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

If you have sold or transferred all your shares in Hengxing Gold Holding Company Limited, you should at once hand this Scheme Document and the accompanying forms of proxy to the purchaser or transferee or to the licenced securities dealer or registered securities institution or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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This Scheme Document appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of Hengxing Gold Holding Company Limited or Shandong Gold Mining Co., Ltd.



SHANDONG GOLD MINING CO., LTD. Hengxing Gold Holding Company Limited
山東黃金礦業股份有限公司 恒興黃金控股有限公司
(a joint stock company incorporated in the People's Republic of China with limited liability) *(Incorporated in the Cayman Islands with limited liability)*
(Stock Code: 1787) (Stock Code: 2303)



(1) PROPOSAL TO TAKE PRIVATE OF HENGXING GOLD HOLDING COMPANY LIMITED BY SHANDONG GOLD MINING CO., LTD. BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 86 OF THE COMPANIES LAW; AND
(2) PROPOSED WITHDRAWAL OF LISTING OF THE SHARES OF HENGXING GOLD HOLDING COMPANY LIMITED

Financial Adviser to SDGM



Financial Adviser to HXG



Independent Financial Adviser to the HXG Independent Board Committee



Unless the context requires otherwise, capitalised terms used in this Scheme Document (including this cover page) shall have the same meanings as those defined in Part I of this Scheme Document under the section headed "Definitions". This Scheme Document is being issued jointly by HXG and SDGM. The actions to be taken by HXG Shareholders are set out in Part II of this Scheme Document. Notices convening the Court Meeting to be held at 10:00 a.m. on Wednesday, 13 January 2021, and the HXG EGM to be held at 10:30 a.m. on Wednesday, 13 January 2021 (or immediately on the same day and at the same place after the Court Meeting shall have been concluded or adjourned), are set out in Appendix VII and Appendix VIII to this Scheme Document respectively. Whether or not you are able to attend the Court Meeting and/or the HXG EGM or any adjournment thereof, **you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the enclosed white form of proxy in respect of the HXG EGM**, in accordance with the instructions printed thereon, and return them to HXG's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible but in any event not later than the respective times and dates as stated in Part II of this Scheme Document. If the pink form of proxy is not so lodged, it may also be handed to the Chairman of the Court Meeting at the Court Meeting who shall have absolute discretion as to whether or not to accept it. If the white form of proxy is not so lodged, it may also be handed to the Chairman of the HXG EGM at the HXG EGM who shall have absolute discretion as to whether or not to accept it.

This Scheme Document contains, among others, (1) a letter from the HXG Board regarding the Proposal as set out in Part IV of this Scheme Document; (2) a letter from the HXG Independent Board Committee, containing its advice to HXG Shareholders regarding the Proposal, as set out in Part V of this Scheme Document; (3) a letter from Octal Capital Limited, the HXG Independent Financial Adviser to the HXG Independent Board Committee, containing its advice to the HXG Independent Board Committee regarding the Proposal, as set out in Part VI of this Scheme Document; and (4) an Explanatory Statement regarding the Scheme as set out in Part VII of this Scheme Document. The English language text of this Scheme Document shall prevail over the Chinese text for the purpose of interpretation.

22 December 2020

IMPORTANT NOTICE

The Proposal is made solely through this Scheme Document, which contains the full terms and conditions of the Proposal, including details of how to vote on the Proposal. Any acceptance, rejection or other response to the Proposal should be made only on the basis of information in this Scheme Document or any other document by which the Proposal is made.

The availability of the Proposal to persons who are not resident in Hong Kong may be affected by the laws of the relevant jurisdictions in which they are located or of which they are nationals. Persons who are not so resident in Hong Kong should inform themselves about, and observe, any applicable legal or regulatory requirements of their jurisdictions.

PRECAUTIONARY MEASURES FOR THE COURT MEETING AND THE HXG EGM

In view of the ongoing coronavirus disease (COVID-19) pandemic, HXG will implement the following precautionary measures at the Court Meeting and the HXG EGM to protect the attending HXG Shareholders, staff and stakeholders from risk of infection including, without limitation:

- (1) compulsory body temperature checks will be conducted for every attending HXG Shareholder or proxy or other attendee at the entrance of the venue. Any person with a body temperature of over 37.3 degree Celsius will not be admitted to the venue;
- (2) every attending HXG Shareholder or proxy or other attendee is required to wear a surgical face mask throughout the Court Meeting and the HXG EGM;
- (3) no refreshments will be served at the Court Meeting and the HXG EGM; and
- (4) each attendee may be asked whether (a) he/she has travelled outside of Hong Kong within the 14-day period immediately before the Court Meeting and/or the HXG EGM (as the case may be); and (b) he/she is subject to any Hong Kong Government prescribed quarantine. Anyone who responds positively to any of these questions may be denied entry into the venue or be required to leave the venue.

Any person who does not comply with the precautionary measures, is with a body temperature above 37.3 degree Celsius or is subject to any Hong Kong Government prescribed quarantine may be denied entry into the meeting venue. HXG reminds HXG Shareholders that they may appoint the chairman of the relevant meeting as their proxy to vote on the relevant resolutions at the Court Meeting and/or the HXG EGM (as the case may be) as an alternative to attending the Court Meeting and/or the HXG EGM (as the case may be) in person. Subject to the development of COVID-19, HXG may implement further changes and precautionary measures and may issue further announcement(s) on such measures as appropriate.

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In this Scheme Document, unless the context otherwise requires, the following expressions have the following meanings:

DEFINITIONS

“acting in concert”	has the meaning ascribed to it in the Takeovers Code and “concert parties” shall be construed accordingly
“Announcement”	the joint announcement dated 30 September 2020 jointly issued by HXG and SDGM pursuant to, among others, Rule 3.5 of the Takeovers Code in relation to the Proposal
“Announcement Date”	30 September 2020, being the date of the Announcement
“Approvals”	authorisations, registrations, filings, rulings, consents, opinions, permissions, waivers, notices and approvals
“associates”	has the meaning ascribed to it under the Takeovers Code
“associated company(ies)”	has the meaning ascribed to it under the Takeovers Code
“AUD”	Australian dollar, the lawful currency of Australia
“Authority(ies)”	government, quasi-government and/or governmental body(ies), statutory or regulatory body(ies), court(s), or designated authorised body(ies) or agency(ies) of any of the foregoing
“Beneficial Owner”	any beneficial owner of the HXG Shares whose HXG Shares are registered in the name of a Registered Owner
“Business Day(s)”	a day (other than a Saturday, Sunday or public holiday) on which the Stock Exchange is open for the transaction of business
“BVI”	the British Virgin Islands
“Capital Reduction”	the reduction in the issued share capital of HXG by cancelling and extinguishing the Scheme Shares
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC

“CICC”	China International Capital Corporation Hong Kong Securities Limited, a company incorporated in Hong Kong with limited liability and licensed under the SFO to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 6 (advising on corporate finance) regulated activities, and the financial adviser to SDGM in respect of the Proposal and the Scheme
“Companies Law”	the Companies Law (2020 Revision) of the Cayman Islands, as consolidated and revised from time to time
“Conditions”	the conditions to the implementation of the Proposal, as set out under the section headed “3. CONDITIONS OF THE PROPOSAL AND THE SCHEME” in Part VII of this Scheme Document
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Court”	the Grand Court of the Cayman Islands
“Court Meeting”	a meeting of HXG Shareholders convened at the direction of the Court at which the Scheme (with or without modification) will be voted upon, which is to be held at 35/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong, at 10:00 a.m. on Wednesday, 13 January 2021, notice of which is set out in Appendix VII to this Scheme Document, or any adjournment thereof
“Disinterested Shareholders”	all HXG Shareholders, other than SDGM and the SDGM Concert Parties (except in respect of the holding of HXG Shares by the CICC group in the capacity of an exempt principal trader or exempt fund manager in each case recognised by the Executive as such for the purposes of the Takeovers Code and excluding HXG Shares held by the CICC group for and on behalf of its non-discretionary investment clients)
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any of his/her delegates
“exempt fund manager”	has the meaning ascribed to it in the Takeovers Code
“exempt principal trader”	has the meaning ascribed to it in the Takeovers Code

“Exempt Share Buy-back”	the exempt share buy-back (as defined under the Takeovers Code) conducted by SDGM on 15 December 2020 in respect of 25,509,517 SDGM A Shares (having taken into account of the bonus issues made by SDGM in 2019 and 2020), representing approximately 0.59% of the total issued share capital of SDGM, from Shandong Gold Non-ferrous Metal Mine Group Co. Ltd at a consideration of RMB1.00, as a result of Shandong Gold Non-ferrous Metal Mine Group Co. Ltd’s failure to achieve certain profit commitments under an asset acquisition agreement entered in May 2015. Details of the transaction and the share buy-back were set out in the circular dated 31 July 2020 issued by SDGM
“Explanatory Statement”	the explanatory statement set out in Part VII of this Scheme Document and issued in compliance with the Rules of the Grand Court of the Cayman Islands 1995 (revised)
“Gold Mountain Mine”	金山金礦, a gold mine located in Yining County of Xinjiang, China, which covers five gold prospects, namely the Yelmand prospect, the Mayituobi prospect, the Jingxi-Balake prospect, the Kuangou prospect and the Lion prospect
“Gold Virtue”	Gold Virtue Limited, a company incorporated under the laws of the BVI with limited liability on 16 March 2012 and a controlling shareholder of HXG holding approximately 60% of the issued share capital thereof, which is wholly-owned by Mr. Ke Xiping
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HXG”	Hengxing Gold Holding Company Limited (恒興黃金控股有限公司), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 2303)
“HXG Board”	the board of directors of HXG

“HXG EGM”	the extraordinary general meeting of HXG to be held at 35/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong at 10:30 a.m. on Wednesday, 13 January 2021 (or immediately on the same day and at the same place after the Court Meeting shall have been concluded or adjourned) for the purpose of considering and approving all necessary resolutions for the implementation of the Proposal, notice of which is set out in Appendix VIII to this Scheme Document, or any adjournment thereof
“HXG Group”	HXG and its subsidiaries
“HXG Independent Board Committee”	the independent board committee of HXG established by the HXG Board to make a recommendation to the Disinterested Shareholders in respect of, amongst others, the Proposal and the Scheme
“HXG Independent Financial Adviser” or “Octal Capital”	Octal Capital Limited, a licenced corporation permitted to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, the independent financial adviser appointed by HXG for the purpose of providing advice to the HXG Independent Board Committee in respect of the Proposal and the Scheme
“HXG Last Full Trading Day”	28 September 2020, being the last full trading day on which HXG Shares were traded on the Stock Exchange immediately prior to their suspension in trading on the Stock Exchange pending the publication of the Announcement
“HXG Last Trading Day”	29 September 2020, being the last trading day on which HXG Shares were traded on the Stock Exchange immediately prior to their suspension in trading on the Stock Exchange pending the publication of the Announcement
“HXG Shareholders”	registered holders of HXG Shares
“HXG Shares”	ordinary shares with par value of HK\$0.01 each in the share capital of HXG
“HXG Special Dividend”	the special dividend of HK\$0.3585 per HXG Share declared by the HXG Board on 29 September 2020 and paid on 30 October 2020

“Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“Irrevocable Undertaking”	the irrevocable undertakings and warranties given by the IU Shareholders whose liabilities are agreed to be guaranteed by the IU Guarantors in favour of SDGM dated 30 September 2020
“IU Guarantors”	Mr. Ke Xiping and Mr. Ke Jiaqi, being the sole shareholder of Gold Virtue and Xi Wang respectively
“IU Shareholders”	Gold Virtue and Xi Wang
“IU Shares”	collectively, the 555,000,000 HXG Shares held by Gold Virtue and the 138,750,000 HXG Shares held by Xi Wang
“Last Trading Day”	HXG Last Trading Day (with respect to HXG Shares) or SDGM Last Trading Day (with respect to SDGM Shares)
“Latest Practicable Date”	18 December 2020, being the latest practicable date for the purpose of ascertaining certain information for inclusion in this Scheme Document
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Meeting Record Date”	Wednesday, 13 January 2021 (Hong Kong time), or such other date as shall have been announced by HXG, being the record date for the purpose of determining the entitlement of HXG Shareholders to attend and vote at the Court Meeting and the entitlement of HXG Shareholders to attend and vote at the HXG EGM
“Mr. Ke Jiaqi”	Ke Jiaqi (柯家琪), an executive director and a controlling shareholder of HXG, Mr. Ke Xiping’s son
“Mr. Ke Xiping”	Ke Xiping (柯希平), an executive director, the chairman, the president and a controlling shareholder of HXG
“Non-Qualifying Overseas Shareholders”	has the meaning ascribed to it in the section headed “16. Overseas Scheme Shareholders” in Part VII of this Scheme Document

“Offer Period”	the period commencing on the Announcement Date and ending on the latest of (1) the date when the Proposal lapses; (2) the time when SDGM announces that the Proposal will not proceed; (3) the date when an announcement is made of the withdrawal of the Proposal; and (4) the Scheme Effective Date
“Other CCASS Participant”	a broker, custodian, nominee or other relevant person who is, or has deposited HXG Share(s) with, a CCASS participant
“PRC” or “China”	the People’s Republic of China, which, for the purpose of this Scheme Document, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Pre-Conditions”	the pre-conditions to the making of the Proposal as disclosed in the section headed “3. PRE-CONDITIONS TO THE MAKING OF THE PROPOSAL” of the Announcement, all of which, as disclosed in the announcement jointly issued by HXG and SDGM on 27 November 2020, have been satisfied as at 24 November 2020
“Proposal”	the proposal to take private of HXG by SDGM by way of the Scheme involving the cancellation and the extinguishment of the Scheme Shares, the restoration of the share capital of HXG to the amount immediately before the cancellation of the Scheme Shares by means of the issuance of new HXG Shares to SDGM or its wholly owned subsidiary (as the case may be), and the withdrawal of listing of HXG Shares on the Stock Exchange, on terms and subject to the conditions set out in this Scheme Document
“Registered Owner”	any owner of HXG Shares (including without limitation a nominee, trustee, depositary or any other authorised custodian or third party) whose name is entered in the register of members of HXG
“Relevant Period”	the period commencing on 30 March 2020 (being the date falling six (6) months prior to the Announcement Date) and ending on the Latest Practicable Date, both dates inclusive
“relevant securities”	has the meaning ascribed to it in Note 4 to Rule 22 of the Takeovers Code
“RMB”	Renminbi, the lawful currency of the PRC

“SCB”	Standard Chartered Bank (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability and regulated by the Hong Kong Monetary Authority and registered with the SFC to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, and the financial adviser to HXG in respect of the Proposal and the Scheme
“Scheme”	the scheme of arrangement under section 86 of the Companies Law set out in Appendix VI to this Scheme Document (subject to any modifications or additions or conditions as may be approved or imposed by the Court and agreed by SDGM) involving, amongst others, the cancellation of all the Scheme Shares and the restoration of the issued share capital of HXG to the amount immediately before the cancellation of the Scheme Shares by the issuance of new HXG Shares to SDGM or its wholly owned subsidiary (as the case may be)
“Scheme Document”	this composite scheme document, including each of the letters, statements, appendices and notices in it
“Scheme Effective Date”	the date on which the Scheme, if approved and sanctioned by the Court, becomes effective in accordance with its terms and the Companies Law, being the date on which a copy of the order of the Court sanctioning the Scheme is delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to Section 86(3) of the Companies Law, and which is expected to be Thursday, 28 January 2021 (Cayman Islands time)
“Scheme Long Stop Date”	30 June 2021 or such later date as SDGM and HXG may agree, or to the extent applicable, as the Court may direct and, in all cases, as permitted by the Executive
“Scheme Record Date”	Thursday, 28 January 2021 (Hong Kong time), or such other date as shall have been announced by HXG, being the record date for the purpose of determining the entitlements of HXG Shareholders under the Scheme
“Scheme Share(s)”	the HXG Shares in issue as at the Scheme Record Date other than those held by SDGM and SDGM Concert Parties
“Scheme Shareholder(s)”	holder(s) of the Scheme Share(s) as at the Scheme Record Date

“SDGM”	Shandong Gold Mining Co., Ltd. (山東黃金礦業股份有限公司), a joint stock company incorporated under the laws of the PRC with limited liability on 31 January 2000, the H shares and A shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1787) and the Shanghai Stock Exchange (Stock Code: 600547) respectively, being the offeror under the Proposal
“SDGM A Shares”	domestic shares in the share capital of SDGM, with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange and traded in RMB
“SDGM Board”	the board of directors of SDGM
“SDGM Class Meetings”	the class meeting of holders of SDGM A Shares and the class meeting of holders of SDGM H Shares held on 13 November 2020 to consider and approve, among other matters, the Specific Mandate
“SDGM Concert Party(ies)”	any party(ies) acting in concert, or presumed to be acting in concert with SDGM under the definition of “acting in concert” under the Takeovers Code (except in the capacity of an exempt principal trader or exempt fund manager in each case recognised by the Executive as such for the purpose of the Takeovers Code and excluding HXG Shares held by the CICC group on behalf of non-discretionary investment clients)
“SDGM EGM”	the extraordinary general meeting of SDGM held on 13 November 2020 to consider and approve, among other matters, the Specific Mandate
“SDGM Group”	SDGM and its subsidiaries
“SDGM H Shares”	overseas listed foreign shares in the share capital of SDGM, with a nominal value of RMB1.00 each, which are subscribed for and traded in HK\$ and listed on the Main Board of the Stock Exchange
“SDGM Last Trading Day”	29 September 2020, being the last full trading day on which SDGM H Shares were traded on the Stock Exchange immediately prior to their suspension in trading on the Stock Exchange pending the publication of the Announcement
“SDGM Shareholders”	registered holders of SDGM Shares

“SDGM Shares”	ordinary shares of SDGM with a nominal value of RMB1.00 each, comprising both SDGM A Shares and SDGM H Shares
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shandong Gold Group”	Shandong Gold Group Co., Ltd. (山東黃金集團有限公司), a company incorporated in the PRC with limited liability on 16 July 1996, the controlling shareholder of SDGM, and is held as to approximately 70% by Shandong SASAC, as to approximately 20% by Shandong Guohui Investment Co., Ltd. (山東國惠投資有限公司) and as to approximately 10% by Shandong Social Security Fund Committee (山東省社會保障基金理事會)
“Shandong SASAC”	State-owned Assets Supervision and Administration Commission of Shandong Provincial People’s Government (山東省人民政府國有資產監督管理委員會)
“Share Exchange Ratio”	the exchange ratio of 5/29 new SDGM H Share for every Scheme Share cancelled under the Scheme
“Specific Mandate”	the specific mandate for the allotment and issue, credited as fully paid, of new SDGM H Shares as consideration for the Proposal to the Scheme Shareholders pursuant to the Scheme
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“trading day”	a day on which the Stock Exchange is open for the business of dealings in securities
“US\$”	United States dollar, the lawful currency of the United States
“Xi Wang”	Xi Wang Developments Limited (熙望發展有限公司), a limited liability company incorporated in the BVI on 11 May 2012 and a controlling shareholder of HXG holding approximately 15% of the issued share capital thereof, which is wholly-owned by Mr. Ke Jiaqi

“%”

per cent

All references in this Scheme Document to times and dates are references to Hong Kong times and dates, except as otherwise specified and other than references to the expected date of the Court hearing of the petitions to sanction the Scheme and to confirm the Capital Reduction and the Scheme Effective Date, which are the relevant dates in the Cayman Islands. For reference only, Cayman Islands time is 13 hours behind Hong Kong time as at the date of this Scheme Document.

All percentages stated in this Scheme Document are approximations and certain amounts and percentage figures included in this Scheme Document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

For the purposes of this Scheme Document, conversions of RMB into HK\$ are based on the approximate exchange rate of RMB1 to HK\$1.1369 for the purposes of illustration only. No representation is made that any amount converted from RMB into HK\$ could have been or could be converted at the above rate or at any other rates.

This Scheme Document is prepared in both English and Chinese. In the event of inconsistency, the English text shall prevail.

ACTIONS TO BE TAKEN BY HXG SHAREHOLDERS

For the purpose of determining the entitlement of HXG Shareholders to attend and vote at the Court Meeting and at the HXG EGM, the register of members of HXG will be closed from Friday, 8 January 2021 to Wednesday, 13 January 2021 (both days inclusive) (or such other dates as may be notified by HXG by way of announcement(s)), and during such period, no transfer of HXG Shares will be effected. In order to qualify to attend and vote at the Court Meeting and the HXG EGM, the relevant forms of transfer of your HXG Shares accompanied by the relevant share certificates shall be lodged with HXG's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Thursday, 7 January 2021 (Hong Kong time).

A **pink** form of proxy for use at the Court Meeting and a **white** form of proxy for use at the HXG EGM are enclosed with copies of this Scheme Document sent to the Registered Owners.

Whether or not you are able to attend the Court Meeting and/or the HXG EGM, if you are a HXG Shareholder, we strongly urge you to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting, and to complete and sign the enclosed **white** form of proxy in respect of the HXG EGM, in accordance with the instructions printed thereon, and to lodge them at the office of HXG's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. **The pink form of proxy for use at the Court Meeting should be lodged not later than 10:00 a.m. on Monday, 11 January 2021 or alternatively, be handed to the Chairman of the Court Meeting at the Court Meeting, who shall have absolute discretion as to whether or not to accept it. The white form of proxy for use at the HXG EGM must be lodged not later than 10:30 a.m. on Monday, 11 January 2021 or alternatively, be handed to the Chairman of the HXG EGM at the HXG EGM, who shall have absolute discretion as to whether or not to accept it.** The completion and return of a form of proxy for the Court Meeting and/or the HXG EGM will not preclude you from attending and voting in person at the relevant meeting. In such event, the returned form of proxy will be deemed to have been revoked.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and/or the HXG EGM, you will still be bound by the outcome of the Court Meeting and the HXG EGM if, among other things, the resolutions proposed at the Court Meeting and the HXG EGM are passed by the requisite majorities of HXG Shareholders. You are strongly urged to attend and vote at the Court Meeting and the HXG EGM in person or by proxy.

HXG and SDGM will make an announcement in relation to the results of the Court Meeting and the HXG EGM in accordance with Rule 19.1 of the Takeovers Code to the extent applicable. Information on the number of votes cast in favour of the Scheme and the number of CCASS participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS participants on whose instructions they are cast will be included in such announcement. If all the resolutions are passed at those meetings, further announcement(s) will be made by HXG on the results of the hearing by the Court of the petitions to, among other things, sanction the Scheme and confirm the Capital Reduction and, if the Scheme is sanctioned and the Capital Reduction is confirmed, the Scheme Effective Date and the date of withdrawal of the listing of the HXG Shares on the Stock Exchange in accordance with the requirements of the Takeovers Code and the Listing Rules.

ACTIONS TO BE TAKEN BY PERSONS HOLDING HXG SHARES THROUGH TRUST OR CCASS

HXG will not recognise any person as holding any HXG Shares through any trust. If you are a Beneficial Owner whose HXG Shares are held upon trust by, and registered in the name of, a Registered Owner (other than HKSCC Nominees Limited), you should contact the Registered Owner and provide the Registered Owner with instructions or make arrangements with the Registered Owner in relation to the manner in which your HXG Shares should be voted at the Court Meeting and/or the HXG EGM. Such instructions and/or arrangements should be given or made in advance of the aforementioned latest time for the lodgment of forms of proxy in respect of the Court Meeting and the HXG EGM in order to provide the Registered Owner with sufficient time to accurately complete and submit his, her or its proxy. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner in advance of the aforementioned latest time for the lodgment of forms of proxy in respect of the Court Meeting and/or the HXG EGM, any such Beneficial Owner should comply with the requirements of the Registered Owner.

If you are a Beneficial Owner whose HXG Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited, you must, unless you are an Investor Participant, contact your broker, custodian, nominee or other relevant person who is, or has, in turn, deposited such HXG Shares with an Other CCASS Participant regarding voting instructions to be given to such person(s) if you wish to vote at the Court Meeting and/or the HXG EGM. You should contact your broker, custodian, nominee or other relevant person in advance of the aforementioned latest time for the lodgment of forms of proxy in respect of the Court Meeting and/or the HXG EGM, in order to provide such person with sufficient time to provide HKSCC with instructions in relation to the manner in which the HXG Shares of the Beneficial Owner should be voted at the Court Meeting and/or the HXG EGM. The procedure for voting in respect of the Scheme by HKSCC Nominees Limited with respect to the HXG Shares shall be in accordance with the “General Rules of CCASS” and the “CCASS Operational Procedures” in effect from time to time. HKSCC Nominees Limited may cast votes both for and against the Scheme in accordance with instructions received from CCASS participants for the purposes of determining whether or not the requirement that the Scheme being approved by a majority in number of HXG Shareholders under Section 86(2) of the Companies Law has been satisfied. The number of votes cast in favour of the Scheme and the number of CCASS participants on whose instructions they are

cast and the number of votes cast against the Scheme and the number of CCASS participants on whose instructions they are cast will be disclosed to the Court and may be taken into account to determine whether the statutory majorities have been achieved.

