保障基金管理暫行辦法》), futures exchanges and futures brokers contribute at a certain rate to the investors protection fund, which is a special fund to compensate investors for their loss of security deposit if serious violation of laws and regulations or weakness in risk control on the part of futures brokers leads to the shortage of security deposit and may threaten the social stability and the safety of the futures market.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the Futures Brokerage Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Zhaojin Group is a controlling shareholder of the Company. Zhaojin Motian and Zhao Jin Futures are subsidiaries of Zhaojin Group, and are the connected persons of the Company. Therefore, according to Chapter 14A of the Listing Rules, the Water Treatment Engineering Services Agreement and the Futures Brokerage Agreement and the transactions as contemplated thereunder constitute continuing connected transactions of the Company. As each of the relevant percentage ratios (other than the profits ratio) (as calculated in accordance with Rule 14.07 of the Listing Rules) in respect of these Agreements are less than 5%, these Agreements and the transactions as contemplated thereunder are subject to the annual review, reporting and announcement requirements but are exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

APPROVAL OF THE BOARD

The Water Treating Engineering Services Agreement and the Futures Brokerage Agreement have been approved by the Board where none of the voting Directors bears any material interest of the proposed transactions under these Agreements. As executives of Zhaojin Group, Mr. Weng Zhanbin and Mr. Lu Dongshang have abstained from voting at the Board meeting relating to approval of these Agreements.

INTERNAL CONTROL MEASURES

The Company has developed a set of internal control measures to ensure that the transactions as contemplated under the Water Treatment Engineering Services Agreement and the Futures Brokerage Agreement shall be comply with the pricing policy and the respective terms of the Agreements are conducted on normal commercial terms, and that the terms shall not be less favourable than the terms provided by an independent third party for provision of similar services so far as the Company is concerned. The key internal control measures are as follows:

- (i) The manager who is supervising the transactions shall review the terms of these transactions on a regular basis to ensure that the fees charged by Zhaojin Motian and Zhao Jin Futures reflect the fee charged in the prevailing market and that the fees are determined upon fair negotiation according to normal commercial terms.

- (ii) The finance department of the Company shall compile statistics in respect of the transaction amounts arising from the Agreements during the previous month and shall report the findings to the management and the Board of the Company. The finance department shall report to the management and the Board of the Company any case which may exceed the annual caps under the Agreements on a timely basis.
- (iii) The external auditors of the Company shall issue a letter annually according to the Listing Rules, and the letter shall contain reports to the Board in relation to the pricing policy and annual caps for the continuing connected transactions conducted by the Company (including the transactions as contemplated under the Water Treatment Engineering Services Agreement and Futures Brokerage Agreement) during the previous financial year.
- (iv) The independent non-executive Directors of the Company shall conduct annual review on the continuing connected transactions conducted by the Company during the previous financial year according to the Listing Rules to confirm the transaction amounts and terms for the continuing connected transactions as disclosed in the Company's annual report and to ensure that such continuing connected transactions are on normal commercial terms, are fair and reasonable and are conducted on respective terms of the Agreements governing such continuing connected transactions.

With implementation of these procedures and measures, the Directors are of the opinion that the Company has adopted adequate internal control measures to ensure that the relevant continuing connected transactions as contemplated under the Water Treatment Engineering Services Agreement and Futures Brokerage Agreement are conducted on the respective terms of the Agreements and are on normal commercial terms (or terms not less favourable than the terms provided by an independent third party for provision of similar services so far as the Company is concerned, and that the pricing policy is fair and reasonable so far as the Company is concerned and in the interests of the Company and the 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.

Zhaojin Group is principally engaged in the business of gold exploration, mining and refining, and has investments in gold exploration, mining, smelting and refining and other gold related businesses.

Zhaojin Motian commits itself to applying the advanced membrane separation technology to solution of various water problems. Its comprehensive businesses include fabrication of separation membrane, design and installation of water treatment equipment and technology development, covering purification of safe quality drinking water, treatment and recycling of domestic wastewater, treatment and resource utilization of industrial wastewater, etc.

Zhao Jin Futures is a licenced brokerage firm registered with and regulated by the CSRC in the PRC. It is also a member of the Shanghai Futures Exchange. It is principally engaged in the business of provision of brokerage and advisory services in relation to futures transactions in the PRC.

DEFINITIONS

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

“Agreements”	Water Treatment Engineering Services Agreement and Futures Brokerage Agreement
“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
“CSRC”	China Securities Regulatory Commission
“Director(s)”	the director(s) of the Company
“Futures Brokerage Agreement”	the futures brokerage agreement dated 30 December 2015 entered into between the Company and Zhao Jin Futures in relation to the provision of futures brokerage service in the PRC by Zhao Jin Futures to the Company (“Zhao Jin Futures Co., Ltd Futures Brokerage Agreement”)
“Water Treatment Engineering Services Agreement”	the Water Treatment Engineering Agreement on supplying super filter membrane, equipment and water treatment engineering services for the Company by Zhaojin Motian, which was entered into between the Company and Zhaojin Motian on 30 December 2015
“Group”	the Company and its subsidiaries
“H Share(s)”	H share(s) of nominal value of RMB1 each in the capital of the Company, which are listed on the Stock Exchange
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	The People’s Republic of China, which for the purpose of this announcement only, excludes Hong Kong, The Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC

“Shareholder(s)”	the shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Security Deposit”	the maximum daily outstanding balance of deposit to be placed by the Company with Zhao Jin Futures pursuant to the Futures Brokerage Agreement, all participants in the futures trading market will be required to place a security deposit with the futures brokerage firm in the ratio typically of 10% to 15% of the total transaction amount in accordance with the requirements of relevant laws and regulations in the PRC
“Transaction Fees”	a commission fee and the handling fees for the trading of futures transaction pursuant to the Futures Brokerage Agreement
“Zhaojin Group”	山東招金集團有限公司 (Shandong Zhaojin Group Company Limited*), a state-owned limited company established in the PRC on 28 June 1992 and a promoter and a controlling Shareholder of the Company
“Zhaojin Refinery”	山東招金金銀精煉有限公司(Shandong Zhaojin Gold and Silver Refinery Company Limited*), a limited liability company established in the PRC on 16 October 2001 and a 80.5% owned subsidiary of Shandong Zhaojin as at the date of this announcement
“Zhaojin Motian”	山東招金膜天有限責任公司(Shandong Zhaojin Motian Co., Ltd.*), a subsidiary in which Zhaojin Group holds 55% equity
“Zhao Jin Futures”	招金期貨有限公司 (Zhao Jin Futures Co., Ltd*), a licenced brokerage firm registered with and regulated by the CSRC in the PRC, a non-wholly-owned subsidiary of Zhaojin Group
“%”	per cent

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

Zhaoyuan, the PRC, 30 December 2015

As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Weng Zhanbin, Mr. Li Xiuchen, Mr. Cong Jianmao and Mr. Lu Dongshang; three non-executive Directors, namely Mr. Liang Xinjun, Mr. Xu Xiaoliang and Mr. Wu Yijian; and four independent non-executive Directors, namely Ms. Chen Jinrong, Mr. Choy Sze Chung Jojo, Mr. Xie Jiyuan and Mr. Nie Fengjun.

* For identification purposes only