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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) GEOLOGICAL PROSPECTING SERVICES FRAMEWORK AGREEMENT**

On 25 August 2020, Shandong Zhaojin Geological and Shandong Zhaojin entered into the Geological Prospecting Services Framework Agreement in relation to Shandong Zhaojin Geological's provision of exploration services to Shandong Zhaojin from 1 January 2020 to 31 December 2022.

#### **(2) MATERIAL PROCUREMENT FRAMEWORK AGREEMENT**

On 25 August 2020, Materials Supply Center and Shandong Zhaojin entered into the Material Procurement Framework Agreement in relation to the provision of material procurement services by Materials Supply Center to Shandong Zhaojin in the PRC from 1 January 2020 to 31 December 2022.

### **CONTINUING CONNECTED TRANSACTIONS**

As at the date of this announcement, Shandong Zhaojin is a controlling Shareholder of the Company and thus a connected person of the Company. Both of Shandong Zhaojin Geological and Materials Supply Center are wholly-owned subsidiaries of the Company. Therefore, according to Chapter 14A of the Listing Rules, the Geological Prospecting Services Framework Agreement and the Material Procurement Framework Agreement and the transactions as contemplated thereunder constitute continuing connected transactions of the Company.

As all the percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of each of the Geological Prospecting Services Framework Agreement and the Material Procurement Framework Agreement are more than 0.1% but less than 5%, the Geological Prospecting Services Framework Agreement, the Material Procurement Framework 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) **GEOLOGICAL PROSPECTING SERVICES FRAMEWORK AGREEMENT**

***Date***

25 August 2020

***Parties***

- (i) Shandong Zhaojin Geological, a wholly-owned subsidiary of the Company; and
- (ii) Shandong Zhaojin.

***Term of the agreement***

The term of the Geological Prospecting Services Framework Agreement shall commence from 1 January 2020 until 31 December 2022.

Subject to re-compliance with the reporting, announcement and independent Shareholders' approval requirements (where applicable) under Chapter 14A of the Listing Rules and/or any other applicable requirements under the Listing Rules and/or any other relevant laws and regulations at the relevant time and the articles of association of the parties, the Geological Prospecting Services Framework Agreement may be renewed for a further term of three years upon further agreement by the parties.

***Services***

Pursuant to the Geological Prospecting Services Framework Agreement, Shandong Zhaojin Geological agreed to provide geological prospecting services to Shandong Zhaojin and its subsidiaries, which include geological prospecting, rock and mineral testing, raise-boring construction, environmental protection testing and other services.

***Pricing and Payment Terms***

Shandong Zhaojin Geological and Shandong Zhaojin shall, from time to time during the term of the Geological Prospecting Services Framework Agreement, enter into separate agreement(s) in respect of the provision of the geological prospecting services provided that such separate agreement(s) shall always be subject to the terms of the Geological Prospecting Services Framework Agreement, and the fees and terms with respect to the geological prospecting services to be provided by Shandong Zhaojin Geological to Shandong Zhaojin 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 Shandong Zhaojin than fees and terms available from independent third parties to Shandong Zhaojin.

Before entering into any transactions in relation to the Geological Prospecting Services Framework Agreement, Shandong Zhaojin will obtain quotes from at least two independent third parties which provide the same or similar geological prospecting services. Our legal and finance departments will review and compare the quotes from such independent third parties with quotes from Shandong Zhaojin Geological when determining geological prospecting service providers so as to ensure that the price of the geological prospecting services provided by Shandong Zhaojin Geological is no less favourable than that provided by the independent third parties to Shandong Zhaojin.

The fees for the geological prospecting services include the fees for drilling works, geological services fees and other fees to be incurred according to actual circumstances.

The fees for drilling works and geological services fees are determined based on the prevailing market rates with reference to the Budget Standards for Geological Survey Projects (2010 Version) published by China Geological Survey, while other fees are to be negotiated and determined according to actual circumstances.

The fees for the provision of geological prospecting services shall be paid after the inspection and acceptance by Shandong Zhaojin.

The parties confirm that the provision of geological prospecting services from 1 January 2020 to the date of agreement has been conducted in accordance with the terms of the Geological Prospecting Services Framework Agreement.