If you are a Beneficial Owner whose HXG Shares are deposited in CCASS, you may also elect to become a HXG Shareholder of record, and thereby have the right to attend and vote at the Court Meeting and at the HXG EGM as a HXG Shareholder. You can become a HXG Shareholder of record by withdrawing all or any of your HXG Shares from CCASS and becoming a Registered Owner of such HXG Shares. For withdrawal of HXG Shares from CCASS and registration thereof, you will be required to pay to CCASS a withdrawal fee per board lot withdrawn, a registration fee for each share certificate issued, stamp duty on each transfer instrument and, if your HXG Shares are held through a financial intermediary, any other relevant fees charged by your financial intermediary. You should contact your broker, custodian, nominee or other relevant person in advance of the latest time for lodging transfers of the HXG Shares into your name, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to withdraw the HXG Shares from CCASS and register them in your name so as to qualify you to attend and vote at the Court Meeting and the HXG EGM.

EXERCISE YOUR RIGHT TO VOTE

IF YOU ARE A HXG SHAREHOLDER OR A BENEFICIAL OWNER, HXG AND SDGM STRONGLY ENCOURAGE YOU TO EXERCISE YOUR RIGHT TO VOTE OR GIVE INSTRUCTIONS TO THE RELEVANT REGISTERED OWNER TO VOTE IN PERSON OR BY PROXY AT THE COURT MEETING AND AT THE HXG EGM. IF YOU KEEP ANY HXG SHARES IN A SHARE LENDING PROGRAMME, HXG AND SDGM URGE YOU TO RECALL ANY OUTSTANDING HXG SHARES ON LOAN TO AVOID MARKET PARTICIPANTS USING BORROWED HXG SHARES TO VOTE.

IF YOU ARE A REGISTERED OWNER HOLDING HXG SHARES ON BEHALF OF BENEFICIAL OWNERS, HXG AND SDGM WOULD BE GRATEFUL IF YOU WOULD INFORM THE RELEVANT BENEFICIAL OWNERS ABOUT THE IMPORTANCE OF EXERCISING THEIR RIGHT TO VOTE.

IF YOU ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN, YOU ARE ENCOURAGED TO AND SHOULD CONSULT YOUR LICENCED SECURITIES DEALER, BANK MANAGER, SOLICITOR, PROFESSIONAL ACCOUNTANT OR OTHER PROFESSIONAL ADVISER.

The dates and deadlines specified in the following timetable, and in other parts of this Scheme Document, take into account the procedures of the Court for the Scheme. They are indicative only and are subject to change. Further announcement(s) will be made if there is any change to the following expected timetable.

Despatch of this Scheme Document..... Tuesday, 22 December 2020

Latest time for lodging transfers of HXG Shares in order to become entitled to
vote at the Court Meeting and the HXG EGM 4:30 p.m. on
Thursday, 7 January 2021

Register of members of HXG closed for determining the entitlement
of relevant HXG Shareholders to attend and vote at the Court Meeting
and the entitlement of the HXG Shareholders to attend and
vote at the HXG EGM (*Note 1*) Friday, 8 January 2021 to
Wednesday, 13 January 2021
(both dates inclusive)

Latest time for lodging the **pink** form of proxy in respect of
the Court Meeting (*Note 2*) 10:00 a.m. on
Monday, 11 January 2021

Latest time for lodging the **white** form of proxy in respect of
the HXG EGM (*Note 2*) 10:30 a.m. on
Monday, 11 January 2021

Meeting Record Date Wednesday, 13 January 2021

Court Meeting (*Notes 3 and 4*) 10:00 a.m. on
Wednesday, 13 January 2021

HXG EGM (*Notes 3 and 4*) 10:30 a.m. on
Wednesday, 13 January 2021
(or immediately after the conclusion or
adjournment of the Court Meeting)

Announcement of the results of the Court Meeting and
the HXG EGM posted on the website of the Stock Exchange and
the website of HXG no later than 7:00 p.m. on
Wednesday, 13 January 2021

Expected last day for trading in the HXG Shares on
the Stock Exchange Friday, 22 January 2021

Latest time for lodging transfers of HXG Shares in order to qualify for
entitlements under the Scheme 4:30 p.m. on
Wednesday, 27 January 2021

Court hearing of the petitions to sanction the Scheme and to confirm the Capital Reduction.....	Wednesday, 27 January 2021 (Cayman Islands time)
Register of members of HXG closed for determining entitlements to qualify under the Scheme (<i>Note 5</i>)	from Thursday, 28 January 2021 onwards
Announcement of the result of the Court hearing, the expected Scheme Effective Date and the expected date of withdrawal of listing of the HXG Shares on the Stock Exchange	no later than 8:30 a.m. on Thursday, 28 January 2021
Scheme Record Date	Thursday, 28 January 2021
Expected Scheme Effective Date (<i>Note 6</i>)	Thursday, 28 January 2021 (Cayman Islands time)
Announcement of the Scheme Effective Date and the withdrawal of listing of the HXG Shares on the Stock Exchange	no later than 8:30 a.m. on Friday, 29 January 2021
Expected withdrawal of listing of the HXG Shares on the Stock Exchange becomes effective (<i>Note 7</i>).....	4:00 p.m. on Monday, 1 February 2021
Despatch of share certificates in respect of new SDGM H Shares to be allotted and issued to the Scheme Shareholders (<i>Note 8</i>) ...	Thursday, 4 February 2021
First day of dealings of the new SDGM H Shares issued to holders of the Scheme Shares on the Stock Exchange.....	9:00 a.m. on Friday, 5 February 2021

Notes:

1. The register of members of HXG will be closed during such period for the purposes of determining the entitlement of HXG Shareholders to attend and vote at the Court Meeting and the entitlement of the HXG Shareholders to attend and vote at the HXG EGM. This book closure period is not for determining entitlements under the Scheme.
2. Forms of proxy should be lodged with HXG's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not later than the respective times and dates stated above. Alternatively, in the case of the **pink** form of proxy for use at the Court Meeting, they may be handed to the chairman of the Court Meeting at the Court Meeting who shall have absolute discretion as to whether or not to accept it, and in the case of the **white** form of proxy for use at the HXG EGM, they may be handed to the chairman of the HXG EGM at the HXG EGM who shall have absolute discretion as to whether or not to accept it. Completion and return of the relevant form of proxy for the Court Meeting or the HXG EGM will not preclude a HXG Shareholder from attending the relevant meeting and voting in person. In such event, the relevant form of proxy returned will be deemed to have been revoked.

3. The Court Meeting and the HXG EGM will be held at 35/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong at the times and dates specified above. Please see the notice of the Court Meeting set out in Appendix VII to this Scheme Document and the notice of the HXG EGM set out in Appendix VIII to this Scheme Document for details.
4. If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above or post-super typhoon extreme conditions in force at or after 8:00 a.m. on Wednesday, 13 January 2021 and/or the Hong Kong Observatory has announced at or before 8:00 a.m. on Wednesday, 13 January 2021 that any of the above mentioned warnings is to be issued within the next two hours, the Court Meeting and the HXG EGM shall automatically be postponed to the next Business Day on which no “black” rainstorm warning or tropical cyclone warning signal number 8 or above is hoisted and no post-super typhoon extreme conditions are in force between the hours from 8:00 a.m. to 10:00 a.m. and in such case the Court Meeting and the HXG EGM shall be held at 10:00 a.m. and 10:30 a.m., respectively, on that Business Day at 35/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong. The Court Meeting and the HXG EGM will be held as scheduled even when a tropical cyclone warning signal no. 3 or below is hoisted or an amber or red rainstorm warning signal is in force. Eligible HXG Shareholders should make their own decision as to whether to attend the Court Meeting and the HXG EGM under bad weather conditions bearing in mind their own situation and, if they should choose to do so, they are advised to exercise care and caution.
5. The register of members of HXG will be closed during such period for the purpose of determining which HXG Shareholders are qualified for the entitlements under the Scheme.
6. The Scheme will become effective upon all the Conditions having been fulfilled or waived (as applicable).
7. If the Proposal becomes unconditional and the Scheme becomes effective, it is expected that the listing of the HXG Shares on the Stock Exchange will be withdrawn at 4:00 p.m. on Monday, 1 February 2021.
8. Share certificates for the new SDGM H Shares to be allotted and issued to the Scheme Shareholders under the Scheme will be despatched by ordinary post at the risk of the recipients to their registered addresses shown in the register of members of HXG as at the Scheme Record Date as soon as possible and in any event within seven (7) Business Days (as defined in the Takeovers Code) after the Scheme Effective Date. None of SDGM, HXG, CICC, SCB, HXG’s branch share registrar in Hong Kong and their respective directors, employees, officers, agents, advisers, associates and affiliates and any other persons involved in the Proposal shall be responsible for any loss or delay in the despatch of the same.

All references to times and dates are references to Hong Kong times and dates, except as otherwise specified.



恒興黃金
HENGXING GOLD

Hengxing Gold Holding Company Limited

恒興黃金控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2303)

Executive directors:

Mr. Ke Xiping (*Chairman*)

Mr. Chen, David Yu

Mr. Ke Jiaqi

Non-executive director:

Mr. Albert Fook Lau Ho

Independent non-executive directors:

Ms. Wong, Yan Ki Angel

Dr. Tim Sun

Dr. Pan Guocheng

Registered office:

c/o Ocorian Trust (Cayman) Limited

Windward 3, Regatta Office Park

P.O. Box 1350

Grand Cayman, KY1-1108

Cayman Islands

Principal place of business in Hong Kong:

Suite 3203, Central Plaza

18 Harbor Road

Wanchai

Hong Kong

22 December 2020

To the Scheme Shareholders and the HXG Shareholders

Dear Sir or Madam,

- (1) PROPOSAL TO TAKE PRIVATE OF HENGXING GOLD HOLDING COMPANY LIMITED BY SHANDONG GOLD MINING CO., LTD. BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 86 OF THE COMPANIES LAW;**
- AND**
- (2) PROPOSED WITHDRAWAL OF LISTING OF THE SHARES OF HENGXING GOLD HOLDING COMPANY LIMITED**

1. INTRODUCTION

The Proposal

Reference is made to the Announcement in relation to, among other things, the Scheme and the Proposal. As set out in the Announcement, on 29 September 2020 (after trading hours), SDGM has formally requested, subject to the satisfaction of the Pre-

Conditions, the HXG Board to put forward to the Scheme Shareholders the Proposal regarding its proposal to take private of HXG by SDGM by way of a scheme of arrangement under section 86 of the Companies Law involving:

- (i) the reduction of the issued share capital of HXG by the cancellation of the Scheme Shares and in consideration therefor, 5/29 SDGM H Share will be allotted and issued to the Scheme Shareholders on the Scheme Effective Date for every Scheme Share so cancelled;
- (ii) forthwith upon the capital reduction referred to in (i) above, the restoration of the issued share capital of HXG to the amount immediately before the cancellation of the Scheme Shares by means of the issuance of new HXG Shares in the same number as the Scheme Shares (which were cancelled) to SDGM credited as fully paid out of the credit arising in HXG's books of account as a result of the capital reduction referred to in (i) above; and
- (iii) the withdrawal of the listing of the HXG Shares on the Stock Exchange immediately following the Scheme Effective Date pursuant to Rule 6.15(2) of the Listing Rules.

SDGM reserves the right to require HXG to issue new HXG Shares to a wholly-owned subsidiary of SDGM (in lieu of SDGM itself) for the purpose of (ii) above.

As disclosed in the announcement jointly issued by HXG and SDGM on 27 November 2020, HXG was informed by SDGM that all of the Pre-Conditions have been satisfied as at 24 November 2020.

If the Scheme is approved by the requisite majorities of HXG Shareholders and sanctioned by the Court, and all requirements of the Companies Law are complied with, including the registration by the Cayman Islands Registrar of Companies of the relevant Court order, and all other Conditions are fulfilled or waived (as the case may be), the Scheme will be binding on each Scheme Shareholder, irrespective of whether or not he, she or it attends and/or votes at the Court Meeting or the HXG EGM. Subject to the Scheme becoming effective, the entire issued share capital of HXG will be owned by SDGM or its wholly-owned subsidiary (as the case may be) upon completion of the Proposal.

The purpose of this Scheme Document is to provide you with further information regarding, among others, the Proposal, the Scheme, HXG, SDGM, the expected timetable, and certain other information as required by the Listing Rules and/or the Takeovers Code and to give you notices of the Court Meeting and the HXG EGM (together with proxy forms in relation thereto). Your attention is also drawn to the letter from the HXG Independent Board Committee set out in Part V of this Scheme Document, the letter from the HXG Independent Financial Adviser set out in Part VI of this Scheme Document, the Explanatory Statement set out in Part VII of this Scheme Document and the terms of the Scheme set out in Appendix VI to this Scheme Document.

HXG Special Dividend

As set out in the Announcement, on 29 September 2020, the HXG Board has approved the declaration of the HXG Special Dividend which would be payable to HXG Shareholders whose names appeared on the register of members of HXG on 16 October 2020. The HXG Special Dividend has been paid on 30 October 2020.

For the avoidance of doubt, the HXG Special Dividend (which has been paid) is independent of the Proposal. The payment of HXG Special Dividend will not result in any adjustment to the Share Exchange Ratio.

2. TERMS OF THE PROPOSAL

Under the Proposal, if the Scheme becomes effective, all of the Scheme Shares will be cancelled in exchange for newly issued SDGM H Share(s) according to the Share Exchange Ratio:

**For every Scheme Share cancelled..... 5/29 SDGM H Share
(approximate to 0.17241* SDGM H Share)**

* The approximate figure of 0.17241 is included in this Scheme Document for illustrative purpose only and is subject to rounding adjustment. Please use the fraction of 5/29 for calculation of exact entitlement.

The Share Exchange Ratio has been determined on a commercial basis after taking into account (i) the historical performance and business potential of SDGM and HXG; (ii) the prevailing and historical market price levels of both the SDGM H Shares and HXG Shares traded on the Stock Exchange; (iii) other comparable share exchange transactions in Hong Kong and in the global gold mining industries in recent years; and (iv) the HXG Special Dividend.

The new SDGM H Shares will only be issued to the Scheme Shareholders if the Scheme becomes effective.

The number of SDGM H Shares to be issued to the Scheme Shareholders under the Scheme will be in accordance with the Share Exchange Ratio and will not be increased, and SDGM does not reserve the right to do so.

Dividend Payment by SDGM and HXG

Neither HXG nor SDGM intends to (i) declare and/or pay any dividend (other than the HXG Special Dividend) or other distributions; or (ii) conduct any consolidation or subdivision with respect to its share capital, before the Scheme becomes effective, lapses or being not approved at the HXG EGM or the Court Meeting (as the case may be).

Comparison of Value

HXG Shareholders, investors and potential investors should note that the below comparison results are different from those presented in the Announcement, which are due to the update of the trading information in HXG Shares as currently quoted on the Stock Exchange as a result of the closing prices of HXG Shares having been adjusted to reflect the distribution of the HXG Special Dividend.

The premia represented by the issue of the new SDGM H Shares as calculated by reference to various ratios between the average closing prices per HXG Share and the average closing prices per SDGM H Share in various historical periods, are as follows:

		Trading Periods up to and including the respective Last Trading Day				
		10 Trading Days	30 Trading Days	60 Trading Days	90 Trading Days	120 Trading Days
A	Average closing price per HXG Share based on the daily closing prices as quoted on the Stock Exchange (HK\$)	3.19	3.32	3.27	3.00	2.78
B	Average closing price per SDGM H Share based on the daily closing prices as quoted on the Stock Exchange (HK\$)	20.09	21.02	21.54	19.78	18.87
C	Premium = (5/29)/(A/B)-1	8.50%	9.29%	13.53%	13.80%	16.90%

Notes:

- “C” corresponds to the premium represented by the issuance of 5/29 new SDGM H Share for every Scheme Share based on the ratio between the average closing price per HXG Share for any of the specified periods and the average closing price per SDGM H Share for any of the specified periods.
- The figures shown in the table above are rounded to two decimal places.
- Exact premium figures may not be replicated using the share prices shown in the table due to rounding differences.

Based on the closing price of HK\$18.24 per SDGM H Share as at the Latest Practicable Date, the issuance of 5/29 new SDGM H Share for every Scheme Share ascribes a value of HK\$3.14 per Scheme Share, which represents a premium of approximately 3.11% over the closing price of HK\$3.05 per HXG Share as quoted on the Stock Exchange on the Latest Practicable Date.

Based on the closing price of HK\$19.08 per SDGM H Share as at the SDGM Last Trading Day, the issuance of 5/29 new SDGM H Share for every Scheme Share ascribes a value of HK\$3.29 per Scheme Share, which represents:

- a discount of approximately 3.10% to the closing price of HK\$3.40 per HXG Share as quoted on the Stock Exchange on the HXG Last Trading Day (after adjustment due to commencement of dealings in the HXG Shares on an entitlement basis for the HXG Special Dividend);

- (ii) a premium of approximately 7.58% over the closing price of HK\$3.06 per HXG Share as quoted on the Stock Exchange on the HXG Last Full Trading Day (after adjustment due to commencement of dealings in the HXG Shares on an ex-entitlement basis for the HXG Special Dividend);
- (iii) a premium of approximately 3.03% over the average closing price of approximately HK\$3.19 per HXG Share based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days up to and including the HXG Last Trading Day (after adjustment due to commencement of dealings in the HXG Shares on an ex-entitlement basis for the HXG Special Dividend);
- (iv) a discount of approximately 0.79% to the average closing price of approximately HK\$3.32 per HXG Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the HXG Last Trading Day (after adjustment due to commencement of dealings in the HXG Shares on an ex-entitlement basis for the HXG Special Dividend);
- (v) a premium of approximately 0.56% over the average closing price of approximately HK\$3.27 per HXG Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the HXG Last Trading Day (after adjustment due to commencement of dealings in the HXG Shares on an ex-entitlement basis for the HXG Special Dividend);
- (vi) a premium of approximately 9.76% over the average closing price of approximately HK\$3.00 per HXG Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the HXG Last Trading Day (after adjustment due to commencement of dealings in the HXG Shares on an ex-entitlement basis for the HXG Special Dividend);
- (vii) a premium of approximately 18.23% over the average closing price of approximately HK\$2.78 per HXG Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the HXG Last Trading Day (after adjustment due to commencement of dealings in the HXG Shares on an ex-entitlement basis for the HXG Special Dividend);
- (viii) a premium of approximately 248.16% over approximately RMB0.83 (equivalent to approximately HK\$0.94) which is the audited consolidated net asset value of HXG as at 31 December 2019 per HXG Share less the HXG Special Dividend; and
- (ix) a premium of approximately 262.27% over approximately RMB0.80 (equivalent to approximately HK\$0.91) which is the unaudited consolidated net asset value of HXG as at 30 June 2020 per HXG Share less the HXG Special Dividend.

The Scheme will be implemented at the Share Exchange Ratio. The comparisons above are provided solely for the convenience of investors and are illustrations only. Shareholders should use the comparisons with care and take into account other disclosures in this Scheme Document, including but not limited to the reasons for and benefits of the Proposal as set out in the Explanatory Statement in Part VII of this Scheme Document.

New SDGM H Shares to be issued pursuant to the Scheme

As at the Latest Practicable Date, (i) the entire issued share capital of HXG comprised 925,000,000 HXG Shares, all of which will constitute the Scheme Shares; and (ii) there were no outstanding options, convertible securities, warrants, derivatives or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) issued by HXG that carry a right to subscribe for or which are convertible or exchangeable into HXG Shares.

Based on the Share Exchange Ratio and assuming no changes to either SDGM's issued share capital or HXG's issued share capital from the Latest Practicable Date to the Scheme Effective Date and subject to the Scheme becoming effective, SDGM will allot and issue a total of 159,482,759 SDGM H Shares to the Scheme Shareholders on the Scheme Effective Date, which will represent (i) approximately 3.70% of the issued share capital of SDGM as at the Latest Practicable Date; and (ii) approximately 3.57% of the issued share capital of SDGM of 4,473,429,525 SDGM Shares as enlarged only by the issuance of the aforesaid number of new SDGM H Shares.

If the number of SDGM H Shares to be obtained by a Scheme Shareholder according to the Share Exchange Ratio will not result in a whole number, the Scheme Shareholder(s) concerned will be ranked according to the fractional value after the decimal point from highest to lowest, and one additional SDGM H Share will be given to each such Scheme Shareholder in such order until the aggregate number of SDGM H Shares actually exchanged is equal to the total number of SDGM H Shares proposed to be issued, i.e. 159,482,759 SDGM H Shares.

If the number of Scheme Shareholders with the same fractional value after the decimal point is more than the number of remaining SDGM H Shares to be issued, SDGM H Shares will be allocated randomly by a computerised system until the aggregate number of SDGM H Shares actually exchanged is equal to the total number of SDGM H Shares proposed to be issued.

Scheme Shareholders should be aware that in accepting the Proposal, no arrangements are intended to be made for the trading of odd lots of SDGM H Shares resulting from the acceptance of the Proposal.

The new SDGM H Shares to be issued pursuant to the Scheme will be issued free from all liens, charges and encumbrances, and together with all rights attaching to them, including the right to receive all dividends and other distributions, if the record time for determining the entitlement to such dividends and distributions falls on or after the date of issue of the new SDGM H Shares, and will rank *pari passu* in all respects with all other SDGM H Shares then in issue.

SDGM will make an application to the Stock Exchange for the listing of, and permission to deal in, the new SDGM H Shares to be issued pursuant to the Scheme on the Main Board of the Stock Exchange.

3. CONDITIONS OF THE PROPOSAL AND THE SCHEME

Your attention is drawn to the section headed “3. Conditions of the Proposal and the Scheme” in the Explanatory Statement set out in Part VII of this Scheme Document.

4. HXG INDEPENDENT BOARD COMMITTEE

The HXG Independent Board Committee, comprising the non-executive director of HXG, namely Mr. Albert Fook Lau HO, and all independent non-executive directors of HXG, namely Ms. WONG, Yan Ki Angel, Dr. Tim SUN and Dr. PAN Guocheng, has been established by the HXG Board to make a recommendation to the Disinterested Shareholders (i) as to whether the terms of the Proposal and the Scheme are fair and reasonable; and (ii) as to whether to vote in favour of the resolutions for the approval of the Scheme at the Court Meeting and the resolutions necessary to implement the Proposal at the HXG EGM, taking into account the advice of the HXG Independent Financial Adviser.

The full text of the letter from the HXG Independent Board Committee in relation to recommendations with respect to the Proposal and the Scheme is set out in Part V of this Scheme Document.

5. HXG INDEPENDENT FINANCIAL ADVISER

Octal Capital has been appointed as the HXG Independent Financial Adviser by HXG pursuant to Rule 2.1 of the Takeovers Code to advise the HXG Independent Board Committee in respect of the Proposal and the Scheme. The appointment of Octal Capital as the HXG Independent Financial Adviser has been approved by the HXG Independent Board Committee.

The full text of the letter from the HXG Independent Financial Adviser in relation to recommendations with respect to the Proposal and the Scheme is set out in Part VI of this Scheme Document.

6. REASONS FOR AND BENEFITS OF THE PROPOSAL AND SDGM'S INTENTION REGARDING THE HXG GROUP

You are urged to read carefully the sections headed “12. Reasons for and benefits of the Proposal” and “13. SDGM's intention regarding the HXG Group” in the Explanatory Statement set out in Part VII of this Scheme Document.

7. INFORMATION ON HXG

HXG is an exempted company incorporated in the Cayman Islands with limited liability, and its shares are listed on the Main Board of the Stock Exchange with the stock code 2303. HXG is principally engaged in gold mining and production.

8. INFORMATION ON SDGM

SDGM is a joint stock company incorporated under the laws of the PRC with limited liability. It is an integrated gold company with the SDGM A Shares listed on the Shanghai Stock Exchange (Stock Code: 600547) and SDGM H Shares listed on the Hong Kong Stock Exchange (Stock Code: 1787) since 2003 and 2018, respectively. SDGM is principally engaged in gold exploration, mining, processing, smelting and sales and is one of the largest gold producers listed in the PRC and/or Hong Kong that operates in the PRC, controlling and operating more than 10 gold mines with operation primarily located in Shandong province.

The ultimate controlling shareholder of SDGM is Shandong SASAC which indirectly holds approximately 46.75% of the issued share capital of SDGM.

9. IMPLEMENTATION OF THE PROPOSAL AND WITHDRAWAL OF LISTING OF HXG SHARES

(a) If the Scheme becomes effective

Upon the Scheme becoming effective, all Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title. HXG will apply to the Stock Exchange for withdrawal of the listing of the HXG Shares on the Stock Exchange in accordance with Rule 6.15(2) of the Listing Rules immediately following the Scheme becoming effective.

The Scheme Shareholders will be notified by way of an announcement of the exact date of the last day for dealing in the HXG Shares on the Stock Exchange and the day on which the Scheme and the withdrawal of the listing of the HXG Shares on the Stock Exchange will be effective. A detailed timetable of the Scheme is set out in Part III of this Scheme Document.

(b) If the Scheme is not approved or if the Proposal lapses

The Proposal will lapse if any of the Conditions has not been fulfilled or waived, as applicable, on or before the Scheme Long Stop Date. If the Scheme is not approved or if the Proposal otherwise lapses, (i) the listing of HXG Shares on the Stock Exchange will not be withdrawn; and (ii) there are restrictions under Rule 31.1 of the Takeovers Code on making subsequent offers, to the effect that neither SDGM nor any person who acted in concert with it in the course of the Proposal nor any person who is subsequently acting in concert with any of them may, within 12 months from the date on which the Scheme is not approved or the Proposal lapses, announce an offer or possible offer for HXG, except with the consent of the Executive.

10. OVERSEAS SCHEME SHAREHOLDERS

Your attention is drawn to the section headed “16. Overseas Scheme Shareholders” in the Explanatory Statement set out in Part VII of this Scheme Document.

11. COURT MEETING AND HXG EGM

Your attention is drawn to the section headed “18. Court Meeting and HXG EGM” in the Explanatory Statement set out in Part VII of this Scheme Document.

In accordance with the direction of the Court, the Court Meeting will be held for the purpose of considering and, if thought fit, passing the resolution by way of poll to approve the Scheme (with or without modification(s)). Disinterested Shareholders whose names appear on the register of members of HXG as at the Meeting Record Date will be entitled to attend and vote, in person or by proxy, at the Court Meeting. The Scheme will be subject to the approval by the Disinterested Shareholders at the Court Meeting in the manner referred to in the sections headed “5. The Scheme and the Court Meeting” and “6. Additional requirements as imposed by Rule 2.10 of the Takeovers Code” in the Explanatory Statement set out in Part VII of this Scheme Document.

The HXG EGM will be held immediately after the conclusion or adjournment of the Court Meeting for the purpose of considering, and, if thought fit, passing the special resolution to approve and give effect to (i) the reduction of the issued share capital of HXG by cancelling and extinguishing the Scheme Shares; (ii) the increase of the issued share capital of HXG immediately thereafter to the amount prior to the cancellation of the Scheme Shares by issuing to SDGM or its wholly-owned subsidiary (as the case may be) such number of new HXG Shares as is equal to the number of Scheme Shares cancelled as a result of the Scheme; and (iii) the application of the credit arising in HXG’s books of accounts as a result of the Scheme to pay up in full at par value such number of new HXG Shares, credited as fully paid, for issuance to SDGM or its wholly owned subsidiary (as the case may be). All HXG Shareholders whose names appear on the register of members of HXG as at the Meeting Record Date will be entitled to attend and vote, in person or by proxy, on such resolution at the HXG EGM.

Notices of the Court Meeting and the HXG EGM are set out in Appendix VII and Appendix VIII to this Scheme Document. The Court Meeting and the HXG EGM will be held on Wednesday, 13 January 2021 at the respective times specified in such notices at 35/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

12. IRREVOCABLE UNDERTAKING

On 30 September 2020, SDGM received the Irrevocable Undertaking from the IU Shareholders (being Gold Virtue and Xi Wang), pursuant to which each of the IU Shareholders has undertaken to, among other things, exercise all voting rights attached to the relevant IU Shares in favour of the resolutions to approve the Proposal and any such other matters in connection therewith at the Court Meeting and the HXG EGM. The 693,750,000 IU Shares held in aggregate by the IU Shareholders represent approximately 75% of the total issued share capital of HXG as at the Latest Practicable Date.

Please refer to the section headed “4. Irrevocable Undertaking and Warranties” in the Explanatory Statement set out in Part VII of this Scheme Document for further details.

13. ACTIONS TO BE TAKEN

Your attention is drawn to “Part II — Actions to be taken” and the section headed “20. Actions to be taken” in the Explanatory Statement set out in Part VII of this Scheme Document.

14. RECOMMENDATION

Your attention is drawn to the recommendations of the HXG Independent Financial Adviser to the HXG Independent Board Committee in respect of the Proposal in the letter from the HXG Independent Financial Adviser set out in Part VI of this Scheme Document. Your attention is also drawn to the recommendation of the HXG Independent Board Committee in respect of the Proposal in the letter from the HXG Independent Board Committee set out in Part V of this Scheme Document.

In the letter from the HXG Independent Financial Adviser set out in Part VI of this Scheme Document, the HXG Independent Financial Adviser stated that it considers the terms of the Proposal and the Scheme to be fair and reasonable so far as the Scheme Shareholders are concerned. Accordingly, it advises the HXG Independent Board Committee to recommend (i) the Disinterested Shareholders to vote in favour of the resolution to approve the Scheme at the Court Meeting and (ii) the HXG Shareholders to vote in favour of the special resolution at the HXG EGM to approve and implement the Proposal and the Scheme.

The HXG Independent Board Committee, having considered the terms of the Proposal and the Scheme, and having taken into account the advice of the HXG Independent Financial Adviser, and in particular the factors, reasons and recommendations set out in its letter, considers that the terms of the Proposal and the Scheme are fair and reasonable so far as the Disinterested Shareholders are concerned. Accordingly, the HXG Independent Board Committee recommends (i) the Disinterested Shareholders to vote in favour of the resolution to approve the Scheme at the Court Meeting and (ii) the HXG Shareholders to vote in favour of the special resolution at the HXG EGM to approve and implement the Proposal and the Scheme.

The directors of HXG (including members of the HXG Independent Board Committee whose view are set out in Part V of this Scheme Document) believe that the terms of the Proposal and the Scheme are fair and reasonable and in the interests of the Disinterested Shareholders as a whole.

15. REGISTRATION AND DESPATCH OF NEW SDGM H SHARE CERTIFICATES

Your attention is drawn to the section headed “15. Registration and despatch of new SDGM H Share certificates” in the Explanatory Statement set out in Part VII of this Scheme Document.

16. TAXATION AND INDEPENDENT ADVICE

Your attention is drawn to the section headed “17. Taxation” in the Explanatory Statement set out in Part VII of this Scheme Document.

It is emphasised that none of HXG, SDGM, parties acting in concert with them or presumed to be acting in concert with them and their respective advisers (including without limitation, CICC and SCB) and share registrars and any of their respective directors, employees, officers, agents or associates or any other person involved in the Proposal accepts any responsibility whatsoever for any taxation effects on, or liabilities of, any persons in connection with the Proposal in Hong Kong or any other jurisdiction. All Scheme Shareholders and HXG Shareholders are recommended to consult their professional advisers if in any doubt as to the taxation implications of the Proposal.

17. FURTHER INFORMATION

You are urged to read carefully the letters from the HXG Independent Board Committee and from the HXG Independent Financial Adviser set out in Parts V and VI of this Scheme Document, respectively, the Explanatory Statement set out in Part VII of this Scheme Document and the Appendices to this Scheme Document (including but not limited to the terms of the Scheme set out in Appendix VI to this Scheme Document, the notice of the Court Meeting set out in Appendix VII to this Scheme Document and the notice of the HXG EGM set out in Appendix VIII to this Scheme Document). In addition, a **pink** form of proxy for the Court Meeting and a **white** form of proxy for the HXG EGM are enclosed with copies of this Scheme Document sent to Registered Owners.

Yours faithfully,
By order of the board of directors of
Hengxing Gold Holding Company Limited
Mr. Ke Xiping
Chairman



恒興黃金
HENGXING GOLD

Hengxing Gold Holding Company Limited

恒興黃金控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2303)

22 December 2020

To the Disinterested Shareholders

Dear Sir or Madam,

(1) PROPOSAL TO TAKE PRIVATE OF HENGXING GOLD HOLDING COMPANY LIMITED BY SHANDONG GOLD MINING CO., LTD. BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 86 OF THE COMPANIES LAW;

AND

(2) PROPOSED WITHDRAWAL OF LISTING OF THE SHARES OF HENGXING GOLD HOLDING COMPANY LIMITED

We refer to the scheme document (the “**Scheme Document**”) dated 22 December 2020 jointly issued by SDGM and HXG in relation to the Proposal and the Scheme, of which this letter forms part. Unless the context requires otherwise, terms used in this letter shall have the same meaning as given to them in the Scheme Document.

We have been appointed by the HXG Board as the HXG Independent Board Committee to advise the Disinterested Shareholders in respect of the Proposal and the Scheme.

Octal Capital has been appointed, with our approval, as the HXG Independent Financial Adviser in respect of the Proposal and the Scheme.

We wish to draw your attention to (a) the letter from the HXG Board as set out in Part IV of the Scheme Document; (b) the letter from the HXG Independent Financial Adviser as set out in Part VI of the Scheme Document which sets out the factors and reasons taken into account by the HXG Independent Financial Adviser in arriving at its recommendations; and (c) the Explanatory Statement as set out in Part VII of the Scheme Document.

PART V LETTER FROM THE HXG INDEPENDENT BOARD COMMITTEE

Having considered the terms of the Proposal and the Scheme and having taken into account the advice of the HXG Independent Financial Adviser, in particular, the factors, reasons and recommendations as set out in the letter from the HXG Independent Financial Adviser as set out in Part VI of the Scheme Document, we consider the terms of the Proposal and the Scheme to be fair and reasonable so far as the Disinterested Shareholders are concerned.

Accordingly, we recommend:

- (a) the Disinterested Shareholders to vote in favour of the resolution to approve the Scheme at the Court Meeting; and
- (b) the HXG Shareholders to vote in favour of the special resolution at the HXG EGM to approve and give effect to (i) the reduction of the issued share capital of HXG by cancelling and extinguishing the Scheme Shares; (ii) the increase of the issued share capital of HXG immediately thereafter to the amount prior to the cancellation of the Scheme Shares by issuing to SDGM or its wholly owned subsidiary (as the case may be) such number of new HXG Shares as is equal to the number of Scheme Shares cancelled as a result of the Scheme; and (iii) the application of the credit arising in HXG's books of accounts as a result of the Scheme to pay up in full at par value such number of new HXG Shares, credited as fully paid, for issuance to SDGM or its wholly owned subsidiary (as the case may be).

Yours faithfully,
HXG Independent Board Committee

Mr. Albert Fook Lau HO
Non-executive director

Ms. WONG, Yan Ki Angel
*Independent non-executive
director*

Dr. Tim SUN
*Independent non-executive
director*

Dr. PAN Guocheng
*Independent non-executive
director*

Set out below is the text of a letter received from Octal Capital Limited, the independent financial adviser to the HXG Independent Board Committee in respect of the Proposal for the purpose of inclusion in this Scheme Document.



Octal Capital Limited
801–805, 8/F, Nan Fung Tower
88 Connaught Road Central
Hong Kong

22 December 2020

To the HXG Independent Board Committee

Dear Sirs or Madams,

**(1) PROPOSAL TO TAKE PRIVATE OF HENGXING GOLD HOLDING COMPANY LIMITED BY SHANDONG GOLD MINING CO., LTD. BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 86 OF THE COMPANIES LAW;
AND
(2) PROPOSED WITHDRAWAL OF LISTING OF THE SHARES OF HENGXING GOLD HOLDING COMPANY LIMITED**

INTRODUCTION

We refer to our appointment as the independent financial adviser to the HXG Independent Board Committee in respect of the Proposal which comprises (i) the reduction of the issued share capital of HXG by the cancellation of the Scheme Shares and in consideration therefor, 5/29 SDGM H Share will be allotted and issued to the Scheme Shareholders on the Scheme Effective Date for every Scheme Share so cancelled; (ii) forthwith upon the capital reduction referred to in (i) above, the restoration of the issued share capital of HXG to the amount immediately before the cancellation of the Scheme Shares by means of the issuance of new HXG Shares in the same number as the Scheme Shares (which were cancelled) to SDGM credited as fully paid out of the credit arising in HXG’s books of account as a result of the capital reduction referred to in (i) above; and (iii) the withdrawal of the listing of the HXG Shares on the Stock Exchange immediately following the Scheme Effective Date pursuant to Rule 6.15 of the Listing Rules. Details of the Proposal are set out in the “Letter from the HXG Board” and the “Explanatory Statement” contained in the Scheme Document dated 22 December 2020, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Scheme Document unless the context requires otherwise.

On 29 September 2020, the HXG Board has approved the declaration of the HXG Special Dividend which would be payable to the HXG Shareholders whose names appeared on the register of members of HXG on 16 October 2020. The HXG Special Dividend has been paid on 30 October 2020. The HXG Special Dividend is independent of the Proposal and the payment of the HXG Special Dividend will not result in any adjustment to the Share Exchange Ratio.

THE HXG INDEPENDENT BOARD COMMITTEE

The HXG Independent Board Committee, comprising of the non-executive director of HXG, namely Mr. Albert Fook Lau HO, and all independent non-executive directors of HXG, namely Ms. WONG, Yan Ki Angel, Dr. Tim SUN and Dr. PAN Guocheng, has been established by the HXG Board to make a recommendation to the Disinterested Shareholders as to whether or not the terms of the Proposal and the Scheme are fair and reasonable and whether to vote in favour of the resolutions for the approval of the Scheme at the Court Meeting and the resolutions necessary to implement the Proposal at the HXG EGM, taking into account the advice from Octal Capital.

We, Octal Capital, have been appointed as the HXG Independent Financial Adviser to advise the HXG Independent Board Committee in connection with the Proposal and the Scheme and such appointment has been approved by the HXG Independent Board Committee in accordance with Rule 2.1 of the Takeovers Code.

We are not in the same group as the financial or other professional advisers (including a stockbroker) to HXG and SDGM, and we are not associated with HXG, SDGM or any party acting, or presumed to be acting, in concert with any of them and we had not had, any connection, financial assistance or otherwise, with either HXG, SDGM or the controlling shareholder(s) of either of them. Accordingly, we are considered eligible to give independent advice to the HXG Independent Board Committee on the Proposal and the Scheme pursuant to Rule 2.6 of the Takeovers Code. Apart from normal professional fees paid or payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from HXG, SDGM or any party acting, or presumed to be acting, in concert with any of them. As at the Latest Practicable Date, we do not have any relationships or interests with HXG and SDGM that could reasonably be regarded as relevant to the independence of Octal Capital. In the last two years, there has been no other engagement entered into between HXG, SDGM and Octal Capital. Accordingly, we do not consider any conflict of interest arises for Octal Capital in acting as the independent financial adviser of the Proposal and the Scheme.

BASIS OF OUR OPINION

In formulating our opinion and recommendation to the HXG Independent Board Committee, we have reviewed, amongst others (i) the Scheme Document; (ii) the annual report of HXG for the year ended 31 December 2019 (the “**HXG 2019 Annual Report**”); (iii) the annual report of SDGM for the year ended 31 December 2019 (the “**SDGM 2019 Annual Report**”); (iv) the interim report of HXG for the six months ended 30 June 2020 (the “**HXG 2020 Interim Report**”); and (v) the interim report of SDGM for the six months ended 30 June 2020 (the “**SDGM 2020 Interim Report**”). We have relied on the statements, information, opinions and representations contained or referred to in the Scheme Document and/or provided to us by HXG, the HXG Board and the management of HXG. We have also assumed that all statements of belief, opinion and intention made by the HXG Board, the SDGM Board, the management of HXG and SDGM respectively in the Scheme Document were reasonably made after due enquiry. We consider that the information we have received is sufficient for us to reach our opinion and give the advice and recommendation set out in this letter. We have no reason to believe that any material information has been omitted or withheld, or doubt the truth

PART VI LETTER FROM THE HXG INDEPENDENT FINANCIAL ADVISER

or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs of the HXG Group, the SDGM Group or any of their respective associates or any party acting, or presumed to be acting, in concert with any of them, nor have we carried out any independent verification of the information supplied. We have also assumed that all representations contained or referred to in the Scheme Document were true at the time they were made and at the date of the release of the Scheme Document and will continue to be true up to the time of the Latest Practicable Date, and that the HXG Independent Board Committee and the Disinterested Shareholders will be informed as soon as possible if we are aware of any subsequent material changes to such representations.

We have not considered the tax implications on the Scheme Shareholders arising from acceptance or non-acceptance of the Proposal, if any, and therefore we will not accept responsibility for any tax effect or liability that may potentially be incurred by the Scheme Shareholders as a result of the Proposal. In particular, the Scheme Shareholders who are subject to Hong Kong or overseas taxation on dealings in securities are urged to seek their own professional adviser on tax matters. Please refer to the section headed “17. Taxation” in the Explanatory Statement set out in Part VII of the Scheme Document for further details of the taxation implications.

PRINCIPAL TERMS OF THE PROPOSAL

The Scheme Consideration

Under the Proposal, if the Scheme becomes effective, all of the Scheme Shares will be cancelled in exchange for newly issued SDGM H Share(s) according to the Share Exchange Ratio:

**For every Scheme Share cancelled..... 5/29 SDGM H Share
(approximate to 0.17241* SDGM H Share)**

* The approximate figure of 0.17241 is included in the Scheme Document for illustrative purpose only and is subject to rounding adjustment. Please use the fraction of 5/29 for calculation of exact entitlement.

The Share Exchange Ratio has been determined on a commercial basis after taking into account (i) the historical performance and business potential of SDGM and HXG; (ii) the prevailing and historical market price levels of both the SDGM H Shares and HXG Shares traded on the Stock Exchange; (iii) other comparable share exchange transactions in Hong Kong and in the global gold mining industries in recent years; and (iv) the HXG Special Dividend.

The new SDGM H Shares will only be issued to the Scheme Shareholders if the Scheme becomes effective.

No price increase statement

The number of SDGM H Shares to be issued to the Scheme Shareholders under the Scheme will be in accordance with the Share Exchange Ratio and will not be increased, and SDGM does not reserve the right to do so.

Dividend Payment by SDGM and HXG

Neither HXG nor SDGM intends to (i) declare and/or pay any dividend (other than the HXG Special Dividend) or other distributions; or (ii) conduct any consolidation or subdivision with respect to its share capital, before the Scheme becomes effective, lapses or being not approved at the HXG EGM or the Court Meeting (as the case may be).

Conditions of the Proposal and the Scheme

The implementation of the Proposal is, and the Scheme will only become effective and binding on HXG and all the Scheme Shareholders irrespective of whether or not he, she or it attends and/or votes at the Court Meeting or the HXG EGM, subject to the satisfaction or waiver (as applicable) of the Conditions set out in the paragraph headed “3. Conditions of the Proposal and the Scheme” in the Explanatory Statement set out in Part VII of the Scheme Document, on or before the Scheme Long Stop Date on 30 June 2021.

The Conditions include, among others, (i) the approval of the Scheme (by way of poll) by a majority in number of the Scheme Shareholders, as well as by at least 75% of the votes attaching to the Scheme Shares held by the Disinterested Shareholders, provided that the number of votes cast (by way of poll) by the Disinterested Shareholders present and voting either in person or by proxy against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all of the Scheme Shares held by the Disinterested Shareholders; (ii) the sanction of the Scheme by the Court; (iii) the listing committee of the Stock Exchange having granted the listing of, and permission to deal in, the SDGM H Shares to be issued pursuant to the Scheme on the Stock Exchange; and (iv) all necessary Approvals in connection with the Proposal and the Scheme which include, among others, (1) the State Administration for Market Regulation of the PRC for merger filing; and (2) the China Securities Regulatory Commission for the issuance of SDGM H Shares by SDGM, having been obtained from, given by or made with or by (as the case may be) the relevant Authorities in the PRC, the Cayman Islands, Hong Kong and any other relevant jurisdictions, the requirements of the Companies Law are complied with, including the registration by the Cayman Islands Registrar of Companies of the relevant Court order.

Subject to the Scheme becoming effective, the entire issued share capital of HXG will be owned by SDGM or its wholly-owned subsidiary (as the case may be) upon completion of the Proposal.

Irrevocable Undertaking and Warranties

SDGM received the Irrevocable Undertaking from the IU Shareholders (being Gold Virtue and Xi Wang), pursuant to which each of the IU Shareholders has undertaken to, among other things, exercise all voting rights attached to the relevant IU Shares in favour of the resolutions to approve the Proposal and any such other matters in connection therewith at the Court Meeting and the HXG EGM. The 693,750,000 IU Shares held in aggregate by the IU Shareholders represent approximately 75% of the total issued share capital of HXG as at the Latest Practicable Date.

Please refer to the section headed “4. Irrevocable Undertaking and Warranties” in the Explanatory Statement set out in Part VII of the Scheme Document for further details.

PRINCIPAL FACTORS AND REASONS CONSIDERED

1 Background and financial information of HXG and SDGM

1.1 HXG

The HXG Group is principally engaged in gold mining and production and sale of processed gold products. The HXG Group currently owns and operates one gold mine located in Yining County of Xinjiang, the PRC, namely Gold Mountain Mine, the largest individual gold mine in Xinjiang in terms of annual ore processing capacity and gold production volume.

Financial performance

Set out below is a summary of the HXG’s consolidated income statement for each of the two years ended 31 December 2019 and the six months ended 30 June 2019 and 2020 as extracted from the HXG 2019 Annual Report and the HXG 2020 Interim Report:

	For the year ended 31 December		For the six months ended 30 June	
	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	830,006	845,396	290,894	253,332
Gross profit	365,168	325,453	109,593	91,813
Profit attributable to owners of HXG	260,897	214,544	75,702	55,154
Earnings per share (RMB)	0.28	0.23	0.08	0.06

For the year ended 31 December 2019

During the year ended 31 December 2019 (“FY2019”), revenue of the HXG Group amounted to approximately RMB845.4 million, representing an increase of approximately RMB15.4 million or 1.9% as compared with the revenue for the year ended 31 December 2018 (“FY2018”). Such increase was mainly due to the increase in the global gold price although the sales volume of HXG Group dropped in FY2019. During FY2019, the Gold Mountain Mine processed 6.4 million tonnes of newly mined ore with a feed-in grade of 0.73g per ton and 2.0 million tonnes of ore in the existing pad with grade of 0.35g per ton. The HXG Group produced 85,654 ounces (equivalent to approximately 2,664.1 kg or approximately 2.66 tonnes) of gold in FY2019, representing a decrease by approximately 13.0% compared to the

same period in FY2018. The decrease in gold production was mainly due to the fact that the ore being mined during the first half of FY2019 were generally of lower grade, leading to the lower gold production during FY2019.

Gross profit of the HXG Group amounted to approximately RMB325.5 million for FY2019, representing a decrease of approximately RMB39.7 million or 10.9% as compared with that for FY2018. Such decrease was mainly due to the increase in cost of sales as a result of the growth in stripping volume of waste in the gold mine and the gold production volume. Net profit of the HXG Group for FY2019 amounted to approximately RMB214.5 million, representing a decrease of approximately RMB46.4 million or 17.8% as compared with that for FY2018. The decrease was mainly due to the decrease in gross profit and increase in administration expenses in relation to staff costs, depreciation expenses and expenses for acquisition projects.