***Maximum Aggregate Annual Values***

The Company expects that the maximum aggregate annual values (the “**Geological Prospecting Services Annual Caps**”) in respect of the transactions contemplated under the Geological Prospecting Services Framework Agreement will be as follows:

	<i>RMB</i>
For the year ending 31 December 2020	16,000,000
For the year ending 31 December 2021	16,000,000
For the year ending 31 December 2022	16,000,000

The above Geological Prospecting Services Annual Caps are determined with reference to: (i) amounts of the historical transaction in respect of the provision of geological prospecting services provided by Shandong Zhaojin Geological to Shandong Zhaojin; and (ii) the anticipated continuous increase in the demand for environmental protection testing services by Shandong Zhaojin in view of its business development in the future.

### ***Historical Transaction Amounts***

The historical transaction amounts in respect of the provision of geological prospecting services by Shandong Zhaojin Geological to Shandong Zhaojin are set out as follows:

	<b>For the year ended 31 December 2017 RMB</b>	<b>For the year ended 31 December 2018 RMB</b>	<b>For the year ended 31 December 2019 RMB</b>	<b>For the seven months ended 31 July 2020 RMB (unaudited)</b>
Provision of geological prospecting services by Shandong Zhaojin Geological to Shandong Zhaojin	17,727,000	14,500,000	12,167,000	5,055,000

### ***Reasons for and Benefits of Entering into the Geological Prospecting Services Framework Agreement***

Since its establishment, Shandong Zhaojin Geological has been principally engaged in geological exploration of gold, with integration of geological, exploration and scientific research activities. It has a comprehensive exploration capability from general exploration to detailed exploration, from surface exploration to underground exploration and from shallow exploration to deep exploration. Its strong technical capabilities can be shown by its advanced mapping, geological exploration and testing equipment as well as various types of exploration and construction equipment. In addition, its subsidiaries have robust environmental protection testing strength and complete testing equipment, which can provide high-quality environmental protection testing services. Shandong Zhaojin Geological has been providing excellent geological exploration services and environmental protection testing services to Shandong Zhaojin and both parties have maintained good cooperation relationship for years. The continuous provision of such services to Shandong Zhaojin is conducive to enhancing the economic benefits of Shandong Zhaojin Geological.

In view of the above reasons, the Directors (including the independent non-executive Directors) consider that the Geological Prospecting Services Framework Agreement is on normal commercial terms and in the ordinary and usual course of business of the Group, fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

## (2) MATERIAL PROCUREMENT FRAMEWORK AGREEMENT

### ***Date***

25 August 2020

### ***Parties***

- (i) Materials Supply Center, a wholly-owned subsidiary of the Company; and
- (ii) Shandong Zhaojin.

### ***Term of the agreement***

From 1 January 2020 to 31 December 2022

### ***Services***

Pursuant to the Material Procurement Framework Agreement, Materials Supply Center agreed to provide materials sales services to Shandong Zhaojin. The materials to be sold shall be within the lawful business scope of Materials Supply Center, including but not limited to steel, chemical products, construction materials, mining machinery and accessories, electrical machinery and accessories, lubricants, chemical raw materials and products (excluding hazardous chemicals), general merchandise, hardware and electrical products, wires and cables, rubber products and plastic products, etc.

### ***Pricing and Payment Terms***

Shandong Zhaojin will, from time to time, enter into separate agreements with Materials Supply Center for the provision of materials sales services, and the prices of the materials to be purchased shall be determined in accordance with the separate agreements and their respective terms based on the actual conditions. The terms of these separate agreements shall not be in contradiction with those of the Material Procurement Framework Agreement. The prices and terms of the materials to be supplied by Materials Supply Center to Shandong Zhaojin shall be determined in the ordinary course of business on normal commercial terms upon negotiation on an arm's length basis, and at prices and terms no less favourable than prices and terms provided to third parties by Materials Supply Center.

Before entering into any transactions in relation to the Material Procurement Framework Agreement, Shandong Zhaojin will obtain quotes from at least two independent third parties which provide the same or similar materials sales services. Our legal and finance departments will review and compare the quotes from such independent third parties with quotes from Materials Supply Center when determining materials sales service providers so as to ensure that the price of the materials sales services provided by Materials Supply Center is no less favourable than that provided by the independent third parties to Shandong Zhaojin.

The purchase prices of materials are payable by Shandong Zhaojin upon completion of inspection and acceptance of the materials. Save for the purchase prices payable for the materials, Materials Supply Center will not charge Shandong Zhaojin for any fees (including service fee).

The parties confirm that the provision of materials sales services carried out from 1 January 2020 to the date of agreement has been conducted in accordance with the terms of the Material Procurement Framework Agreement.