For the six months ended 30 June 2020

During the six months ended 30 June 2020 (“1H2020”), revenue of the HXG Group amounted to approximately RMB253.3 million, representing a decrease of approximately RMB37.6 million or 12.9% as compared with that for the six months ended 30 June 2019 (“1H2019”). Such decrease was mainly due to the lower gold production level during 1H2020 as a result of the outbreak of COVID-19 in the PRC at the beginning of 2020 as the strict travel restrictions and quarantine measures imposed by the government had led to major delay in work force returning and the delivery of necessary production materials. Gold Mountain Mine only gradually started to return to normal operation from the end of March 2020. In addition, maintenance work for the roads connecting to Gold Mountain Mine was carried out which had further disrupted the mining and production for about 10 days. For these reasons, the full operational days were significantly reduced resulting in gold production of approximately 20,544 ounces (equivalent to approximately 661kg or approximately 0.66 tonnes) during 1H2020, representing a decrease by approximately 40% as compared with that for 1H2019.

Gross profit of the HXG Group amounted to approximately RMB91.8 million for 1H2020, representing a decrease of approximately RMB17.8 million or 16.2% as compared with that for 1H2019. The decrease was mainly due to the decrease in production volume resulting from the decrease in operational days while the fixed operating costs of the Gold Mountain Mine remained at the same level. Net profit for 1H2020 amounted to approximately RMB55.2 million, representing a decrease of approximately RMB20.5 million or 27.1% as compared with that for 1H2019. The decrease was mainly due to the decrease in gross profit and decrease in other gains due to the investment losses on futures contracts.

Financial Position

Set out below is a summary of the HXG Group's consolidated balance sheet as at 31 December 2019 and 2020 and as at 30 June 2020 as extracted from the HXG 2019 Annual Report and the HXG 2020 Interim Report respectively.

	As at 31 December		As at 30 June
	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)	(unaudited)
Non-current assets	657,969	644,669	643,796
Current assets	459,743	580,481	513,742
Total assets	1,117,712	1,225,150	1,157,538
Non-current liabilities	37,506	33,486	34,847
Current liabilities	152,858	131,178	92,147
Total liabilities	190,364	164,664	126,994
Total equity	927,348	1,060,486	1,030,544
Net asset value per Share (RMB)	1.00	1.15	1.11

As at 31 December 2019, total assets of the HXG Group amounted to approximately RMB1,225.2 million, representing an increase of approximately 9.6% as compared with that as at 31 December 2018. The increase of total assets was mainly attributable to the increase in trade receivables and inventories. Non-current assets of the HXG Group mainly comprised property, plant and equipment and intangible assets amounted to approximately RMB358.2 million and RMB266.4 million respectively. Property, plant and equipment mainly consisted of buildings and structures, mining structures and equipment and machinery while intangible assets mainly consisted of mining rights, restoration costs, stripping costs and meadow compensation costs and others. Current assets of the HXG Group mainly comprised cash and cash equivalents, inventories and trade receivables amounted to approximately RMB323.8 million, RMB140.2 million and RMB70.6 million. As at 31 December 2019, total liabilities of the HXG Group amounted to approximately RMB164.7 million, representing a decrease of approximately 13.5% as compared with that as at 31 December 2018. The decrease of total liabilities was mainly attributable to the repayment of long-term bank borrowings of approximately RMB60 million that were due in FY2019. Non-current liabilities of the HXG Group mainly comprised provision for close down, restoration and environmental costs while its current liabilities mainly comprised trade and other payables and current tax liabilities.

As at 30 June 2020, total assets of the HXG Group amounted to approximately RMB1,157.5 million which remains at similar level as that as at 31 December 2019. Total liabilities of the HXG Group decreased by approximately 22.9% from RMB164.7 million as at 31 December 2019 to approximately RMB127.0 million as

at 30 June 2020 which was mainly attributable to (i) the decrease in payables such as staff salaries, other tax payables and other accrued expenses; and (ii) the payment of income tax during 1H2020.

1.2 SDGM

The SDGM Group is principally engaged in gold exploration, mining, processing, smelting and sales. The SDGM Group is currently operating nine gold mines located in Shandong province and three gold mines in other provinces of the PRC and one jointly operating gold mine in Argentina.

Financial performance

Set out below is a summary of the consolidated income statement of SDGM for each of the two years ended 31 December 2019 and the six months ended 30 June 2019 and 2020 as extracted from the SDGM 2019 Annual Report and the SDGM 2020 Interim Report:

	For the year ended 31 December		For the six months ended 30 June	
	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	56,250,494	62,613,141	31,924,822	33,039,934
Gross profit	4,036,579	5,011,347	2,292,351	3,147,688
Profit attributable to owners of SDGM	964,411	1,290,503	548,948	1,122,253
Earnings per share (RMB)	0.35	0.42	0.13	0.26

For the year ended 31 December 2019

During FY2019, revenue of the SDGM Group amounted to approximately RMB62,613.1 million, representing an increase of approximately RMB6,362.6 million or 11.3% as compared with the revenue for FY2018. The increase was due to the increase in gold price and the SDGM Group's sales volume of gold. During FY2019, gold mine production volume of the SDGM Group was approximately 40.1 tonnes, representing a year-on-year increase of approximately 0.8 tonnes or 2.0%. The international gold price saw a sharp rise in FY2019 which increased from US\$1,282.4 per ounce to US\$1,517.1 per ounce, representing a year-on-year increase of approximately 18.3%. The increase in production volume coupled with the increase in gold price had driven up the revenue of the SDGM Group in FY2019.

Gross profit of the SDGM Group amounted to approximately RMB5,011.3 million for FY2019, representing an increase of approximately RMB974.8 million or 24.1% as compared with FY2018. The increase was mainly due to the increase in gross profit from mining segment, which contributed over approximately 90% of the

SDGM Group's gross profit for each of the past two financial years. Gross profit margin of the mining segment increased from approximately 35.0% for FY2018 to 36.2% for FY2019, which was mainly attributable to the increase in selling price of gold during the period. Profit attributable to owners of the SDGM Group for FY2019 amounted to approximately RMB1,290.5 million, representing an increase of approximately RMB326.1 million or 33.8% as compared with that for FY2018. The increase was mainly due to the increase in gross profit partially offset by the increase in compensation and insurance costs.

For the six months ended 30 June 2020

During 1H2020, revenue of the SDGM Group amounted to approximately RMB33,039.9 million, representing an increase of approximately RMB1,115.1 million or 3.5% as compared with the revenue for 1H2019. The increase was due to the increase in the SDGM Group's selling price of gold although there was a slight decrease in production volume. The international gold price increased from US\$1,517.2 per ounce as at 1 January 2020 to US\$1,780.7 per ounce as at 30 June 2020. The SDGM Group's average selling price of gold for the first half of 2020 amounted to US\$1,645.4 per ounce, representing a year-on-year growth of approximately 25.9%. During 1H2020, the SDGM Group's production volume reached approximately 20.0 tonnes, representing a year-on-year decrease of approximately 2.49%.

Gross profit of the SDGM Group amounted to approximately RMB3,147.7 million for 1H2020, representing an increase of approximately RMB855.3 million or 37.3% as compared with that for 1H2019. The increase was mainly due to the increase in gross profit from sales of the SDGM Group's self-produced gold. Profit attributable to owners of SDGM for 1H2020 amounted to approximately RMB1,122.3 million, representing an increase of approximately RMB573.3 million or 104.4% as compared with that for 1H2019. The increase was mainly due to the increase in the SDGM Group's gross profit and the decrease in its selling and commission expenses.

Financial Position

Set out below is a summary of the SDGM Group's consolidated balance sheets for each of the two years ended 31 December 2019 and the six months ended 2020 as extracted from the SDGM 2019 Annual Report and the SDGM 2020 Interim Report:

	As at 31 December	As at 30 June
	2018	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Restated)</i>	<i>RMB'000</i>
	<i>(audited)</i>	<i>(unaudited)</i>
Non-current assets	45,516,194	48,486,913
Current assets	9,044,283	10,361,813
Total assets	54,560,477	58,848,726
Non-current liabilities	7,922,767	7,874,883
Current liabilities	20,963,273	24,905,518
Total liabilities	28,886,040	32,780,401
Total equity	25,674,437	26,068,325
Equity attributable to owners of SDGM	23,730,592	23,207,912
Net asset value per SDGM Share (RMB) ^{Note}	11.6	8.4
		8.7

Note: Net asset value per SDGM Share is calculated based on the net asset value of SDGM as at the respective year ends divided by the total issued SDGM Shares as at the respective year ends

As at 31 December 2019, total assets of the SDGM Group amounted to approximately RMB58,848.7 million which remained at similar level compared with that as at 31 December 2018. The total assets of the SDGM Group mainly comprised property, plant and equipment, intangible assets and financial assets at fair value through other comprehensive income, amounted to approximately RMB26,029.5 million, RMB12,581.3 million and RMB5,688.1 million respectively. Property, plant and equipment mainly consisted of buildings and structures, mining structures and equipment and machinery. Current assets of the SDGM Group mainly comprised cash and cash equivalents and inventories amounted to approximately RMB3,019.0 million and RMB3,639.8 million respectively. As at 31 December 2019, total liabilities of the SDGM Group amounted to approximately RMB32,780 million, representing an increase of approximately 13.5% as compared with that of approximately RMB28,886 million as at 31 December 2018. The increase was mainly attributable to (i) the increase in the SDGM Group's financial liabilities in relation to the bank financing obtained through entering into gold leasing contracts by approximately RMB2,311 million; and (ii) the increase in short-term borrowings by approximately RMB2,279 million. The non-current liabilities of the SDGM Group

mainly comprised deferred income tax liabilities and borrowings. The current liabilities of the SDGM Group mainly comprised financial liabilities at fair value through profit or loss and borrowings.

As at 30 June 2020, total assets of the SDGM Group amounted to approximately RMB62,652.1 million, representing an increase of approximately 6.5% as compared with that as at 31 December 2019. The increase of the total assets was mainly attributable to the increase in its bank balances and cash, inventories and trade and other receivables. As at 30 June 2020, the total liabilities of the SDGM Group further increased by approximately 8.7% to approximately RMB35,623.7 million as at 30 June 2020 which was mainly attributable to (i) the increase in short-term borrowing by approximately RMB2,829 million; and (ii) increase in trade and other payables by approximately RMB1,198 million which were mainly related to receipts in advance for gold purchases and deposits.

2. Reasons for and benefits of the Proposal

As set out in the section headed “12. Reasons for and benefits of the Proposal” in the Explanatory Statement set out in Part VII of the Scheme Document,

- (a) the Proposal can solidify the industry leadership of the enlarged SDGM Group and thereby enhance the global competitiveness of the enlarged SDGM Group in terms of its resources diversity and resources capacity with more gold reserves, resources and production capacity from the HXG Group to be added to the SDGM Group’s existing portfolio;
- (b) HXG, being a single mine company with the Gold Mountain Mine, has limited ability to resist risks on a standalone basis, the Proposal will provide an opportunity for the Scheme Shareholders to participate in SDGM’s continuous optimisation of the Gold Mountain Mine, while eliminating such single-asset risk faced by HXG. Furthermore, through ownership of the SDGM H Shares, the Scheme Shareholders will gain exposure to a more diversified portfolio of assets with coverage across the entire industry chain, benefitting from an increased resilience to risks and more stable investment returns;
- (c) SDGM possesses industry-leading underground mining technologies and advanced scientific mine management expertise, which can effectively support the existing operations of HXG and the development of its underground mining resources after depletion of the open-pit mining area while HXG has been committed to technical optimisation over the past few years with a focus to increase production efficiency. The sharing and exchange of technological achievements between SDGM and HXG following completion of the Proposal will enable SDGM to improve its recovery rates, increase gold production volume and reduce production costs; and
- (d) SDGM H Shares have historically been more actively traded as compared to HXG Shares. The low trading liquidity of HXG Shares makes it difficult for HXG Shareholders to execute substantial on-market disposals without exerting downward pressure on the market price of the HXG Shares in the short term. The Proposal

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provides an opportunity for the Scheme Shareholders to dispose of their relatively illiquid HXG Shares in exchange for more actively traded SDGM H Shares at a premium to the quoted price of HXG Shares without suffering any illiquid discount.

The Proposal provides an opportunity to solidify the industry leadership of the SDGM Group and the Scheme Shareholders will gain exposure to a more diversified portfolio of assets with broader geographic coverage as well as the exposure to the downstream business of gold refining. As regards the operational performance of the SDGM Group, it has comparative advantages over the HXG Group in various aspects which are summarised as below:

	HXG Group	SDGM Group
Geographic coverage	Xinjiang	Inner Mongolia, Gansu, Fujian, Shandong and Argentina
Number of gold mines	1	13 ^{Note 1}
Latest annual production of gold (tonnes)	2.66	40.12
Latest total proved plus probable gold reserves on an equity basis (tonnes)	39.8	281.5 ^{Note 2}
Latest average gold grade of gold reserves (g/t)	0.79	3.40
Revenue for the latest full financial year (RMB)	845.4 million	62,613.1 million
Annual growth of revenue for the latest full financial year	1.9%	11.3%
Net profit for the latest full financial year (RMB)	214.5 million	1,412.3 million
Annual growth of net profit for the latest full financial year	17.8%	33.8%
Growth style	Organic	Acquisitions and organic

Notes:

1. The gold mines of the SDGM Group include a gold mine in Argentina, namely Veladero, which is owned as to 50% by the SDGM Group.
2. The latest gold reserve of SDGM Group of 281.5 tonnes, is calculated as the gold content reserves of 9,929 koz, as disclosed in the SDGM 2019 Annual Report, multiplied by koz-to-tonnes ratio of 0.0283495231.

As shown in the table above, the number of gold mines possessed by the SDGM Group is significantly more than those of the HXG Group, with 13 mines as compared to only one mine possessed by the HXG Group and a larger geographic coverage over the PRC and the overseas. In addition, the gold reserves of the SDGM Group are at a more abundant level than the HXG Group with a higher average gold grade of 3.40 g/t as compared to the HXG Group's 0.79 g/t.

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Moreover, we observed that, the SDGM Group has continued to expand its business coverage through merger and acquisitions in recent years, including (i) the acquisition of SD Gold Capital Management Co., Ltd. which is mainly engaged in gold leasing, asset management, sales and repurchase of precious metals; (ii) the acquisition of TMAC Resources Inc., a company listed in Toronto Stock Exchange of Canada (“TSX”) in Canada principally engaged in the exploration, mining and production of gold resources in Canada; and (iii) the participation in the bidding to acquire a gold exploration and development company, Cardinal Resources Limited, which is listed in the Australian Securities Exchange and TSX. Through continuous acquisitions, the SDGM Group has been able to enhance its gold reserves and remain competitive in the industry. Therefore, we concur with the HXG Board that, through the ownership of the SDGM H Shares, the Scheme Shareholders will gain exposure to a more diversified portfolio of gold mines with coverage across the PRC and overseas, thereby benefitting from an increased resilience to risks and more stable investment returns for the Scheme Shareholders.

On the other hand, the larger scale of operations of the SDGM Group allows it to achieve economies of scale in respect of its existing gold mine assets and it can further its growth prospect through merger and acquisition activities. As for the HXG Group, the growth prospect of the HXG Group would be comparatively limited as it mainly relies on the organic growth of the Gold Mountain Mine. This is apparent in terms of the growth rate of revenue and net profit of the HXG Group and SDGM Group respectively. For instance, revenue and net profit of the HXG Group amounted to approximately RMB845.4 million and RMB214.5 million for FY2019 respectively, representing an annual increase of revenue of merely approximately 1.9% and a drop of net profit by approximately 17.8%, which is partly due to the lower grade ore body leading to a lower gold production despite the increase in gold price in FY2019. As for the SDGM Group, in contrast, its revenue and net profit amounted to approximately HK\$62,613.1 million and HK\$1,412.3 million for FY2019, representing an annual increase of approximately 11.3% and 33.8% respectively.

Furthermore, SDGM possessed advanced underground mining technology with abundant experience. According to the SDGM 2019 Annual Report, SDGM has implemented deep underground mining laboratory to support its technological innovation development. On the other hand, HXG has been committed mainly to on-ground gold mining over the past few years. Based on the feasibility report of HXG’s underground mining development provided by the management of the HXG Group, we noted that the on-ground mining resources will be exhausted by 2027 and there is a need for the HXG Group to tap into underground mining production thereafter. The estimated capital expenditure on the development of underground mining technology is approximately RMB233.4 million. Taking into account the existing SDGM’s underground mining technology, we are of the view that after completion of the Proposal, economies of scale and synergies can be achieved and underground mining technology can be shared among HXG Group and SDGM Group, resulting in (i) greater gold production volume; (ii) reduction in capital expenditure and production costs for the SDGM Group; and (iii) improvement in the SDGM Group’s recovery rates, being the percentage of gold available for sale after the mining process.

While the merger and acquisitions activities of the SDGM Group may on one hand bring about growth prospect to it, Scheme Shareholders are reminded that the engagement of the SDGM Group in such merger and acquisitions activities, particularly those in overseas jurisdictions, may expose itself to additional operational risks in different countries due to the complexity and variability of the external environment in which the overseas acquisition targets operate (including the non-compliance in relevant regulations, environmental and safety requirements), as compared to the risks faced by the HXG Group. As such, the SDGM Group may face challenges and uncertainties in managing the operation of the newly acquired companies. On the other hand, the HXG Group may also expose to risks which are typical for gold mining companies such as gold price fluctuation and the sustainability of its gold reserves. This would affect the profitability and the sustainability of gold mining companies of the same scale of operation while the SDGM Group may be less exposed to these risks with its diversity in reserves and the higher grade gold quality.

Taking into account (i) the SDGM Group's comparative advantages in terms of geographical coverage of operations, size of operation scale, fast growing financial performance and profit margin ratio; (ii) the collaboration of the advanced mining technologies between the HXG Group and the SDGM Group, and (iii) the future prospect of the achievement of economies of scale by the SDGM Group and the reduction in its operating costs, the Proposal provides an opportunity for the Scheme Shareholders to hold shares of SDGM after completion of the Proposal, which is a sizeable company with stronger market position in the gold mining industry.

Our analysis on the trading liquidity the SDGM H Shares and HXG Shares and the benefits to the Scheme Shareholders under the Proposal is described in the section headed "4. Liquidity of HXG Shares and SDGM H Shares" below.

3. Cancellation Consideration

In assessing the reasonableness of the consideration per Scheme Share for cancellation of the Scheme Shares pursuant to the Scheme, representing the closing price of 5/29 SDGM H Share per one Scheme Share as at the Last Trading Day, being approximately HK\$3.29 per HXG Share (the "**Cancellation Consideration**"), we have considered the relative price performance of the HXG Shares and the SDGM H Shares and compared them against the Cancellation Consideration.

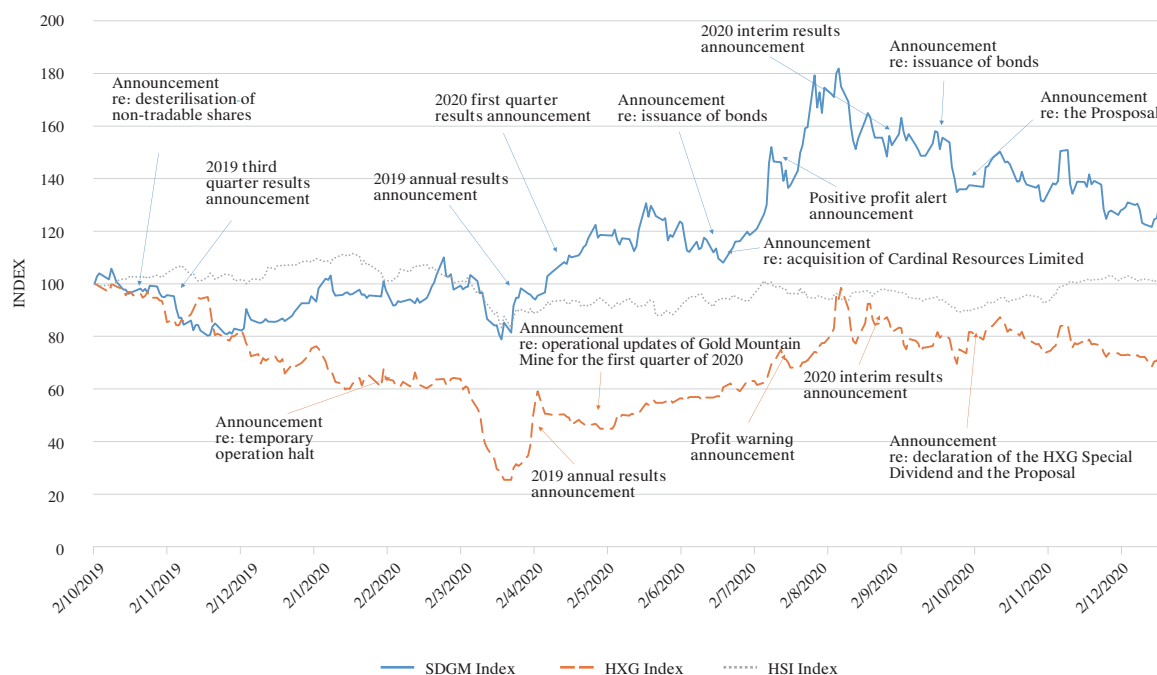
3.1 Share price analysis

Set out below is a chart showing the relative movement of the closing prices of HXG Shares and SDGM H Shares against the Hang Seng Index (the "**HSI**") during the period from 2 October 2019 (being the first trading day of the 12-month period ending on the Last Trading Day) up to and including the Latest Practicable Date (the "**Review Period**") to illustrate the general trend and level of movement of the closing prices of the HXG Shares and SDGM H Shares. We consider that the Review Period which covers a full year prior to the Latest Practicable Date represents a reasonable period to provide a general overview of the recent trading performance of the HXG Shares and the SDGM Shares when assessing the fairness and reasonableness of the Cancellation Consideration. The

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closing prices of the HXG Shares prior to 14 October 2020, being the first day of trading on ex-entitlement basis as a result of the HXG Special Dividend, have been adjusted on ex-entitlement basis.

Price movement of HXG Shares and SDGM H Shares during the Review Period



Source: The Stock Exchange website (www.hkex.com.hk)

Note:

1. the closing prices of HXG Shares, SDGM H Shares and HSI have all been rebased to 100 as at 2 October 2019.
2. the closing price of HXG Shares, between 2 October 2019 and the ex-dividend date of 13 October 2020, has been adjusted for the HXG Special Dividend.

As shown in the chart above, the closing prices of the HXG Shares exhibited a general downward trend from October 2019 to January 2020, which was mainly due to the publication of the unsatisfactory interim results announcement for 1H2019, stating the gold production and net profit after tax of the HXG Group decreased by approximately 27% and 37% respectively. The closing price of the HXG Shares further dropped to the lowest level during the Review Period on 20 March 2020 following HXG's announcement of the temporary operation halt of the Gold Mountain Mine in February 2020 due to the impact of COVID-19 which was in line with the slump in value of the global equity markets including the HSI in March 2020. On 31 March 2020, the HXG Group published the annual results announcement for FY2019 which stated that despite the decline in its gold production by approximately 13%, the HXG Group still recorded an increase in revenue of approximately 2% and the HXG Board proposed a final dividend of HK\$0.1 per Share. Following the publication of the HXG's annual results announcement for

FY2019, the price of the HXG Shares bounced back significantly and it exhibited a general upward trend and outperformed the HSI before reaching its peak of FY2020 in August 2020 which may be impacted by the market sentiment and the expectation in the increase in gold price during the same period as we observed that the global gold price had exhibited an upward trend since the beginning of FY2020 and reached its historical high level at approximately US\$2,065.6 per ounce on 6 August 2020. The price of the HXG Shares trended downwards since mid-August 2020 which followed the drop in the gold price since reaching its peak in August 2020, before the rise in the price of the HXG Shares by the end of September 2020 following the announcement of the declaration of the HXG Special Dividend on 29 September 2020. However, the price level of the HXG Shares during the Review Period was below its level on 2 October 2019, being the first date of the Review Period.

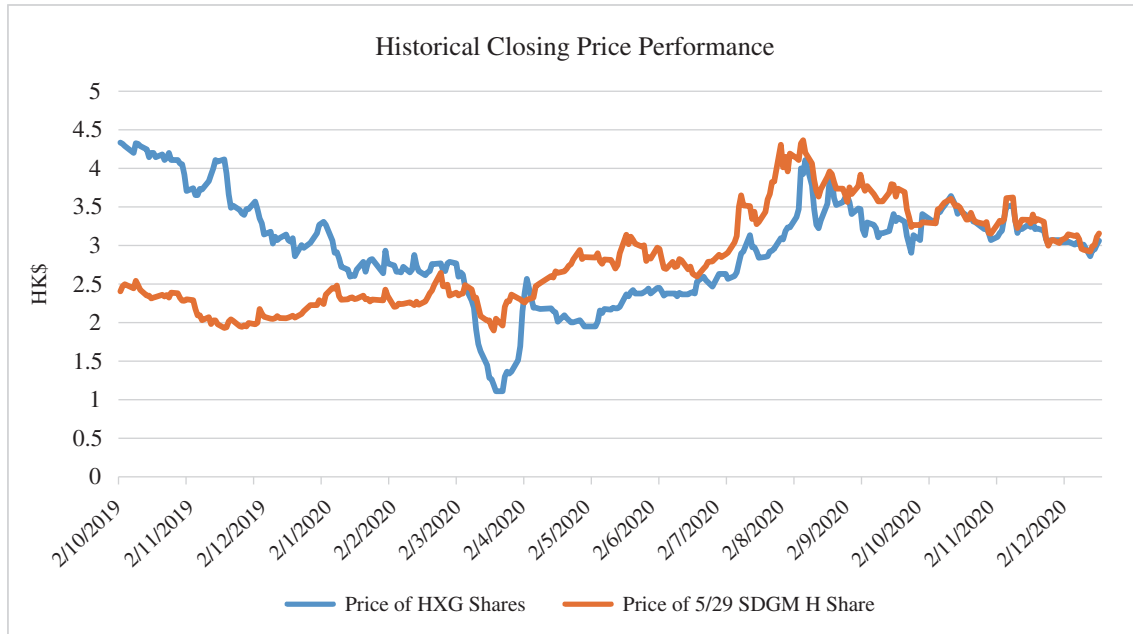
The price of the SDGM H Shares was on a downward trend since 2 October 2019 until early November 2019 following (i) the end of the lock-up period on 21 October 2019 of the SDGM A Shares in relation to the previous placement of SDGM A Shares in October 2016; and (ii) the release of the results announcement of SDGM for the third quarter of 2019 which posted an increase in revenue and net profit for that quarter as compared with those of the previous year. The SDGM H Shares continued its upward trend and outperformed the HSI since early December 2019 until March 2020 as a result of the outbreak of COVID-19 in the first quarter of 2020 leading to the slump in value of the global equity markets including the HSI. The price of the SDGM H Shares turned around by the end of March 2020 which was in line with the increase in HSI. The price of the SDGM H Shares continued to increase and outperformed the HSI following the publication of SDGM's annual results announcement of FY2019 on 27 March 2020 which posted a year-on-year increase in net profit and earnings per share by approximately 37% and 23% respectively. The price of the SDGM H Shares rose above the price level on 2 October 2019 since April 2020 and continued to reach its peak in August 2020 which may be impacted by the market sentiment and the expectation in the increase in gold price during the same period as mentioned above. The price of the SDGM H Shares exhibited a general downward trend since reaching its peak in the beginning of August 2020 which was in line with the downward trend in the gold price since reaching its historical high level in August 2020.

After the publication of SDGM's interim results announcement for 1H2020 on 27 August 2020 which posted an increase in net profit and basic earnings per share by approximately 102% and 100% respectively, the price of the SDGM H Shares exhibited a slight increase in the beginning of September 2020 before it trended downwards by the end of September 2020. However, the price of the SDGM H Shares was still above the level on 2 October 2019, being the first date of the Review Period.

Based on the above, we noted that (i) the SDGM H Shares generally outperformed the HXG Shares, evidenced by their respective trading performance during the Review Period; and (ii) both the trends of HXG Shares and the SDGM H Shares were in line with the global gold price during the Review Period.

3.2 Share Exchange Ratio Analysis

Set out below is a chart showing the relative movement of the closing prices of HXG Share against the closing prices of 5/29 SDGM H Share, taking into account the Share Exchange Ratio, during the Review Period for illustration purposes. The closing prices of the HXG Shares prior to 14 October 2020, being the first day of trading on ex-entitlement basis as a result of the HXG Special Dividend, have been adjusted on ex-entitlement basis.



Source: The Stock Exchange website (www.hkex.com.hk)

As shown in the graph above, since 6 March 2020, the closing price of 5/29 SDGM H Share had been generally higher than the closing price of the HXG Share until the HXG Last Full Trading Day. The closing price of 5/29 SDGM H Share was slightly below the closing price of HXG Share as at the HXG Last Trading Date. Based on the closing price of HK\$18.24 per SDGM H Share as at the Latest Practicable Date, the issuance of 5/29 new SDGM H Share for every Scheme Share ascribes a value of HK\$3.14 per Scheme Share, which represents a premium of approximately 3.11% over the closing price of HK\$3.05 per HXG Share as quoted on the Stock Exchange on the Latest Practicable Date.

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As set out in the letter from the HXG Board, the premia represented by the issue of the new SDGM H Shares as calculated by reference to various ratios between the average prices per HXG Share and the average prices per SDGM H Share in various historical periods, are as follows:

		Trading periods up to and including the respective Last Trading Day				
		10	30	60	90	120
		Trading	Trading	Trading	Trading	Trading
		Days	Days	Days	Days	Days
A	Average price per HXG Share based on the daily closing prices as quoted on the Stock Exchange (HK\$)	3.19	3.32	3.27	3.00	2.78
B	Average price per SDGM H Share based on the daily closing prices as quoted on the Stock Exchange (HK\$)	20.09	21.02	21.54	19.78	18.87
C	Premium = (5/29)/(A/B)-1	8.50%	9.29%	13.53%	13.80%	16.90%

Notes:

1. "C" corresponds to the premium represented by the issuance of 5/29 new SDGM H Share for every one HXG Share based on the ratio between the average price per HXG Share for any of the specified period up to the Last Trading Day and the average price per SDGM H Share for any of the specified period up to the Last Trading Day.
2. The figures shown in the table above are rounded to two decimal places.
3. Exact premium figures may not be replicated using the share prices shown in the table due to rounding differences.

HXG Shareholders, investors and potential investors should note that the comparison results in the Scheme Document are different from those presented in the Announcement due to updates in the trading information in HXG Shares after adjustment on an entitlement basis for the HXG Special Dividend.

Taking into account the movement of the historical trading prices of the HXG Shares and the SDGM H Shares in various historical periods, the Cancellation Consideration as calculated using the Share Exchange Ratio of one HXG Share for 5/29 new SDGM H Share in each of the historical periods as shown in the above table demonstrated premia in the range of approximately 8.50% to approximately 16.90%.

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Based on the closing price of HK\$19.08 per SDGM H Share as at the SDGM Last Trading Day, the issuance of 5/29 new SDGM H Share for every Scheme Share ascribes a value of approximately HK\$3.29 per Scheme Share, which represents:

- (a) a premium of approximately 7.86% over the closing price of HK\$3.05 per HXG Share as quoted on the Stock Exchange on the Latest Practicable Date (after adjustment due to commencement of dealings in the HXG Shares on an ex-entitlement basis for the HXG Special Dividend);
- (b) a discount of approximately 3.10% to the closing price of HK\$3.40 per HXG Share as quoted on the Stock Exchange on the HXG Last Trading Day (after adjustment due to commencement of dealings in the HXG Shares on an ex-entitlement basis for the HXG Special Dividend);
- (c) a premium of approximately 7.58% over the closing price of HK\$3.06 per HXG Share as quoted on the Stock Exchange on the HXG Last Full Trading Day (after adjustment due to commencement of dealings in the HXG Shares on an ex-entitlement basis for the HXG Special Dividend);
- (d) a premium of approximately 3.03% over the average closing price of approximately HK\$3.19 per HXG Share based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days up to and including the HXG Last Trading Day (after adjustment due to commencement of dealings in the HXG Shares on an ex-entitlement basis for the HXG Special Dividend);
- (e) a discount of approximately 0.79% to the average closing price of approximately HK\$3.32 per HXG Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the HXG Last Trading Day (after adjustment due to commencement of dealings in the HXG Shares on an ex-entitlement basis for the HXG Special Dividend);
- (f) a premium of approximately 0.56% over the average closing price of approximately HK\$3.27 per HXG Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the HXG Last Trading Day (after adjustment due to commencement of dealings in the HXG Shares on an ex-entitlement basis for the HXG Special Dividend);
- (g) a premium of approximately 9.76% over the average closing price of approximately HK\$3.00 per HXG Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the HXG Last Trading Day (after adjustment due to commencement of dealings in the HXG Shares on an ex-entitlement basis for the HXG Special Dividend);
- (h) a premium of approximately 18.23% over the average closing price of approximately HK\$2.78 per HXG Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the HXG Last Trading Day (after adjustment due to commencement of dealings in the HXG Shares on an ex-entitlement basis for the HXG Special Dividend);

- (i) a premium of approximately 25.01% over the average closing price of approximately HK\$2.63 per HXG Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the HXG Last Trading Day (after adjustment due to commencement of dealings in the HXG Shares on an ex-entitlement basis for the HXG Special Dividend);
- (j) a premium of approximately 248.16% over approximately RMB0.83 (equivalent to approximately HK\$0.94) which is the audited consolidated net asset value of HXG as at 31 December 2019 per HXG Share less the HXG Special Dividend; and
- (k) a premium of approximately 262.27% over approximately RMB0.80 (equivalent to approximately HK\$0.91) which is the unaudited consolidated net asset value of HXG as at 30 June 2020 per HXG Share less the HXG Special Dividend (the “**Ex Dividend NAV per HXG Share**”).

During the Review Period, we observed that the Cancellation Consideration is generally higher than the averages of the closing prices of HXG Shares for the last 10 trading days, 60 trading days, 90 trading days, 120 trading days and 180 trading days up to and including the HXG Last Trading Day, where the premia ranged from 0.56% to 25.01%. Furthermore, the Cancellation Consideration represented a premium of approximately 248.16% and 262.27% over the NAV per HXG Share and the Ex-Dividend NAV per HXG Share respectively.

3.3 Market comparables of HXG

The HXG Group is principally engaged in gold mining and production and sale of gold products in the PRC and has market capitalisation of approximately HK\$3,450 million as at the HXG Last Trading Day. To assess the fairness and reasonableness of the Cancellation Consideration, we have conducted a comparable analysis through identifying listed companies on the Stock Exchange in Hong Kong engaging in similar business and having similar market capitalisation of HXG (the “**HXG Comparable Companies**”). In the selection of the Comparable Companies, our selection criteria focuses on companies that are (i) listed on the Main Board of the Stock Exchange in Hong Kong; (ii) engaged mainly in gold mining (with over 50% of their respective annual revenue generated from gold mining and production business) within the PRC region and of similar business model to that of the HXG Group; and (iii) having market capitalisation below HK\$5,000 million. Based on the selection criteria above, we have identified three HXG Comparable Companies which represent an exhaustive list of companies comparable to the Company.

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As HXG and the HXG Comparable Companies are both principally engaged in gold mining and production business, we have considered price-to-earnings ratio (the “**P/E Ratio**”) and price-to-book value ratio (the “**P/B Ratio**”), which are (i) the most common valuation methodology adopted by the investment community to compare the Cancellation Consideration against the market valuation for companies which are profit making; (ii) applicable to the HXG Group as it recorded net profit and net assets for the latest financial year; and (iii) reasonable parameters for comparison purpose as companies with similar business nature generally having similar revenue and cost structure.

Since the net profit attributable to the owners of the company for all three HXG Comparable Companies were negative, there would be no HXG Comparable Company for P/E Ratio comparison. For the sake of identifying sufficient comparable companies for comparison, we considered that price-to-earnings before interest, tax, depreciation and amortisation (the “**P/EBITDA Ratio**”) would be an alternative assessment on the price multiples.

As a result of the outbreak of COVID-19 in order to better reflect the financial impact of COVID-19 on the P/E Ratio and the P/EBITDA Ratio of HXG and the HXG Comparable Companies, we have adopted the trailing 12-month net profit after tax attributable to the owners of the company (“**Net Profit**”) and the trailing 12-month earnings before interest, tax, depreciation and amortisation (“**EBIDTA**”) from 1 July 2019 to 30 June 2020 (rather than adopting the Net Profit and EBITDA of HXG and the HXG Comparable Companies for FY2019 published in their respective annual reports for FY2019) to reveal the latest financial performance of HXG and the HXG Comparable Companies.

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Details of the P/B Ratio, the trailing 12-month P/E Ratio (the “Adjusted P/E Ratio”) and the trailing 12-month P/EBITDA Ratio (the “Adjusted P/EBITDA Ratio”) comparisons are summarised in the table below:

Company name	Stock code	Principal Business	Market capitalisation (Note 1) (HK\$ million)	Net asset value (Note 2) (HK\$ million)	Trailing 12-month net profit (Note 3) (HK\$ million)	Trailing 12-month earnings before interest, tax, depreciation and amortisation (Note 4) (HK\$ million)	P/B Ratio (Note 5) (times)	Adjusted P/E ratio (Note 6) (times)	Adjusted P/EBITDA ratio (Note 7) (times)
Tongguan Gold Group Limited	340	Exploration, mining, processing and sale of gold concentrates and related products	1,068.6	1,696.2	(20.4)	42.0	0.6	NA	25.5
Bay Area Gold Group Limited	1194	Mining and processing of gold ores and sales of gold products and other by-products	178.3	7,031.3	(288.1)	570.0	0.03	NA	0.3
Lingbao Gold Group Company Ltd.	3330	Mining, processing, smelting and sales of gold and other metallic products	1,019.8	1,900.0	(138.5)	249.2	0.5	NA	4.1
HXG	2303	Mining and processing of gold, sales of processed gold product	3,043.3 (Note 8)	840.0 (Note 9)	220.6	406.1	3.6	13.8	7.5
						Maximum	0.6	N/A	25.5
						Minimum	0.03	N/A	0.3
						Average	0.4	N/A	10.0
						Median	0.5	N/A	4.1

Source: The Stock Exchange website (www.hkex.com.hk)

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Notes:

1. Market capitalisation as at the HXG Last Trading Day sourced from the website of the Stock Exchange, calculated by respective closing price at the HXG Last Trading Day multiplying the number of issued shares of the respective companies.
2. Net asset value refers to net assets attributable to the owner of the company reported in the respective companies' latest published annual/interim report.
3. Trailing 12-month net profit refers to the trailing 12 months net profit attributable to the owners of the company reported in the respective companies' latest published annual and interim reports.
4. Trailing 12-month EBITDA refers to the trailing 12 months earnings before interest, tax, depreciation and amortisation reported in the respective companies' latest published annual and interim reports.
5. P/B Ratio is calculated based on the respective market capitalisation as at the HXG Last Trading Day divided by their respective latest net asset value reported in the respective companies' latest published annual/interim report.
6. The Adjusted P/E ratio is calculated based on the respective market capitalisation calculated divided by their respective trailing 12-month net profit.
7. The Adjusted P/EBITDA ratio is calculated based on the respective market capitalisation divided by their respective trailing 12-month EBITDA.
8. The implied market capitalisation of HXG is calculated based on HK\$3.29 per Scheme Share, being 5/29 SDGM H Share with closing price of HK\$19.08 as at the SDGM Last Trading Day, and the total number of issued HXG Shares as at the SDGM Last Trading Day.
9. The net asset value of HXG refers to the Ex Dividend NAV per HXG Share, which is for calculation of implied P/B Ratio of HXG for comparison.

As shown in the table above, the P/B Ratio of the HXG Comparable Companies ranged from 0.03 time to 0.6 time with an average of 0.4 time and a median of 0.5 time. The P/B Ratio of HXG implied by the Cancellation Consideration of 3.6 times is (i) higher than the range of the P/B Ratio of the HXG Comparable Companies and (ii) higher than the average and the median of the P/B Ratio of the HXG Comparable Companies.

The Adjusted P/EBITDA Ratio of the HXG Comparable Companies ranged from 0.3 time to 25.5 times with an average of 10.0 times and a median of 4.1 times. The Adjusted P/EBITDA Ratio of HXG implied by the Cancellation Consideration of 7.5 times is (i) within the range of the Adjusted P/EBITDA Ratio of the HXG Comparable Companies; (ii) slightly lower than the average but higher than the median of the Adjusted P/EBITDA Ratio of the HXG Comparable Companies.

3.4 Privatisation precedents

We have reviewed precedent successful privatisation proposals, either by way of absorption, scheme of arrangement or share exchange, of companies listed on the Main Board of the Stock Exchange for the past ten years prior to the HXG Last Trading Day, and up to and including the Latest Practicable Date (the “**Privatisation Precedents**”). We did not consider other precedent privatisation proposals which solely involved cash consideration relevant as the Proposal does not involve any cash consideration but only the exchange of the HXG Share for the SDGM H Share which requires analysis of other considerations as mentioned in other parts of this letter. We have adopted a longer time span of ten years in our research for the Privatisation Precedents in order to obtain sufficient samples for our analysis. We consider that the list of selected precedent privatisation proposals is exhaustive and is a fair representation of transactions comparable to the Scheme. It should be noted that the Privatisation Precedents were conducted under different market conditions. Therefore, the factors and considerations that affect the premia or discounts of cancellation prices vary on a case by case basis and may be different from those applicable to the Scheme.

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Announcement date	Acquirer	Target company	Exchange ratio ^(Note 1)	Latest practicable day	Premium/(discount) based on average price of acquirer's and target company's shares within the trading periods up to and including the respective last trading day before the announcement ^(Note 3)								
					Last 5 trading days	Last 10 trading days	Last 20 trading days	Last 30 trading days	Last 60 trading days	Last 90 trading days	Last 120 trading days	Last 180 trading days	
8 September 2017	China National Building Material Company Limited (Stock code: 3323)	China National Material Company Limited (Stock code: 1893)	0.85	3.37%	20.52%	21.92%	26.94%	27.58%	37.21%	42.60%	49.55%	58.98%	
9 January 2015	Cheung Kong (Holdings) Limited (Stock code: 0001)	Hutchison Whampoa Limited (Stock code: 0013)	0.68	0.30%	-0.72%	-1.27%	-0.82%	-0.63%	-3.09%	-4.36%	-4.90%	-7.18%	
30 December 2014	CSR Corporation Limited (Stock code: 1766)	China CNR Corporation Limited (Stock code: 6199)	1.10	4.40%	11.97%	12.56%	12.48%	12.55%	14.47%	16.60%	16.04% ^(Note 4)	12.69% ^(Note 4)	
19 October 2011	China Resources Gas Group Limited (Stock code: 1193)	Zhengzhou China Resources Gas Co., Ltd. (Stock code: 3928)	1.50	3.64%	54.93%	61.60%	62.71%	60.39%	47.93%	39.59%	33.53%	23.15%	
			Maximum	4.40%	54.93%	61.60%	62.71%	60.39%	47.93%	42.60%	49.55%	58.98%	
			Minimum	0.30%	-0.72%	-1.27%	-0.82%	-0.63%	-3.09%	-4.36%	-4.90%	-7.18%	
			Average	2.93%	21.68%	23.70%	25.33%	24.97%	24.13%	23.61%	23.56%	21.91%	
			Median	3.51%	16.24%	17.24%	19.71%	20.06%	25.84%	28.10%	24.78%	17.92%	

Announcement date	Acquirer	Target company	Exchange ratio ^(Note 1)	Premium/(discount) based on average price of acquirer's and target company's shares within the trading periods up to and including the respective last trading day before the announcement ^(Note 3)								
				Latest practicable day	Last 5 trading days	Last 10 trading days	Last 20 trading days	Last 30 trading days	Last 60 trading days	Last 90 trading days	Last 120 trading days	Last 180 trading days
29 September 2020	Shandong Gold Mining Co., Ltd. (Stock code: 1787)	Hengxing Gold Holding Company Limited (Stock code: 2303) ^(Note 5)	0.1721	3.11%	7.73%	9.99%	13.16%	10.33%	14.78%	16.23%	20.53%	15.59%

Source: *The Stock Exchange website (www.hkex.com.hk)*

Notes:

1. Exchange ratio is the number of the acquirer's shares that one share of the target company is worth of.
2. For the purpose of consistency, premium is calculated based on the average of the closing prices of acquirers' shares (up to and including the last trading day) implied by the exchange ratio.
3. The average share price of China CNR Corporation Limited for the last 180 trading days prior to the last trading day was adjusted as China CNR Corporation Limited was only listed on 22 May 2014.
4. The closing price of HXG as at the relevant dates were after adjustment due to commencement of dealings in the HXG Shares on an ex-entitlement basis for the HXG Special Dividend.

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As illustrated in the above table, the implied premium (the “**Implied Premium**”) of the cancellation consideration for each HXG Share based on the average price of SDGM H Shares and HXG Shares for the last 5, 10, 20, 30, 60, 90, 120 and 180 trading days up to and including the HXG Last Trading Day respectively, as shown above are in the range of approximately 7.73% to 20.53%.

Upon comparison, we noted that the Implied Premium is within the range of those of the Privatisation Precedents and below the average and median of those of the Privatisation Precedents for the respective periods.

3.5 Net asset value comparison

Apart from the share price analysis above, we also considered the Ex Dividend NAV per HXG Share that the Scheme Shareholders are giving up, as well as the aggregate value per Scheme Share (representing the consolidated net asset value per SDGM Share (the “**NAV per SDGM Share**”) that the Scheme Shareholders are getting in return, should the Scheme become effective.

Set out below is the comparison of the Ex Dividend NAV per HXG Share against the NAV per SDGM Share as at 30 June 2020:

Comparison of Net Asset Value per share

	HXG Share	SDGM Share
Latest net asset value attributable to the owner of the company	Approximately RMB739 million (equivalent to approximately HK\$840 million) <i>(Note 1)</i>	Approximately RMB24,089 million (equivalent to approximately HK\$27,387 million) <i>(Note 2)</i>
Number of issued shares <i>(Note 3)</i>	925 million	4,339.5 million
Consolidated net asset value per share <i>(Note 4)</i>	Approximately RMB0.80 (equivalent to approximately HK\$0.91) (A)	Approximately RMB5.55 (equivalent to approximately HK\$6.31) (B)
Share Exchange Ratio	One HXG Share for 5/29 new SDGM H Share under the Scheme (approximate to 0.17241 SDGM H Share) (C)	

Comparison of Net Asset Value per share

Implied net asset value of 5/29 SDGM H Share under the Share Exchange Ratio (the “ Implied NAV ”) <i>(Note 5)</i> (D) = (B) x (C)	Approximately HK\$1.09
Premium of the Implied NAV of 5/29 SDGM H Share over one HXG Share (E) = (D)/(A)	Approximately 19.8%

Notes:

1. The latest consolidated net asset value attributable to the owners of HXG refers to the Ex Dividend NAV per HXG Share which is calculated by the consolidated net asset value attributable to the owner of HXG as at 30 June 2020 of RMB 1,030,544,000 (equivalent to approximately HK\$1,171,625,000) as disclosed in the HXG 2020 Interim Report less the dividend payment in respect of the HXG Special Dividend of HK\$331,612,500.
2. Based on the consolidated net asset value attributable to the owner of SDGM as at 30 June 2020 of approximately RMB24,089 million (equivalent to approximately HK\$27,387 million) as disclosed in the SDGM 2020 Interim Report.
3. Based on the latest issued shares of HXG and SDGM as at 30 June 2020 according to the HXG 2020 Interim Report and the SDGM 2020 Interim Report respectively.
4. Based on the latest consolidated net asset value attributable to the owners of the company divided by the number of issued shares as at 30 June 2020 in respect of HXG and SDGM respectively.
5. The Implied NAV of 5/29 SDGM H Share is calculated using the NAV per SDGM H Share multiplied by the Share Exchange Ratio of 0.17241.

As shown in the table above, the NAV per SDGM Share as at 30 June 2020 was approximately RMB5.55 (equivalent to approximately HK\$6.31), being the latest consolidated net asset value attributable to the owner of the SDGM of approximately RMB24,088.6 million (equivalent to approximately HK\$27,373.4 million) divided by the number of SDGM Shares in issue of 4,339,456,283 while the Ex Dividend NAV per HXG Share as at 30 June 2020 was approximately RMB0.80 (equivalent to approximately HK\$0.91), being the NAV after adjustment of the HXG Special Dividend of approximately RMB739 million (equivalent to approximately HK\$840.0 million divided by the number of HXG Shares of 925,000,000).