### ***Maximum Aggregate Annual Values***

The Company expects that the maximum aggregate annual values (the “**Material Procurement Annual Caps**”) in respect of the transactions contemplated under the Material Procurement Framework Agreement will be as follows:

	<i>RMB</i>
For the year ending 31 December 2020	80,000,000
For the year ending 31 December 2021	90,000,000
For the year ending 31 December 2022	100,000,000

The above Material Procurement Annual Caps are determined with reference to: (i) the historical transaction amounts in respect of the provision of materials procurement services by Materials Supply Center to Shandong Zhaojin; and (ii) the anticipated constant increase in the volume and scope of materials procured (especially for one new property development and construction project of one property company under Shandong Zhaojin) between Shandong Zhaojin and Materials Supply Center in view of the business development plan of Shandong Zhaojin in the future. Therefore, it is expected that the purchase amount of materials between Shandong Zhaojin and Materials Supply Center will continue to increase.

### ***Historical Transaction Amounts***

The historical transaction amounts in respect of the sales of materials by Materials Supply Center to Shandong Zhaojin are set out as follows:

	<b>For the year ended 31 December 2017</b>	<b>For the year ended 31 December 2018</b>	<b>For the year ended 31 December 2019</b>	<b>For the seven months ended 31 July 2020</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i> (unaudited)
Transaction amounts in respect of the sales of materials by Materials Supply Center to Shandong Zhaojin	8,490,000	7,850,000	7,560,000	4,509,000

### ***Reasons for and Benefits of Entering into the Material Procurement Framework Agreement***

The Company considers that the provision of materials procurement services to Shandong Zhaojin by Materials Supply Center has the following advantages:

- (1) Expand the scope of procurement to achieve synergy. On the basis of the existing procurement scope, Materials Supply Center will increase the variety of purchased materials to expand the scope of procurement, and provide high-quality and guaranteed material supply services, aiming to maximize the synergy effect.
- (2) Reduce procurement costs. Materials Supply Center will fully develop the internal scope and increase the scale of centralized procurement, thereby enhancing the ability to provide centralized procurement services for mining enterprises. Materials Supply Center will have stronger bargaining power after achieving the large-scale purchasing effect. After bidding and inquiring for quotation, it may win the bidding for some materials to be purchased at a lower price, which is conducive to meeting the needs of the companies within the Group for materials, improving the procurement efficiency and reducing the Company's procurement costs.
- (3) Enhance economic benefits. When providing procurement services to Shandong Zhaojin, Materials Supply Center will comprehensively balance, organize and coordinate the procurement needs of Shandong Zhaojin with the planning, procurement, stocking, warehousing, transportation, distribution and other links of materials needed by companies within the Group to manage and control materials in a comprehensive and overall manner, which can create huge profit margins for Materials Supply Center and greatly improve its economic benefits.

In view of the above reasons, the Directors (including the independent non-executive Directors) consider that the Material Procurement Framework Agreement is on normal commercial terms and in the ordinary and usual course of business of the Group, fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

### **LISTING RULES IMPLICATIONS**

As at the date of this announcement, Shandong Zhaojin is a controlling Shareholder of the Company and thus a connected person of the Company. Both of Shandong Zhaojin Geological and Materials Supply Center are wholly-owned subsidiaries of the Company. Therefore, according to Chapter 14A of the Listing Rules, the Geological Prospecting Services Framework Agreement and the Material Procurement Framework Agreement and the transactions as contemplated thereunder constitute continuing connected transactions of the Company.

As all the percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of each of the Geological Prospecting Services Framework Agreement and the Material Procurement Framework Agreement are more than 0.1% but less than 5%, the Geological Prospecting Services Framework Agreement, the Material Procurement Framework 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.

## **APPROVAL OF THE BOARD**

The Geological Prospecting Services Framework Agreement and the Material Procurement Framework Agreement have been approved by the Board where none of the voting Directors bears any material interest in the transactions contemplated under these agreements. As the executives of Shandong Zhaojin, Mr. Weng Zhanbin and Mr. Liu Yongsheng 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 Geological Prospecting Services Framework Agreement and the Material Procurement Framework Agreement shall comply with the pricing policy and the respective terms of such agreements are on normal commercial terms and in the ordinary and usual course of business of the Group, and that the terms shall not be less favourable than the terms provided by an independent third party for the provision of similar services so far as the Company is concerned. Such internal control measures mainly include the followings:

- (i) the managers overseeing the transactions under the Geological Prospecting Services Framework Agreement and the Material Procurement Framework Agreement will regularly review the terms of such transactions to ensure that the fees charged by Shandong Zhaojin Geological and Materials Supply Center will reflect the prevailing market rates and will be on an arm's length basis under normal commercial terms;
- (ii) the financial department of the Company will consolidate, on a monthly basis, the transaction amounts under each of the Geological Prospecting Services Framework Agreement and the Material Procurement Framework Agreement incurred for the previous month and the results will be reported to the management of the Company and the Board. The financial department will inform the management of the Company and the Board on a timely basis in the event the annual cap for any of these agreements is likely to be exceeded;
- (iii) the external auditors of the Company will report by issuing a letter to the Board every year on the continuing connected transactions of the Company in relation to the pricing policies and annual caps of the continuing connected transactions (including the transactions contemplated under the Geological Prospecting Services Framework Agreement and the Material Procurement Framework Agreement) of the Company conducted during the preceding financial year pursuant to the Listing Rules; and
- (iv) the independent non-executive Directors of the Company will conduct an annual review with respect to the continuing connected transactions of the Company throughout the preceding financial year and confirm on the transactional amounts and terms of the continuing connected transactions in the annual report of the Company pursuant to the requirements under the Listing Rules, and to ensure that they are entered into on normal commercial terms, are fair and reasonable, and are carried out pursuant to the terms of the relevant agreements governing the continuing connected transactions.



By implementing the above procedures and measures, the Directors consider that the Company has established an adequate internal control system to ensure the relevant continuing connected transactions under the Geological Prospecting Services Framework Agreement and the Material Procurement Framework Agreement are conducted in accordance with the terms of such agreements, on normal commercial terms (or terms no less favourable to the Company than terms available to or offered by independent third parties) and in accordance with the pricing policies of the Company, 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 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.

Shandong Zhaojin Geological is a professional geological exploration company holding a Class B qualification in solid mineral exploration, geological drilling and rock test. It was formed after the restructuring of Zhaoyuan City Gold Geology Team\* (招遠市黃金地質隊), which was the earliest county-level municipal professional gold exploration team in China. It has overall exploration capability ranging from general exploration to detailed exploration, from surface exploration to underground exploration, from placer gold exploration to rock gold exploration, and from shallow exploration to deep exploration. It owns advanced mapping, drilling, geological exploration and testing instruments. It is a wholly-owned subsidiary of the Company.

Materials Supply Center is a company with limited liabilities and is principally engaged in mining steel, equipment accessories and beneficiation reagents, etc. It was formed after the restructuring of Zhaoyuan Materials Supply Center\* (招遠市物資供應中心), and earned good credit in the industry where it operates and was conferred various regional and municipal awards as an outstanding enterprise. It is a wholly-owned subsidiary of the Company.

## **DEFINITIONS**

“Board”	the board of Directors
“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”	has the meaning ascribed to it under the Listing Rules
“Directors”	directors of the Company

“Geological Prospecting Services Framework Agreement”	the geological prospecting services framework agreement entered into between Shandong Zhaojin and Shandong Zhaojin Geological on 25 August 2020 in relation to the provision of geological prospecting services by Shandong Zhaojin Geological to Shandong Zhaojin
“Group”	the Company and its subsidiaries
“H Shares”	H share(s) of the Company with a nominal value of RMB1 each, which are listed on the Stock Exchange and traded in Hong Kong dollars
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Material Procurement Framework Agreement”	the material procurement framework agreement dated entered into between Shandong Zhaojin and Materials Supply Center on 25 August 2020 in relation to the provision of materials sales services by Materials Supply Center to Shandong Zhaojin
“Materials Supply Center”	Zhaoyuan Gold Materials Supply Center Co., Ltd* (招遠市黃金物資供應中心有限公司), a wholly-owned subsidiary of the Company
“PRC”	the People’s Republic of China
“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), a state-owned limited company established in the PRC on 28 June 1992 and a promoter and the controlling Shareholder of the Company
“Shandong Zhaojin Geological”	Shandong Zhaojin Geological Prospecting Co., Ltd* (山東招金地質勘查有限公司), a wholly-owned subsidiary of the Company
“Share(s)”	share(s) of RMB1 each in the capital of the Company, comprising of the domestic Shares and H Shares of the Company

“Shareholder(s)” holder(s) of Share(s)

“Stock Exchange” The Stock Exchange of Hong Kong Limited

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

Zhaoyuan, the PRC, 25 August 2020

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

\* *For identification purposes only*