Upon completion of the Scheme, the Scheme Shareholders will give up one HXG Share in return for 5/29 SDGM H Share. The Implied NAV of 5/29 SDGM H Share of approximately HK\$1.09 (being the NAV per SDGM Share multiplied by the Share

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Exchange Ratio) is higher than the Ex Dividend NAV per HXG Share of approximately HK\$0.91, representing a premium of approximately 19.8% over the Ex Dividend NAV per HXG Share, which is more beneficial to the Scheme Shareholders.

4. Liquidity of HXG Shares and SDGM H Shares

Set out below are the average daily trading volume in HXG Shares and SDGM H Shares over the periods prior to the HXG Last Trading Day:

	HXG Shares <i>(Note 1)</i>	SDGM H Shares <i>(Note 2)</i>	SDGM H Shares over HXG Shares <i>(Note 3)</i>
Over past one month			
Average daily trading volume (number of shares)	230,136	8,394,164	Not applicable
As a percentage of issued share capital	0.02%	1.20%	1.18%
As a percentage of public float	0.10%	1.20%	1.10%
Over past three months			
Average daily trading volume (number of shares)	815,242	11,688,441	Not applicable
As a percentage of issued share capital	0.09%	1.69%	1.58%
As a percentage of public float	0.35%	1.69%	1.34%
Over past six months			
Average daily trading volume (number of shares)	1,128,868	11,371,507	Not applicable
As a percentage of issued share capital	0.12%	1.62%	1.50%
As a percentage of public float	0.49%	1.62%	1.13%
Over past one year			
Average daily trading volume (number of shares)	764,051	9,982,482	Not applicable
As a percentage of issued share capital	0.08%	1.43%	1.35%
As a percentage of public float	0.33%	1.43%	1.10%
Over past two years (note 3)			
Average daily trading volume	648,428	7,328,656	Not applicable
As a percentage of issued share capital	0.07%	1.05%	0.98%
As a percentage of public float	0.28%	1.05%	0.77%

Source: The Stock Exchange website (www.hkex.com.hk)

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Notes:

1. The total issued shares and the public float of HXG as at the HXG Last Trading Day were 925,000,000 and 231,250,000 respectively.
2. The liquidity of SDGM H Shares is calculated by dividing its average daily trading volume by total issued SDGM H Shares as at SDGM Last Trading Day which are 699,503,419 SDGM H Shares and represents the public float of SDGM H Shares.
3. The SDGM H Shares over HXG Shares is calculated as the difference of the liquidity (as a percentage of average daily trading volume over the issued share capital and public float respectively) between SDGM H Shares and HXG Shares.

Upon comparison, we noted that the average liquidity of SDGM H Shares, in terms of issued share capital and public float, are significantly above that of HXG Shares over the past two years, particularly over the past six months.

As mentioned under the section headed “2. Reasons for and benefits of the Proposal” of this letter, SDGM H Shares have historically been more actively traded as compared to the HXG Shares. The low trading liquidity of the HXG Shares makes it difficult for the HXG Shareholders to execute substantial on-market disposal without exerting downward pressure on the market price of the HXG Shares in the short term. The Proposal provides an opportunity for the Scheme Shareholders to exchange the relatively illiquid HXG Shares for the more actively traded SDGM H Shares and the Scheme Shareholders can participate in the future prospect of SDGM by retaining the SDGM H Shares, or they can realise the SDGM H Shares on market without suffering any illiquid discount.

5. Dividend declared and paid and dividend pay-out ratio

Set out below is a table showing the dividend declared and paid and the dividend pay-out ratios of HXG and SDGM for the two years ended 31 December 2019.

	2018	2019	Aggregate amount of dividend declared and paid	Average
HXG Group				
Cash dividend declared (RMB per HXG Share)	HK\$0.1	HK\$0.1	HK\$0.2	HK\$0.1
HXG’s cash dividend pay-out ratio	32.1%	39.1%	Not applicable	35.6%
SDGM Group				
Cash dividend declared (RMB per SDGM H Share)	RMB0.1 (equivalent to approximately HK\$0.11)	RMB0.1 (equivalent to HK\$0.11)	RMB0.2 (equivalent to approximately HK\$0.23)	RMB0.1 (equivalent to HK\$0.11)
SDGM’s cash dividend pay-out ratio	28.6%	23.8%	Not applicable	26.2%

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SDGM bonus shares	4 bonus shares for every 10 shares (equivalent to HK\$3.99 per SDGM H Share) ^{Note1}	4 bonus shares for every 10 shares (equivalent to HK\$5.43 per SDGM H Share) ^{Note2}	HK\$9.42	Not applicable
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Notes:

1. The nominal value of the SDGM bonus shares of approximately HK\$3.99 is calculated based on 0.4 SDGM H Share multiplied by the closing price of SDGM H Share of HK\$9.982 on 28 March 2019, being the date of declaration of the bonus shares
2. The nominal value of the SDGM bonus shares of approximately HK\$5.43 is calculated based on 0.4 SDGM H Share multiplied by the closing price of the SDGM H Share of HK\$13.577 on 27 March 2020, being the date of declaration of the bonus shares

As shown in the table above, the average HXG's cash dividend pay-out ratio was approximately 35.6%, with an aggregate dividend of HK\$0.2 per HXG Share for the past two years. On the other hand, SDGM H Shares have been listed on the Stock Exchange since its listing on the Stock Exchange on 28 September 2018, SDGM has declared and paid cash dividends in FY2018 and FY2019 with an aggregate amount of dividend of RMB0.2 (equivalent to approximately HK\$0.23), with an average cash dividend pay-out ratio of approximately 26.2%. In addition to the cash dividends declared and paid by SDGM, bonus shares were also issued by SDGM to its shareholders for FY2018 and FY2019. Although SDGM's cash dividend pay-out ratio is lower than HXG's cash dividend pay-out ratio, taking into account the bonus shares issued by SDGM for the two years ended 31 December 2019, the aggregate amount of dividend of each SDGM H Share for FY2018 and FY2019 is approximately HK\$9.65 (being the sum of (i) the aggregated cash dividends declared and paid for FY2018 and FY2019 of RMB0.20 (equivalent to approximately HK\$0.23) per SDGM H Share; and (ii) the nominal value of the aggregated bonus share declared and issued for the past two years based on the closing prices of the SDGM H Share on the respective dates of the bonus share declaration of approximately HK\$9.42). Taking into account solely the aggregate amount of dividend declared and paid for FY2018 and FY2019 of HXG and SDGM, 5/29 SDGM H Share (equivalent to the Share Exchange Ratio for one HXG Share) invested during FY2018 and FY2019 would be entitled dividend of approximately HK\$1.66 which is higher than the aggregate amount of dividend of one HXG Share for the same period of HK\$0.2.

6. Comparable analysis of SDGM Group

The SDGM Group is principally engaged in gold exploration, mining, processing, smelting, and sales with market capitalisation of approximately HK\$82,796.8 million as at the SDGM Last Trading Day. In order to assess the fairness and reasonableness of the price of the SDGM H Share, we have conducted a comparable analysis through identifying listed companies on the Stock Exchange in Hong Kong engaging in similar business and having similar market capitalisation of the SDGM Group (the "SDGM Comparable Companies"). In the selection of the SDGM Comparable Companies, our selection criteria focus on companies that (i) are listed on the Main Board of the Stock Exchange in Hong Kong; (ii) are engaged mainly in gold mining and processing (with over 50% of their respective annual revenue generated from gold mining and processing business) within PRC region and of similar

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business model to that of the SDGM Group and (iii) have market capitalisation above HK\$10,000 million. Based on the selection criteria above, we have identified two SDGM Comparable Companies which represent an exhaustive list of companies comparable to SDGM Group.

Similar to the analysis of the HXG Comparable Companies, we have considered P/B Ratio, P/E Ratio and Price/EBITDA Ratio which (i) are the most common valuation methodology adopted by the investment community to compare the price of the SDGM H Shares against the market valuation for companies which are profit making; (ii) are applicable to the SDGM Group as it recorded net profit and net assets for the latest financial year; and (iii) companies with similar business nature generally have similar revenue and cost structure, are reasonable parameters for comparison purpose.

In addition, we have adjusted the P/E Ratio and the P/EBITDA Ratio based on the trailing 12-month Net Profit and EBITDA of SDGM Group and the respective SDGM Comparable Companies as Adjusted P/E Ratio and Adjusted P/EBITDA Ratio respectively in order to better reflect the impact of the COVID-19 on the gold mining industry in FY2020.

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Details of the P/B Ratio, Adjusted P/E Ratio, Adjusted P/EBITDA Ratio and Adjusted PEG Ratio comparisons are summarised in the table below:

Company name	Stock code	Principal Business	Percentage of revenue from gold mining and processing business <i>(note 10)</i> (%)	Annual production Volume <i>(tonnes)</i>	Market capitalisation <i>(Note 1)</i> (HK\$ million)	Net asset value <i>(Note 2)</i> (HK\$ million)	Trailing 12-month net profit <i>(Note 3)</i> (HK\$ million)	Trailing 12-month net profit growth rate <i>(Note 4)</i> (%)	Trailing 12-month earnings before interest, tax, depreciation and amortisation <i>(Note 5)</i> (HK\$ million)	P/B Ratio <i>(Note 6)</i> (times)	Adjusted P/E ratio <i>(Note 7)</i> (times)	Adjusted EBITDA ratio <i>(Note 8)</i> (times)	Adjusted P/PEG Ratio <i>(Note 9)</i> (times)
Zhaojin Mining Industry Company Limited	1818	copper and gold mining and smelting operations	90	32.70	30,872.5	15,561.5	741.8	58.6	2,702.8	2.0	41.6	10.1	0.71
Zijin Mining Group Company Limited	2899	production of gold, copper, zinc, tungsten, and lead concentrates	58	40.83	124,348.6	57,170.1	5,513.5	41.8	11,317.4	2.2	22.5	9.7	0.54
SDGM	1787	mining and sales of gold ore and gold and investments in equity funds and financial products	97	40.12	82,796.8	27,373.4	2,118.0	98.7	5,748.8	3.0	39.1	12.4	0.40
							Maximum			2.2	41.6	10.1	0.71
							Minimum			2.0	22.5	9.7	0.54
							Average			2.1	32.1	9.9	0.62
							Median			2.1	32.1	9.9	0.62

Source: The Stock Exchange website (www.hkex.com.hk)

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Notes:

1. Market capitalisation as at the Last Trading Day sourced from the website of the Stock Exchange, calculated by respective closing price as at the Last Trading Day multiplying the total number of issued A shares (if any) and H shares of the respective companies.
2. Net asset value refers to net assets attributable to the owner of the company reported in the respective companies' latest published annual/interim report.
3. Trailing 12-month net profit refers to the trailing 12 months net profit attributable to the owners of the company reported in the respective companies' latest published annual and interim reports.
4. Trailing 12-month net profit growth rate refers to the percentage change of trailing 12 months net profit attributable to the owners of the company reported in the respective companies' latest published annual and interim reports against that of penultimate 12-month.
5. Trailing 12-month EBITDA refers to the trailing 12 months earnings before interest, tax, depreciation and amortisation reported in the respective companies' latest published annual and interim reports.
6. P/B Ratio is calculated based on the respective market capitalisation as at the HXG Last Trading Day divided by their respective latest net asset value reported in the respective companies' latest published annual/interim report.
7. Adjusted P/E ratio is calculated based on the respective market capitalisation calculated divided by their respective trailing 12-month net profit.
8. Adjusted P/EBITDA ratio is calculated based on the respective market capitalisation divided by their respective trailing 12-month EBITDA.
9. PEG Ratio is measured as Adjusted P/E Ratio divided by growth rate of trailing 12-month net profit, as compared with penultimate 12-month net profit.
10. Percentage of revenue from gold mining and processing business is calculated based on revenue derived from gold related business of the SDGM Comparable Companies and SDGM divided by total revenue of the respective companies in FY2019 reported in the respective companies' latest published annual report.

As shown in the table above, the P/B Ratio of the SDGM Comparable Companies ranged from 2.0 times to 2.2 times with an average of 2.1 times and a median of 2.1 times. The P/B Ratio of SDGM of 3.0 times is (i) higher the range of the P/B Ratio of the SDGM Comparable Companies, and (ii) higher than the average and median of the P/B Ratio of the SDGM Comparable Companies.

The Adjusted P/E Ratio of the SDGM Comparable Companies ranged from 22.5 times to 41.6 times with an average of 32.1 times and a median of 32.1 times. The Adjusted P/E Ratio of SDGM of 39.1 times is (i) within the range of the Adjusted P/EBITDA Ratio of the SDGM Comparable Companies; and (ii) higher the average and the median of the Adjusted P/EBITDA Ratio of the SDGM Comparable Companies.

The Adjusted P/EBITDA Ratio of the SDGM Comparable Companies ranged from 9.7 times to 10.1 times with an average of 9.9 times and a median of 9.9 times. The Adjusted P/EBITDA Ratio of SDGM of 12.4 times is (i) higher the range of the Adjusted P/EBITDA Ratio of the SDGM Comparable Companies; and (ii) higher the average and the median of the Adjusted P/EBITDA Ratio of the SDGM Comparable Companies.

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Based on the above results, all of the P/B Ratio, Adjusted P/E Ratio and Adjusted P/EBITDA Ratio of SDGM are higher than those of the SDGM Comparable Companies which may suggest that the SDGM H Shares are over-valued.

In view of the above, we have further looked into the earnings growth rate of SDGM and that of the SDGM Comparable Companies and computed the price-to-earnings to earnings growth rate ratio (the “**PEG Ratio**”) to assess the fairness of the price of SDGM H Shares. We consider the PEG Ratio analysis can provide a broader view on the earning capability and the growth potential of the companies under the analysis. Based on the above table, the PEG Ratio of SDGM is 0.40 time which is lower than the average of that of the SDGM Comparable Companies of 0.62 time. Taking into account the result of the PEG Ratio analysis, we are of view that the price of the SDGM H Shares is fair and reasonable so far as the Scheme Shareholders are concerned.

RECOMMENDATION

In summary, we have considered the below factors and reasons in reaching our conclusion and recommendation:

- (i) the Proposal provides the HXG Shareholders an opportunity to hold shares of the SDGM Group, a sizeable company with stronger market position in the gold mining industry;
- (ii) the SDGM Group has comparative advantages in terms of geographical coverage of operations, size of operation scale, fast growing financial performance and profit margin ratio, and advanced mining technologies;
- (iii) taking into account the higher trading volume of SDGM H Shares than that of HXG Shares during the Historical Period, the Proposal provides the Disinterested Shareholders with an opportunity to exchange their HXG Shares to SDGM H Shares at the Share Exchange Ratio which have higher liquidity after completion of the Proposal;
- (iv) the Cancellation Consideration represents the premium of approximately 262.27% over the Ex Dividend NAV per HXG Share of approximately HK\$0.91 per HXG Share after adjustment of the HXG Special Dividend;
- (v) the SDGM H Shares generally outperformed the HXG Shares as evidenced by their respective trading performance during the Review Period, taking into account the movement of the historical trading prices of the HXG Shares and the SDGM H Shares, the Cancellation Consideration as calculated using the Share Exchange Ratio of one HXG Share for 5/29 new SDGM H Share in each of the historical periods of the past 10 trading days, 30 trading days, 60 trading days, 90 trading days and 120 trading days prior to the HXG Last Trading Day demonstrated premia in the range of approximately 8.50% to approximately 16.90%;

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- (vi) the Cancellation Consideration is generally higher than the averages of the closing prices of HXG Shares for the last 10 trading days, 60 trading days, 90 trading days, 120 trading days and 180 trading days up to and including the HXG Last Trading Day, where the premia ranged from 0.56% to 25.01%;
- (vii) the HXG valuation, implied by the Cancellation Consideration, outperforms the HXG Comparable Companies as (a) the P/B Ratio of HXG implied by the Cancellation Consideration of 3.6 times is higher than the range of the P/B Ratio of the HXG Comparable Companies and the average of the P/B Ratio of the HXG Comparable Companies; and (b) the Adjusted P/EBITDA Ratio of HXG implied by the Cancellation Consideration of 7.5 times is higher than the median of the Adjusted P/EBITDA Ratio of the HXG Comparable Companies although it is slightly lower than the average of that of the HXG Comparable Companies;
- (viii) the Implied Premium of the Cancellation Consideration is within the range of those of the Privatisation Precedents although it is below the average and median of those of the Privatisation Precedents for the respective periods;
- (ix) the SDGM valuation in terms of the PEG Ratio outperforms the SDGM Comparable Companies;
- (x) the NAV of 5/29 SDGM H Share of approximately HK\$1.09 represents a premium of approximately 19.8% over the Ex Dividend NAV per HXG Share of approximately HK\$0.91; and
- (xi) the historical aggregate dividend (including cash dividend and bonus share) that 5/29 SDGM H Share was entitled to of approximately HK\$1.66 (based on the Share Exchange Ratio) was significantly higher than that of one HXG Share of HK\$0.2 for FY2018 and FY2019;

As such, we consider the terms of the Proposal and the Scheme to be fair and reasonable so far as the Disinterested Shareholders are concerned. We advise the HXG Independent Board Committee to recommend that (a) the Disinterested Shareholders to vote in favour of the resolution to approve the Scheme at the Court Meeting; and (b) the HXG Shareholders to vote in favour of the special resolution to approve the implementation of the Scheme at the HXG EGM.

PART VI LETTER FROM THE HXG INDEPENDENT FINANCIAL ADVISER

As different Scheme Shareholders would have different investment criteria, objectives or risk appetite and profiles, we recommend any Scheme Shareholders who may require advice in relation to any aspect of the Scheme Document, or as to the action to be taken, to consult a licenced securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser.

Yours faithfully,
For and on behalf of
Octal Capital Limited

Alan Fung **Wong Wai Leung**
Managing Director *Executive Director*

Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 28 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong. Mr. Wong Wai Leung has been a responsible officer of Type 1 (dealing in securities), Type 6 (advising on corporate finance) regulated activities since 2008 and Type 9 (asset management) regulated activities. Mr. Wong has more than 20 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions of listed companies in Hong Kong in respect of the Takeovers Code.

This Explanatory Statement constitutes the statement required under Order 102, rule 20(4)(e) of the Rules of the Grand Court of the Cayman Islands 1995 (revised).

**SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE COMPANIES LAW)
TO CANCEL ALL THE SCHEME SHARES IN EXCHANGE FOR 5/29
NEW SDGM H SHARE FOR EACH SCHEME SHARE**

1. INTRODUCTION

As set out in the Announcement, on 29 September 2020 (after trading hours), SDGM has formally requested, subject to the satisfaction of the Pre-Conditions, the HXG Board to put forward to the Scheme Shareholders the Proposal regarding its proposal to take private of HXG by SDGM by way of a scheme of arrangement under section 86 of the Companies Law involving:

- (i) the reduction of the issued share capital of HXG by the cancellation of the Scheme Shares and in consideration therefor, 5/29 SDGM H Share will be allotted and issued to the Scheme Shareholders on the Scheme Effective Date for every Scheme Share so cancelled;
- (ii) forthwith upon the capital reduction referred to in (i) above, the restoration of the issued share capital of HXG to the amount immediately before the cancellation of the Scheme Shares by means of the issuance of new HXG Shares in the same number as the Scheme Shares (which were cancelled) to SDGM credited as fully paid out of the credit arising in HXG's books of account as a result of the capital reduction referred to in (i) above; and
- (iii) the withdrawal of the listing of the HXG Shares on the Stock Exchange immediately following the Scheme Effective Date pursuant to Rule 6.15(2) of the Listing Rules.

SDGM reserves the right to require HXG to issue new HXG Shares to a wholly-owned subsidiary of SDGM (in lieu of SDGM itself) for the purpose of (ii) above.

As disclosed in the announcement jointly issued by HXG and SDGM on 27 November 2020, HXG was informed by SDGM that all of the Pre-Conditions have been satisfied as at 24 November 2020.

If the Scheme is approved by the requisite majorities of HXG Shareholders and sanctioned by the Court, and all requirements of the Companies Law are complied with (including the registration by the Cayman Islands Registrar of Companies of the relevant Court order, and all other Conditions are fulfilled or waived (as the case may be)), the Scheme will be binding on each Scheme Shareholder, irrespective of whether or not he, she or it attends and/or votes at the Court Meeting or the HXG EGM. Subject to the Scheme becoming effective, the entire issued share capital of HXG will be owned by SDGM or its wholly-owned subsidiary (as the case may be) upon completion of the Proposal.

The purpose of this Explanatory Statement is to set out the terms and effects of the Proposal, which are to be implemented by the Scheme, and to provide HXG Shareholders with other relevant information in relation to the Proposal and the Scheme, in particular, the intentions of SDGM with regard to HXG and the shareholding structure of HXG before and after the Scheme.

Particular attention of HXG Shareholders is drawn to (a) a letter from the HXG Board set out in Part IV of this Scheme Document; (b) a letter from the HXG Independent Board Committee set out in Part V of this Scheme Document; (c) a letter from the HXG Independent Financial Adviser set out in Part VI of this Scheme Document; and (d) the terms of the Scheme set out in Appendix VI to this Scheme Document.

2. TERMS OF THE PROPOSAL

As at the Latest Practicable Date, (i) the entire issued share capital of HXG comprised 925,000,000 HXG Shares, all of which constituted the Scheme Shares; and (ii) there were no outstanding options, convertible securities, warrants, derivatives or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) issued by HXG that carry a right to subscribe for or which are convertible or exchangeable into HXG Shares.

Under the Proposal, if the Scheme becomes effective, all of the Scheme Shares will be cancelled in exchange for newly issued SDGM H Share(s) according to the Share Exchange Ratio:

**For every Scheme Share cancelled..... 5/29 SDGM H Share
(approximate to 0.17241* SDGM H Share)**

* The approximate figure of 0.17241 is included in this Scheme Document for illustrative purpose only and is subject to rounding adjustment. Please use the fraction of 5/29 for calculation of exact entitlement.

The Share Exchange Ratio has been determined on a commercial basis after taking into account (i) the historical performance and business potential of SDGM and HXG; (ii) the prevailing and historical market price levels of both the SDGM H Shares and HXG Shares traded on the Stock Exchange; (iii) other comparable share exchange transactions in Hong Kong and in the global gold mining industries in recent years; and (iv) the HXG Special Dividend.

The new SDGM H Shares will only be issued to the Scheme Shareholders if the Scheme becomes effective.

The number of SDGM H Shares to be issued to the Scheme Shareholders under the Scheme will be in accordance with the Share Exchange Ratio and will not be increased, and SDGM does not reserve the right to do so.

The Scheme does not involve, and will not affect the rights of, creditors of HXG.

Comparison of Value

HXG Shareholders, investors and potential investors should note that the below comparison results are different from those presented in the Announcement, which are due to the update of the trading information in HXG Shares as currently quoted on the Stock Exchange as a result of the closing prices of HXG Shares having been adjusted to reflect the distribution of the HXG Special Dividend.

The premia represented by the issue of the new SDGM H Shares as calculated by reference to various ratios between the average closing prices per HXG Share and the average closing prices per SDGM H Share in various historical periods, are as follows:

		Trading Periods up to and including the respective Last Trading Day				
		10 Trading Days	30 Trading Days	60 Trading Days	90 Trading Days	120 Trading Days
A	Average closing price per HXG Share based on the daily closing prices as quoted on the Stock Exchange (HK\$)	3.19	3.32	3.27	3.00	2.78
B	Average closing price per SDGM H Share based on the daily closing prices as quoted on the Stock Exchange (HK\$)	20.09	21.02	21.54	19.78	18.87
C	Premium = (5/29)/(A/B)-1	8.50%	9.29%	13.53%	13.80%	16.90%

Notes:

- “C” corresponds to the premium represented by the issuance of 5/29 new SDGM H Share for every Scheme Share based on the ratio between the average closing price per HXG Share for any of the specified periods and the average closing price per SDGM H Share for any of the specified periods.
- The figures shown in the table above are rounded to two decimal places.
- Exact premium figures may not be replicated using the share prices shown in the table due to rounding differences.

Based on the closing price of HK\$18.24 per SDGM H Share as at the Latest Practicable Date, the issuance of 5/29 new SDGM H Share for every Scheme Share ascribes a value of HK\$3.14 per Scheme Share, which represents a premium of approximately 3.11% over the closing price of HK\$3.05 per HXG Share as quoted on the Stock Exchange on the Latest Practicable Date.

Based on the closing price of HK\$19.08 per SDGM H Share as at the SDGM Last Trading Day, the issuance of 5/29 new SDGM H Share for every Scheme Share ascribes a value of HK\$3.29 per Scheme Share, which represents:

- a discount of approximately 3.10% to the closing price of HK\$3.40 per HXG Share as quoted on the Stock Exchange on the HXG Last Trading Day (after adjustment due to commencement of dealings in the HXG Shares on an entitlement basis for the HXG Special Dividend);

- (ii) a premium of approximately 7.58% over the closing price of HK\$3.06 per HXG Share as quoted on the Stock Exchange on the HXG Last Full Trading Day (after adjustment due to commencement of dealings in the HXG Shares on an ex-entitlement basis for the HXG Special Dividend);
- (iii) a premium of approximately 3.03% over the average closing price of approximately HK\$3.19 per HXG Share based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days up to and including the HXG Last Trading Day (after adjustment due to commencement of dealings in the HXG Shares on an ex-entitlement basis for the HXG Special Dividend);
- (iv) a discount of approximately 0.79% to the average closing price of approximately HK\$3.32 per HXG Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the HXG Last Trading Day (after adjustment due to commencement of dealings in the HXG Shares on an ex-entitlement basis for the HXG Special Dividend);
- (v) a premium of approximately 0.56% over the average closing price of approximately HK\$3.27 per HXG Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the HXG Last Trading Day (after adjustment due to commencement of dealings in the HXG Shares on an ex-entitlement basis for the HXG Special Dividend);
- (vi) a premium of approximately 9.76% over the average closing price of approximately HK\$3.00 per HXG Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the HXG Last Trading Day (after adjustment due to commencement of dealings in the HXG Shares on an ex-entitlement basis for the HXG Special Dividend);
- (vii) a premium of approximately 18.23% over the average closing price of approximately HK\$2.78 per HXG Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the HXG Last Trading Day (after adjustment due to commencement of dealings in the HXG Shares on an ex-entitlement basis for the HXG Special Dividend);
- (viii) a premium of approximately 248.16% over approximately RMB0.83 (equivalent to approximately HK\$ 0.94) which is the audited consolidated net asset value of HXG as at 31 December 2019 per HXG Share less the HXG Special Dividend; and
- (ix) a premium of approximately 262.27% over approximately RMB0.80 (equivalent to approximately HK\$ 0.91) which is the unaudited consolidated net asset value of HXG as at 30 June 2020 per HXG Share less the HXG Special Dividend.

The Scheme will be implemented at the Share Exchange Ratio. The comparisons above are provided solely for the convenience of investors and are illustrations only. Shareholders should use the comparisons with care and take into account other disclosures in this Scheme Document, including but not limited to the reasons for and benefits of the Proposal as set out in this Explanatory Statement.

New SDGM H Shares to be issued pursuant to the Scheme

Based on the Share Exchange Ratio and assuming no changes to either SDGM's issued share capital or HXG's issued share capital from the Latest Practicable Date to the Scheme Effective Date and subject to the Scheme becoming effective, SDGM will allot and issue a total of 159,482,759 SDGM H Shares to the Scheme Shareholders on the Scheme Effective Date, which will represent (i) approximately 3.70% of the issued share capital of SDGM as at the Latest Practicable Date; and (ii) approximately 3.57% of the issued share capital of SDGM of 4,473,429,525 SDGM Shares as enlarged only by the issuance of the aforesaid number of new SDGM H Shares.

If the number of SDGM H Shares to be obtained by a Scheme Shareholder according to the Share Exchange Ratio will not result in a whole number, the Scheme Shareholder(s) concerned will be ranked according to the fractional value after the decimal point from highest to lowest, and one additional SDGM H Share will be given to each such Scheme Shareholder in such order until the aggregate number of SDGM H Shares actually exchanged is equal to the total number of SDGM H Shares proposed to be issued, i.e. 159,482,759 SDGM H Shares.

If the number of Scheme Shareholders with the same fractional value after the decimal point is more than the number of remaining SDGM H Shares to be issued, SDGM H Shares will be allocated randomly by a computerised system until the aggregate number of SDGM H Shares actually exchanged is equal to the total number of SDGM H Shares proposed to be issued.

Scheme Shareholders should be aware that in accepting the Proposal, no arrangements are intended to be made for the trading of odd lots of SDGM H Shares resulting from the acceptance of the Proposal.

The new SDGM H Shares to be issued pursuant to the Scheme will be issued free from all liens, charges and encumbrances, and together with all rights attaching to them, including the right to receive all dividends and other distributions, if the record time for determining the entitlement to such dividends and distributions falls on or after the date of issue of the new SDGM H Shares, and will rank *pari passu* in all respects with all other SDGM H Shares then in issue.

SDGM will make an application to the Stock Exchange for the listing of, and permission to deal in, the new SDGM H Shares to be issued pursuant to the Scheme on the Main Board of the Stock Exchange.

Dividend

HXG Shareholders whose names appear on the register of members of HXG as at the record date for determining the entitlement to dividend (if any) declared by HXG on or before the Scheme Effective Date will be entitled to receive such dividend (if any). Nevertheless and for the avoidance of doubt, HXG does not intend to declare or pay any dividend (other than the HXG Special Dividend which has been paid) from the Latest Practicable Date up to and including the Scheme Effective Date.

3. CONDITIONS OF THE PROPOSAL AND THE SCHEME

The implementation of the Proposal is, and the Scheme will only become effective and binding on HXG and all the Scheme Shareholders, subject to the satisfaction or waiver (as applicable) of the following Conditions:

- (a) the approval of the Scheme (by way of poll) by a majority in number of the Disinterested Shareholders present and voting either in person or by proxy at the Court Meeting representing not less than 75% in value of the HXG Shares held by the Disinterested Shareholders;
- (b) the approval of the Scheme (by way of poll) by at least 75% of the votes attaching to the Scheme Shares held by the Disinterested Shareholders that are voted either in person or by proxy at the Court Meeting, provided that the number of votes cast (by way of poll) by the Disinterested Shareholders present and voting either in person or by proxy against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all of the Scheme Shares held by the Disinterested Shareholders;
- (c) the passing of a special resolution (by way of poll) by a majority of not less than three-fourths of the votes cast by the HXG Shareholders present and voting in person or by proxy at the HXG EGM to approve and give effect to (i) the reduction of the issued share capital of HXG by cancelling and extinguishing the Scheme Shares; (ii) immediately thereafter the increase of the issued share capital of HXG to the amount prior to the cancellation of the Scheme Shares by issuing to SDGM or its wholly owned subsidiary (as the case may be) such number of new HXG Shares as is equal to the number of Scheme Shares cancelled as a result of the Scheme; and (iii) the application of the credit arising in HXG's books of accounts as a result of such issued share capital reduction in paying up in full at par value the new HXG Shares as is equal to the number of Scheme Shares cancelled as a result of the Scheme, credited as fully paid, for issuance to SDGM or its wholly owned subsidiary (as the case may be);
- (d) SDGM having obtained approval of the SDGM Shareholders at the SDGM EGM and SDGM Class Meetings for the Proposal and the Scheme (including, without limitation, the grant of the Specific Mandate for the allotment and issuance of SDGM H Shares to the Scheme Shareholders on the Scheme Effective Date pursuant to the Scheme) in compliance with the Listing Rules and the Articles of Association of SDGM;

- (e) the Court's sanction of the Scheme (with or without modifications) and its confirmation of the reduction of the share capital of HXG, and the delivery to the Registrar of Companies in the Cayman Islands of a copy of the order of the Court for registration;
- (f) all necessary Approvals in connection with the Proposal and the Scheme having been obtained by SDGM from, given by or made with or by (as the case may be) the relevant Authorities in the PRC, being:
 - (1) the State Administration for Market Regulation of the PRC for merger filing; and
 - (2) the China Securities Regulatory Commission for the issuance of SDGM H Shares by SDGM; andall such Approvals remaining in full force and effect without variation;
- (g) the listing committee of the Stock Exchange having granted the listing of, and permission to deal in, the SDGM H Shares to be issued pursuant to the Scheme on the Stock Exchange;
- (h) all necessary Approvals in connection with the Proposal and the Scheme having been obtained from, given by or made with or by (as the case may be) the relevant Authorities in the Cayman Islands, Hong Kong and any other relevant jurisdictions, and all such Approvals remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with in all material respects and no requirement having been imposed by the relevant Authorities which are not expressly provided for, or are in addition to requirements expressly provided for, in any relevant laws, rules, regulations or codes in connection with the Proposal or any related matters, documents (including circulars) or things, in each case up to and at the time when the Scheme becomes effective;
- (i) all necessary third party consents or waivers in relation to the Proposal and the Scheme which may be required under any existing contractual obligations of the HXG Group having been obtained (and remaining in effect), where any failure to obtain such consent or waiver would have a material adverse effect on the implementation of the Proposal or the Scheme or the business, assets or liabilities of the HXG Group;
- (j) no Authority in any jurisdiction having taken or instituted any action, proceeding, suit, investigation or enquiry, or enacted or, made, and there not continuing to be outstanding, any statute, regulation, demand or order that would make the Proposal or the Scheme or the implementation thereof in accordance with their terms void, unenforceable, illegal or impracticable (or which would impose any material and adverse conditions or obligations with respect to the Proposal or the Scheme or the implementation thereof in accordance with their terms), other than such actions,

proceedings, suits, investigations or enquiries as would not have a material adverse effect on the legal ability of SDGM to proceed with the Proposal and the Scheme; and

- (k) all warranties provided under the irrevocable undertakings and warranties dated 30 September 2020 given by Gold Virtue and Xi Wang, whose liabilities are agreed to be guaranteed by Mr. Ke Xiping and Mr. Ke Jiaqi, in favour of SDGM remaining true, accurate and not misleading in all material respects and there having been no material breach of any undertakings, terms and conditions therein.

All of the above Conditions would have to be fulfilled or waived, as applicable, on or before the Scheme Long Stop Date, failing which the Proposal and the Scheme shall lapse.

SDGM reserves the right to waive the Conditions set out in paragraphs (i) and/or (k) either in whole or in part, either generally or in respect of any particular matter. The Conditions set out in paragraphs (a) to (h) and (j) (all inclusive) cannot be waived in any event. HXG is not entitled to waive any of the Conditions.

As at the Latest Practicable Date, save for the Conditions set out in paragraphs (d), (f)(1) and (g), none of the Conditions had been fulfilled or waived. In respect of the Condition set out in paragraph (f)(2), as at the Latest Practicable Date, the relevant Approval is currently expected to be obtained within 30 working days after the acceptance of the application materials by the China Securities Regulatory Commission on 19 November 2020.

In respect of the Conditions set out in paragraphs (f), (h) and (i), other than those specifically set out as Conditions above and the application for the withdrawal of the listing of the HXG Shares on the Stock Exchange upon the Scheme becoming effective, as at the Latest Practicable Date, each of SDGM and HXG was not aware of any such necessary Approvals, consents or waivers which may be required to be obtained in connection with the Proposal and the Scheme.

Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, SDGM may only invoke any or all of the Conditions above as a basis for not proceeding with the Proposal or the Scheme if the circumstances which give rise to the right to invoke any such Condition are of material significance to SDGM in the context of the Proposal.

When and only if the Conditions are fulfilled or waived (as applicable), HXG shall deliver to the Cayman Islands Registrar of Companies for registration pursuant to section 86(3) of the Companies Law a copy of the order of the Court sanctioning the Scheme, whereupon the Scheme will become effective and binding on HXG and all the Scheme Shareholders. Assuming that the Conditions are fulfilled or validly waived (as applicable), it is expected that the Scheme will become effective on or around Thursday, 28 January 2021 (Cayman Islands time). An announcement will be made in relation to the results of the Court Meeting and the HXG EGM; and if all the resolutions are passed at those meetings, further announcements will be made in relation to (i) the results of the court hearing of the petitions to sanction the Scheme and to confirm the Capital Reduction, (ii) the Scheme Record Date, (iii) the Scheme Effective Date, and (iv) the date of withdrawal of the listing of HXG Shares on the Stock Exchange as further set out in Part III of this Scheme Document.

WARNING: The respective shareholders and potential investors of HXG and SDGM should exercise caution when dealing in the HXG Shares, the SDGM Shares or any options or other rights in respect of them. The implementation of the Proposal and the Scheme is subject to the Conditions being fulfilled or waived, as applicable, and thus the Proposal may or may not be implemented and the Scheme may or may not become effective. Persons who are in doubt as to the action they should take should consult their licenced securities dealers or registered institutions in securities, bank manager, solicitor or other professional advisers.

4. IRREVOCABLE UNDERTAKING AND WARRANTIES

SDGM received the Irrevocable Undertaking from the IU Shareholders (being Gold Virtue and Xi Wang), pursuant to which each of the IU Shareholders has undertaken to, among other things, exercise all voting rights attached to the relevant IU Shares in favour of the resolutions to approve the Proposal and any such other matters in connection therewith at the Court Meeting and the HXG EGM. The 693,750,000 IU Shares held in aggregate by the IU Shareholders represent approximately 75% of the total number of HXG Shares in issue as at the Latest Practicable Date.

Further, each of the IU Shareholders has undertaken, inter alia, to exercise the voting rights attached to the relevant IU Shares in favour of the resolutions to approve matters assisting the implementation of the Proposal and not to (i) sell, transfer or otherwise dispose of the IU Shares held or owned by it; (ii) purchase or acquire any other HXG Shares without the consent of SDGM; or (iii) take any actions which may adversely affect or impede giving effect to the Scheme. Customary representations and warranties in relation to the business operations of HXG Group and specific indemnity in relation to contingent liability of HXG Group have also been given by the IU Shareholders under the Irrevocable Undertaking. The IU Guarantors have agreed to jointly and severally guarantee the due performance of the obligations of the IU Shareholders under the Irrevocable Undertaking and a cash deposit was pledged by a company owned by one of the IU Guarantors, Mr. Ke Xiping, in favour of SDGM as security for the specific indemnity.

The Irrevocable Undertaking will terminate and the obligations of the relevant IU Shareholders thereunder will cease to be binding if (i) the Proposal and the Scheme do not become effective by the Scheme Long Stop Date; (ii) the Proposal is not approved at the Court Meeting or the HXG EGM; (iii) SDGM and the IU Shareholders mutually agree to terminate; or (iv) the Proposal is withdrawn or lapses.

5. THE SCHEME AND THE COURT MEETING

Pursuant to Section 86 of the Companies Law, where an arrangement is proposed between a company and its members or any class of them, the Court may, on the application of the company or any member of the company, order a meeting of the members of the company or class of members, as the case may be, to be summoned in such manner as the Court directs.

It is expressly provided in Section 86 of the Companies Law that if a majority in number representing 75% in value of the members or class of members, as the case may be, present and voting either in person or by proxy at the meeting held as directed by the Court as aforesaid, agree to any arrangement, the arrangement shall, if sanctioned by the Court, be binding on all members or class of members, as the case may be, and also on the company.

The Court has been requested to order the convening of the Court Meeting, which is a meeting of all eligible members of HXG (i.e. the HXG Shareholders) for approving the Scheme.

The “75% in value” requirement as described above will be met if the total value of HXG Shares being voted by the HXG Shareholders present and voting either in person or by proxy in favour of the Scheme is at least 75% of the total value of the HXG Shares voted by the HXG Shareholders present and voting either in person or by proxy at the Court Meeting. The “majority in number” requirement as described above will be met if the number of HXG Shareholders present and voting either in person or by proxy at the Court Meeting in favour of the Scheme exceeds the number of HXG Shareholders present and voting either in person or by proxy at the Court Meeting against the Scheme.

HKSCC Nominees Limited may cast votes both for and against the Scheme in accordance with instructions received by it from CCASS participants (as defined under the General Rules of CCASS and CCASS Operational Procedures in effect from time to time) for the purposes of determining whether or not the requirement that the Scheme being approved by a majority in number of the HXG Shareholders under Section 86(2) of the Companies Law has been satisfied. For the purpose of calculating the “majority in number”, HKSCC Nominees Limited may be counted as a multi-headed HXG Shareholder casting votes both “for” and “against” the Scheme. The number of votes cast in favour of the Scheme and the number of CCASS participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS participants on whose instructions they are cast will be disclosed to the Court and may be taken into account in deciding whether or not the Court should exercise its discretion to sanction the Scheme.

All Disinterested Shareholders will be entitled to attend and vote at the Court Meeting, and their votes will be taken into account for the purpose of determining whether the requirements under Section 86 of the Companies Law are satisfied.

6. ADDITIONAL REQUIREMENTS AS IMPOSED BY RULE 2.10 OF THE TAKEOVERS CODE

Rule 2.10 of the Takeovers Code provides that in addition to satisfying any voting requirements imposed by law as summarised above, other than with the consent of the Executive, a scheme of arrangement used to take private of a company may only be implemented if:

- (a) the scheme is approved by at least 75% of the votes attaching to the disinterested shares (i.e. shares in the company other than those which are owned by the offeror or persons acting in concert with the offeror) that are cast either in person or by proxy at a duly convened meeting of the holders of the disinterested shares; and
- (b) the number of votes cast against the resolution to approve the scheme at such meeting is not more than 10% of the votes attaching to all the disinterested shares.

In this connection, the votes of SDGM and the SDGM Concert Parties who hold HXG Shares will not be taken into account for the purpose of determining whether the requirements under Rule 2.10 of the Takeovers Code are satisfied. As at the Latest Practicable Date, neither SDGM nor any SDGM Concert Parties held any HXG Shares.

As at the Latest Practicable Date, the Disinterested Shareholders held in aggregate 925,000,000 Scheme Shares and 10% of the votes attached to all Scheme Shares held by the Disinterested Shareholders was approximately 92,500,000 Scheme Shares.

By virtue of CICC and SCB being the financial adviser to SDGM and HXG, respectively, in connection with the Proposal and the Scheme, any HXG Shares held by any exempt principal traders within the CICC group or within the SCB group, notwithstanding such connected exempt principal traders not being SDGM Concert Parties, must not be voted in the context of the Proposal in accordance with the requirements of Rule 35.4 of the Takeovers Code, unless (i) the relevant connected exempt principal trader holds the HXG Shares as a simple custodian for and on behalf of non-discretionary clients, and (ii) there are contractual arrangements in place between the relevant connected exempt principal trader and its clients that strictly prohibit the relevant connected exempt principal trader from exercising any voting discretion over the relevant HXG Shares, and all voting instructions shall originate from the client only, and if no instructions are given, then no votes shall be cast for the relevant HXG Shares held by the relevant connected exempt principal trader. For this purpose, where applicable, a written confirmation of the matters set out in points (i) and (ii) above and whether the relevant underlying clients are entitled to vote in the context of the Proposal will be submitted to the Executive prior to the Court Meeting.

7. BINDING EFFECT OF THE SCHEME

Upon the Scheme becoming effective, it will be binding on HXG and each Scheme Shareholder, irrespective of whether or not he, she or it attends or votes, or how they vote, at the Court Meeting and the HXG EGM.

8. SHAREHOLDING STRUCTURE OF HXG

As at the Latest Practicable Date, (i) the authorised share capital of HXG was HK\$20,000,000 divided into 2,000,000,000 HXG Shares; (ii) the issued share capital of HXG comprised 925,000,000 HXG Shares, all of which will constitute the Scheme Shares; and (iii) there were no outstanding options, convertible securities, warrants, derivatives or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) issued by HXG that carry a right to subscribe for or which are convertible or exchangeable into HXG Shares.

As at the Latest Practicable Date, neither SDGM nor any SDGM Concert Parties held any HXG Shares. Thus, the Disinterested Shareholders hold 925,000,000 HXG Shares, representing 100% of the issued share capital of HXG.

Assuming there is no change to the issued share capital of HXG from the Latest Practicable Date up to the Scheme Effective Date, the table below sets out the shareholding structure of HXG (i) as at the Latest Practicable Date; and (ii) immediately upon completion of the Proposal (and the Scheme having become effective):

HXG Shareholders	As at the Latest Practicable Date		Immediately upon completion of the Proposal (and the Scheme having become effective)	
	<i>No. of HXG Shares</i>	<i>Approximate %</i>	<i>No. of HXG Shares</i>	<i>Approximate %</i>
SDGM (<i>Note 1</i>)	—	—	925,000,000	100.00
SDGM Concert Parties (<i>Note 2</i>)	—	—	—	—
Sub-total of SDGM and SDGM Concert Parties			925,000,000	100.00
Gold Virtue (<i>Notes 3 & 5</i>)	555,000,000	60.00%		
Xi Wang (<i>Notes 4 & 5</i>)	138,750,000	15.00%		
Other Public HXG Shareholders	231,250,000	25.00%		
Disinterested Shareholders	<u>925,000,000</u>	<u>100.00</u>	<u>—</u>	<u>—</u>
Total number of HXG Shares	<u>925,000,000</u>	<u>100.00</u>	<u>925,000,000</u>	<u>100.00</u>

Notes:

1. SDGM reserves the right to require HXG to issue new HXG Shares to a wholly owned subsidiary of SDGM (in lieu of SDGM itself) immediately after the cancellation and extinguishment of the Scheme Shares upon the Scheme becoming effective. Please see note 7 below for further details.
2. CICC is the financial adviser to SDGM in respect of the Proposal. Accordingly, CICC and relevant members of the CICC group are presumed to be acting in concert with SDGM in accordance with class (5) of the definition of “acting in concert” under the Takeovers Code (except in respect of HXG Shares and/or SDGM Shares held by exempt principal traders or exempt fund managers, in each case recognised by the Executive as such for the purposes of the Takeovers Code and also excluding HXG Shares and/or SDGM Shares held on behalf of non-discretionary investment clients of the CICC group).
3. Mr. Ke Xiping holds the entire issued share capital of Gold Virtue and therefore he is deemed to be interested in the 555,000,000 HXG Shares held by Gold Virtue. Mr. Ke Xiping is an executive director of HXG and the father of Mr. Ke Jiaqi.
4. Mr. Ke Jiaqi holds the entire issued share capital of Xi Wang and therefore he is deemed to be interested in the 138,750,000 HXG Shares held by Xi Wang. Mr. Ke Jiaqi is an executive director of HXG and the son of Mr. Ke Xiping.
5. During the Relevant Period, neither Gold Virtue nor Xi Wang had dealt for value in any HXG Shares or any convertible securities, warrants, options or derivatives in respect of HXG Shares.
6. Apart from Mr. Ke Xiping and Mr. Ke Jiaqi, no other director of HXG was interested in any HXG Shares as at the Latest Practicable Date.
7. Under the Scheme, the issued share capital of HXG will, on the Scheme Effective Date, be reduced by cancelling the Scheme Shares. On the assumption that there is no other change in the shareholding of HXG before completion of the Proposal, forthwith upon such reduction, the issued share capital of HXG will be increased to its former amount by the issue at par to SDGM or its wholly owned subsidiary (as the case may be), credited as fully paid, of the same number of new HXG Shares as the number of the Scheme Shares cancelled. The reserve created in HXG’s books of account as a result of the capital reduction will be applied in paying up in full at par the new HXG Shares so issued to SDGM or its wholly owned subsidiary (as the case may be).

9. SHAREHOLDING STRUCTURE OF SDGM

As at the Latest Practicable Date, (i) the issued share capital of SDGM comprised 699,503,419 SDGM H Shares and 3,614,443,347 SDGM A Shares; and (ii) there were no outstanding options, convertible securities, warrants, derivatives or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) issued by SDGM that carried a right to subscribe for or which were convertible or exchangeable into SDGM Shares.

Assuming the Scheme becomes effective, a total of 159,482,759 SDGM H Shares will be issued. The table below sets out the shareholding structure of SDGM (i) as at the Latest Practicable Date and (ii) immediately upon completion of the Proposal (and the Scheme having become effective), assuming 159,482,759 SDGM H Shares are issued and there are no other changes in the shareholdings in SDGM prior to completion of the Proposal:

	As at the Latest Practicable Date			Immediately upon completion of the Proposal (and the Scheme having become effective)		
	<i>No. of SDGM Shares</i>	<i>Class of SDGM Shares</i>	<i>Approximate % in the total issued SDGM Shares</i>	<i>No. of SDGM Shares</i>	<i>Class of SDGM Shares</i>	<i>Approximate % in the total issued SDGM Shares</i>
Non-public SDGM Shareholders						
Shandong Gold Group (<i>Note 1</i>)	2,016,782,930	SDGM A Shares	46.75	2,016,782,930	SDGM A Shares	45.08
Mr. Li Tao (<i>Note 2</i>)	129,182	SDGM A Shares	0.01	129,182	SDGM A Shares	0.01
Mr. Tang Qi (<i>Note 2</i>)	149,056	SDGM A Shares	0.01	149,056	SDGM A Shares	0.01
Public SDGM Shareholders						
Gold Virtue (<i>Note 3</i>)	—	—	—	95,689,655	SDGM H Shares	2.14
Xi Wang (<i>Note 3</i>)	—	—	—	23,922,414	SDGM H Shares	0.53
Spouse of Dr. Tim Sun (<i>Note 4</i>)	400	SDGM H Shares	0.00	400	SDGM H Shares	0.00
Other Public SDGM Shareholders	1,597,382,179	SDGM A Shares	37.03	1,597,382,179	SDGM A Shares	35.71
	<u>699,503,019</u>	<u>SDGM H Shares</u>	<u>16.21</u>	<u>739,373,709</u>	<u>SDGM H Shares</u>	<u>16.53</u>
Total number of SDGM Shares (<i>Notes 5 & 6</i>)	<u>4,313,946,766</u>	<u>—</u>	<u>100.00</u>	<u>4,473,429,525</u>	<u>—</u>	<u>100.00</u>

Notes:

- These 2,016,782,930 SDGM A Shares held by Shandong Gold Group comprise 1,671,709,197 SDGM A Shares directly held by Shandong Gold Group and 345,073,733 SDGM A Shares indirectly held by Shandong Gold Group through its various subsidiaries.
- Mr. Li Tao and Mr. Tang Qi are executive directors of SDGM.
- During the Relevant Period, neither Gold Virtue nor Xi Wang had dealt for value in any SDGM Shares or any convertible securities, warrants, options or derivatives in respect of SDGM Shares.
- Dr. Tim Sun is an independent non-executive director of HXG. During the Relevant Period, the spouse of Dr. Tim Sun bought 1,000 SDGM H Shares at HK\$22.50 per SDGM H Share on 27 May 2020 and sold 1,000 SDGM H Shares at HK\$22.40 per SDGM H Shares on 19 August 2020. Save for the

aforementioned transactions, neither Dr. Tim Sun nor any other person whom interest is deemed to be Dr. Tim Sun's interest under Part XV of the SFO had dealt for value in any SDGM Shares or any convertible securities, warrants, options or derivatives in respect of SDGM Shares during the Relevant Period.

5. A bonus issue on the basis of 4 bonus SDGM Shares for every 10 SDGM Shares was made by SDGM to all SDGM Shareholders on 19 August 2020.
6. The Exempt Share Buy-back was conducted by SDGM on 15 December 2020 in respect of 25,509,517 SDGM A Shares, representing approximately 0.59% of the total issued share capital of SDGM at a consideration of RMB1.00. For details of the Exempt Share Buy-back, please refer to the circular dated 31 July 2020 issued by SDGM.
7. Certain percentage figures included in this table have been subject to rounding adjustments. Figures shown as totals may not be an arithmetic aggregation of the figures preceding them.

10. INFORMATION ON HXG

HXG is an exempted company incorporated in the Cayman Islands with limited liability, and its shares are listed on the Main Board of the Stock Exchange with the stock code 2303. HXG is principally engaged in gold mining and production.

11. INFORMATION ON SDGM

SDGM is a joint stock company incorporated under the laws of the PRC with limited liability. It is an integrated gold company with the SDGM A Shares listed on the Shanghai Stock Exchange (Stock Code: 600547) and SDGM H Shares listed on the Hong Kong Stock Exchange (Stock Code: 1787) since 2003 and 2018, respectively. SDGM is principally engaged in gold exploration, mining, processing, smelting and sales and is one of the largest gold producers listed in the PRC and/or Hong Kong that operates in the PRC, controlling and operating more than 10 gold mines with operation primarily located in Shandong province.

The ultimate controlling shareholder of SDGM is Shandong SASAC which indirectly holds approximately 46.75% of the issued share capital of SDGM.

12. REASONS FOR AND BENEFITS OF THE PROPOSAL

(a) Solidification of industry leadership and enhancement of global competitiveness

SDGM is a leading gold producer in China with operations across the entire industry chain comprising exploration, mining, processing, smelting, deep processing and sale of gold products, supported by a complementary technological R&D system. As of 31 December 2019, SDGM controlled and operated 12 mines in China, and jointly operated the Veladero Mine in South America with Barrick Gold Corporation on a 50–50% basis.

HXG is an emerging gold producer in China which owns and operates the Gold Mountain Mine, the largest individual mine in Xinjiang, in terms of annual ore processing capacity and gold production. In 2019, the Gold Mountain Mine produced 2.66 tonnes of gold and was ranked 12th among the top individual gold mines in China. As of 30 June 2020, HXG has total gold resources of 77.28 tonnes and total gold reserves of 39.76 tonnes.

Continuous consolidations within the gold industry in recent years have further increased the market concentration, with large mining corporations gaining advantages from the economies of scale as the capital, technologies and market shares are dominated by top industry players. SDGM believes that further expansion and appropriate integration of gold resources is one of the key approaches to achieve business growth.

With more gold reserves, resources and production capacity to be added to its existing portfolio, SDGM's competitiveness in terms of its resources diversity and resources capacity are expected to be further strengthened, thereby solidifying its industry-leading position in China and enhancing its scale and industry ranking globally. In addition, the stronger cash flow and enlarged balance sheet will support the organic growth and inorganic expansion of SDGM going forward, creating value for both SDGM Shareholders and Scheme Shareholders.

(b) Diversification of mining asset portfolio with broadened geographic coverage and increased resilience to risks

SDGM's existing gold mines are mainly concentrated in Shandong, with benchmark projects such as Sanshandao Gold Mine, Jiaojia Gold Mine, Xincheng Gold Mine and Linglong Gold Mine located in Laizhou and Zhaoyuan regions in Yantai City, Shandong Province, and other assets located in provinces such as Fujian, Inner Mongolia and Gansu. The Proposal will allow SDGM to gain access to its first gold mine project in Xinjiang, further expanding its domestic gold production network with potential synergies to be realised with mines in neighbouring provinces. It would also facilitate SDGM's integration of resources and potential development of gold projects in the Northwest China region in the future.

As a single mine company with the Gold Mountain Mine being the only asset in its portfolio, HXG has limited ability to withstand risks alone. The Proposal will provide an opportunity for the Scheme Shareholders to participate in SDGM's continuous optimisation of the Gold Mountain Mine, while eliminating such single-asset risk faced by HXG. Furthermore, through ownership of the SDGM H Shares, the Scheme Shareholders will gain exposure to a more diversified portfolio of assets with coverage across the entire industry chain, benefitting from an increased resilience to risks and more stable investment returns.

(c) Sharing of technological achievements and optimization of the management system

SDGM values technological innovation. It has been continuously increasing its investments in R&D, actively participating in various national key R&D projects, strengthening the construction of its independent innovation platforms, and obtaining a set of cutting-edge core technologies of the mining industry. As of 31 December 2019, SDGM owned 210 valid patents, including 61 invention patents. SDGM possesses industry-leading underground mining technologies and advanced scientific mine management expertise, which can effectively support the existing operations of HXG and the development of its underground mining resources after depletion of the open-pit mining area. These technologies will help to further extend the life span of mines, reduce mining costs and enhance the operations of the Gold Mountain Mine.

HXG has been committed to technical optimisation over the past few years with a focus to increase production efficiency. Following the utilisation of high-pressure grinding rollers in commercial operation in 2017 which effectively improved the ore processing capacity, HXG has been conducting research to further improve the leaching rate through biological pre-oxidation. Biological pre-oxidation has advantages including: (i) requiring limited incremental cost and low capital investment, (ii) being a simple and user-friendly process, and (iii) having a low energy consumption and being environmentally friendly, which make it an optimal solution for mining of low-grade ores that are generally difficult to process. HXG has already commenced semi-industrial tests on biological pre-oxidation since June 2020. The sharing and exchange of technological achievements following completion of the Proposal will enable SDGM to improve its recovery rates, increase gold production volume and reduce production costs.

(d) Improvement in market liquidity as well as financial and capital markets profile

SDGM H Shares have historically been more actively traded as compared to HXG Shares. The average daily trading volume of HXG Shares on the Stock Exchange for the 120 trading days up to and including the Latest Practicable Date was approximately 543,806 HXG Shares per trading day, representing approximately 0.06% of the total number of HXG Shares as at the Latest Practicable Date. The low trading liquidity of HXG Shares makes it difficult for HXG Shareholders to execute substantial on-market disposals without exerting downward pressure on the market price of the HXG Shares in the short term. On the other hand, the average daily trading volume of SDGM H Shares over the same period was approximately 10,629,172 SDGM H Shares per trading day, representing approximately 1.52% of the total number of SDGM H Shares as at the Latest Practicable Date. The Proposal provides an opportunity for the Scheme Shareholders to dispose of their relatively illiquid HXG Shares in exchange for more actively traded SDGM H Shares at a premium to the quoted price of HXG Shares without suffering any illiquid discount. In addition to enhancing the liquidity of investment, the Scheme Shareholders will gain exposure to a broader asset portfolio through ownership of SDGM H Shares, with the opportunity to enjoy the growth potential of the gold industry as explained above.

Furthermore, as the consideration for the Proposal will be settled by way of issuing new SDGM H Shares, the Proposal is expected to improve the gearing ratio and debt indicators of SDGM, as well as to expand the market capitalisation of SDGM and further enhance the liquidity in SDGM H Shares, thereby increasing the attractiveness of SDGM to institutional investors to further strengthen its financing capability in the future.

SDGM Board's view

The SDGM Board considers that the terms of the Proposal and the Scheme are fair and reasonable and the implementation of the Proposal is in the interests of SDGM and the SDGM Shareholders as a whole.

HXG Board's view

The directors of HXG (including members of the HXG Independent Board Committee whose views are set out in Part V of this Scheme Document) are of the view that the terms of the Proposal and the Scheme are fair and reasonable and that the proposed take private of HXG will be beneficial to the Scheme Shareholders.

13. SDGM'S INTENTION REGARDING THE HXG GROUP

Save as mentioned under "12. Reasons for and benefits of the Proposal" above, upon successful implementation of the Scheme and the Proposal: (i) SDGM intends to continue the operation of the existing business of the HXG Group without making any major changes; (ii) SDGM currently has no intention to discontinue the employment of the key employees of the HXG Group; and (iii) SDGM does not plan to redeploy any of the fixed assets of the HXG Group. Nevertheless, subject to compliance with the relevant rules and regulations, SDGM reserves the rights to make any changes that it deems necessary or appropriate to the HXG Group's business operations and explore any opportunities arising from time to time for acquisitions, disposals and other structuring possibilities.

The HXG Board has noted the intentions of SDGM in respect of HXG and its employees as stated above.

14. IMPLEMENTATION OF THE PROPOSAL AND WITHDRAWAL OF LISTING OF HXG SHARES**(a) If the Scheme becomes effective**

Upon the Scheme becoming effective, all Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title. HXG will apply to the Stock Exchange for withdrawal of the listing of the HXG Shares on the Stock Exchange in accordance with Rule 6.15(2) of the Listing Rules immediately following the Scheme becoming effective.

The Scheme Shareholders will be notified by way of an announcement of the exact date of the last day for dealing in the HXG Shares on the Stock Exchange and the day on which the Scheme and the withdrawal of the listing of the HXG Shares on the Stock Exchange will be effective.

(b) If the Scheme is not approved or if the Proposal lapses

The Proposal will lapse if any of the Conditions has not been fulfilled or waived, as applicable, on or before the Scheme Long Stop Date. If the Scheme is not approved or if the Proposal otherwise lapses, the listing of HXG Shares on the Stock Exchange will not be withdrawn. If the Scheme is not approved or if the Proposal otherwise lapses, there are restrictions under Rule 31.1 of the Takeovers Code on making subsequent offers, to the effect that neither SDGM nor any person who acted in concert with it in the course of the Proposal nor any person who is subsequently acting in concert with any of them may, within 12 months from the date on which the Scheme is not approved or the Proposal lapses, announce an offer or possible offer for HXG, except with the consent of the Executive.

A detailed timetable for the implementation of the Scheme is set out in Part III of this Scheme Document.

15. REGISTRATION AND DESPATCH OF NEW SDGM H SHARE CERTIFICATES

On the basis that the Scheme Record Date will be Thursday, 28 January 2021, it is proposed that the register of members of HXG will be closed from Thursday, 28 January 2021 (or such other date as HXG Shareholders may be notified by announcement) onwards in order to establish entitlements under the Scheme. In order to qualify for entitlements under the Scheme, HXG Shareholders should ensure that the transfers of HXG Shares to them are lodged with the Hong Kong branch share registrar of HXG for registration in their names or in the names of their nominees before the closure of the register of members of HXG. The Hong Kong branch share registrar of HXG is Tricor Investor Services Limited, which is located at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

In respect of the new SDGM H Shares which the holders of Scheme Shares on the Scheme Effective Date are entitled to receive as consideration for cancellation of their Scheme Shares under the Scheme, each holder of Scheme Shares on the Scheme Effective Date will be sent one share certificate representing all SDGM H Shares issued, except for HKSCC Nominees Limited which may request for share certificates to be issued in such denominations as it may specify.

Assuming the Scheme becomes effective on Thursday, 28 January 2021, the share certificates for the new SDGM H Shares are expected to be despatched to the Scheme Shareholders on or before Thursday, 4 February 2021.

Share certificates for the new SDGM H Shares to be allotted and issued to the Scheme Shareholders under the Scheme will be despatched by ordinary post at the risk of the recipients to their registered addresses shown in the register of members of HXG as at the Scheme Record Date as soon as possible and in any event within seven (7) Business Days (as defined in the Takeovers Code) after the Scheme Effective Date. All such share certificates will be sent at the risk of the person(s) entitled thereto and none of SDGM, HXG, their respective advisers and share registrars, and any of their respective directors, employees, officers, agents or associates or any other persons involved in the Proposal will be responsible for any loss or delay in despatch.

Issuance, allotment and delivery of the new SDGM H Shares to which the Scheme Shareholders are entitled under the Scheme will be implemented in full in accordance with the terms of the Scheme, without regard to any lien, right of set-off, counterclaim or other analogous right to which SDGM may otherwise be, or claim to be, entitled against any such holder of Scheme Shares.

16. OVERSEAS SCHEME SHAREHOLDERS

The making and implementation of the Proposal to Scheme Shareholders who are not resident in Hong Kong may be subject to the laws of the relevant jurisdictions in which such Scheme Shareholders are located. Such overseas Scheme Shareholders should inform themselves about and observe any applicable legal, tax or regulatory requirements. It is the responsibility of any overseas Scheme Shareholders wishing to take any action in relation to the Proposal to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction. Any acceptance by the overseas Scheme Shareholders will be deemed to constitute a representation and warranty from such persons to SDGM and HXG and their respective advisers (including without limitation, CICC and SCB) that those laws and regulatory requirements have been complied with.

The Scheme will provide that if the law of any relevant jurisdiction precludes an offer of the SDGM H Shares, or precludes it except after compliance by SDGM with conditions with which SDGM is unable to comply or that SDGM regards as unduly onerous, no SDGM H Shares will be issued to the relevant overseas Scheme Shareholders (the “**Non-Qualifying Overseas Shareholders**”) and other alternative arrangement will be made in relation to the SDGM H Shares to which those Non-Qualifying Overseas Shareholders would otherwise be entitled. Such arrangements may include, subject to the Executive’s consent and compliance with applicable requirements, an arrangement for the SDGM H Shares which would otherwise have been allotted to the relevant Non-Qualifying Overseas Shareholders under the Scheme to be allotted to a person selected by the SDGM Board, who will sell such SDGM H Shares on the market, with the net proceeds of such sale to be paid to the relevant Non-Qualifying Overseas Shareholders pro rata to their shareholdings in HXG.

For the avoidance of doubt, neither Hong Kong Securities Clearing Company Limited nor HKSCC Nominees Limited will give, or be subject to, any of the above representations and warranties.

As set out in the Announcement, in the event that the despatch and/or receipt of this Scheme Document to or by overseas HXG Shareholders is prohibited by any applicable laws and regulations or may only be effected upon compliance with conditions or requirements that the HXG Board regards as unduly onerous or burdensome or otherwise not in the best interests of HXG and its shareholders, this Scheme Document, subject to the Executive's consent and directions of the Court, would not be despatched to such overseas HXG Shareholders. For that purpose, HXG will apply for any waivers as may be required by the Executive pursuant to Note 3 to Rule 8 of the Takeovers Code. As at the Latest Practicable Date, there were no HXG Shareholders with a registered address outside of Hong Kong. On the above basis, a waiver pursuant to Note 3 to Rule 8 of the Takeovers Code is not necessary.

HXG Shareholders are recommended to consult their own professional advisers if they are in any doubt as to their position.

17. TAXATION

As the Scheme does not involve the sale and purchase of Hong Kong stock, no stamp duty will be payable pursuant to the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) on the cancellation of the Scheme Shares upon the Scheme becoming effective. HXG Shareholders, whether in Hong Kong or in other jurisdictions, are recommended to consult their own professional advisers if they are in doubt as to the taxation implications of accepting the Proposal. It is emphasised that none of SDGM, HXG, parties acting in concert with them or presumed to be acting in concert with them and their respective advisers (including without limitation, CICC) and share registrars or any of their respective directors, employees, officers, agents or associates or any other person involved in the Proposal accepts any responsibility whatsoever for any taxation effects on, or liabilities of, any persons in connection with the Proposal in Hong Kong or any other jurisdiction.

18. COURT MEETING AND HXG EGM

In accordance with the direction of the Court, the Court Meeting will be held for the purpose of considering and, if thought fit, passing the resolution by way of poll to approve the Scheme (with or without modification(s)). Disinterested Shareholders whose names appear on the register of members of HXG as at the Meeting Record Date will be entitled to attend and vote, in person or by proxy, at the Court Meeting. The Scheme will be subject to the approval by the Disinterested Shareholders at the Court Meeting in the manner referred to in the sections headed "5. The Scheme and the Court Meeting" and "6. Additional requirements as imposed by Rule 2.10 of the Takeovers Code" in this Explanatory Statement.

The HXG EGM will be held immediately after the conclusion or adjournment of the Court Meeting for the purpose of considering, and, if thought fit, passing the special resolution to approve and give effect to (i) the reduction of the issued share capital of HXG by cancelling and extinguishing the Scheme Shares; (ii) the increase of the issued share capital of HXG immediately thereafter to the amount prior to the cancellation of the Scheme Shares by issuing to SDGM or its wholly-owned subsidiary (as the case may be) such number of new HXG Shares as is equal to the number of Scheme Shares cancelled as a result of the Scheme; and (iii) the application of the credit arising in HXG's books of accounts as a result of the Scheme to pay up in full at par value such number of new HXG Shares, credited as fully paid, for issuance to SDGM or its wholly owned subsidiary (as the case may be). All HXG Shareholders whose names appear on the register of members of HXG as at the Meeting Record Date will be entitled to attend and vote, in person or by proxy, on such resolution at the HXG EGM.

At the HXG EGM, the special resolution will be put to vote by way of poll as required under Rule 13.39(4) of the Listing Rules. The special resolution described in this paragraph will be passed if not less than three-fourths of the votes cast by HXG Shareholders, present and voting in person or by proxy at the HXG EGM, are in favour of such resolution. Each HXG Shareholder present and voting, either in person or by proxy, will be entitled to vote all of his, her or its HXG Shares in favour of (or against) the special resolution; alternatively, such HXG Shareholder may vote some of his, her or its HXG Shares in favour of the special resolution and any or all of the balance of his, her or its HXG Shares against the special resolution (and vice versa).

An announcement will be made by HXG and SDGM in relation to the results of the Court Meeting and HXG EGM in accordance with Rule 19.1 of the Takeovers Code to the extent applicable. Information on the number of votes cast in favour of the Scheme and the number of CCASS participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS participants on whose instructions they are cast will be included in such announcement.

Notices of the Court Meeting and the HXG EGM are set out in Appendix VII and Appendix VIII to this Scheme Document, respectively. The Court Meeting and the HXG EGM will be held on Wednesday, 13 January 2021 at the respective times specified in such notices at 35/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

It is proposed that the register of members of HXG will be closed during the period from Friday, 8 January 2021 to Wednesday, 13 January 2021 (both days inclusive) (or such other dates as may be notified by HXG by way of announcement(s)) for the purposes of determining the entitlement of HXG Shareholders to attend and vote at the Court Meeting and at the HXG EGM. Such book closure period is not for determining entitlements under the Scheme. In order to qualify to attend and vote at the Court Meeting and the HXG EGM, the relevant HXG Shareholders should ensure that the relevant forms of transfer of their HXG Shares accompanied by the relevant share certificates are lodged with the Hong Kong branch share registrar of HXG, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:30 p.m. (Hong Kong time) on Thursday, 7 January 2021.

19. BENEFICIAL OWNERS

Beneficial Owners are urged to have their names entered in the register of members of HXG as soon as possible for, among other things, the following reasons:

- (a) to enable the Beneficial Owners to become HXG Shareholders so that they can attend the Court Meeting and the HXG EGM in the capacity as members of HXG or be represented by proxies to be appointed by them and to be included for the purpose of calculating the majority in number of HXG Shareholders as required under Section 86 of the Companies Law in their capacity as members of HXG;
- (b) to enable HXG to properly classify members of HXG for the purposes of Section 86 of the Companies Law; and
- (c) to enable HXG and SDGM to make arrangements to effect the delivery of share certificates for the new SDGM H Shares to the most appropriate person when the Scheme becomes effective.

No person shall be recognised by HXG as holding any HXG Shares upon any trust. In the case of any Beneficial Owner whose HXG Shares are held upon trust by, and registered in the name of, a Registered Owner (other than HKSCC Nominees Limited), such Beneficial Owner should contact the Registered Owner and provide him, her or it with instructions or make arrangements with the Registered Owner in relation to the manner in which the HXG Shares of the Beneficial Owner should be voted at the Court Meeting and/or the HXG EGM. Such instructions and/or arrangements should be given or made in advance of the relevant latest time for the lodgement of forms of proxy in respect of the Court Meeting and the HXG EGM in order to provide the Registered Owner with sufficient time to accurately complete his, her or its proxy and to submit it by the relevant deadline(s). To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the relevant latest time for the lodgement of forms of proxy in respect of the Court Meeting and/or the HXG EGM, then any such Beneficial Owner should comply with the requirements of such Registered Owner.

Any Beneficial Owner whose HXG Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited must, unless such Beneficial Owner is a person admitted to participate in CCASS as an Investor Participant, contact their broker, custodian, nominee or other relevant person who is, or has in turn deposited such HXG Shares with, an Other CCASS Participant regarding voting instructions to be given to such person(s) if they wish to vote in respect of the Proposal and the Scheme at the Court Meeting and/or the HXG EGM. Beneficial Owners should contact their broker, custodian, nominee or such other relevant person in advance of the relevant deadline(s) in respect of the Court Meeting and/or the HXG EGM set by them, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to provide HKSCC with instructions or make arrangements with HKSCC in relation to the manner in which HXG Shares of the Beneficial Owner should be voted at the Court Meeting and/or the HXG EGM. The procedure for voting in respect of the Proposal and the Scheme by HKSCC Nominees Limited with respect to the HXG Shares

registered under the name of HKSCC Nominees Limited shall be in accordance with the “General Rules of CCASS” and the “CCASS Operational Procedures” in effect from time to time.

20. ACTIONS TO BE TAKEN

Actions to be taken by the HXG Shareholders

A **pink** form of proxy for use at the Court Meeting and a **white** form of proxy for use at the HXG EGM are enclosed with copies of this Scheme Document sent to the Registered Owners.

Whether or not you are able to attend the Court Meeting and/or the HXG EGM, if you are a HXG Shareholder, we strongly urge you to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting, and to complete and sign the enclosed **white** form of proxy in respect of the HXG EGM, in accordance with the instructions printed thereon, and to lodge them at the office of HXG’s branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong. **The pink form of proxy for use at the Court Meeting should be lodged not later than 10:00 a.m. on Monday, 11 January 2021 or alternatively, be handed to the Chairman of the Court Meeting at the Court Meeting, who shall have absolute discretion as to whether or not to accept it. The white form of proxy for use at the HXG EGM must be lodged not later than 10:30 a.m. on Monday, 11 January 2021 to be valid or alternatively be handed to the Chairman of the HXG EGM at the HXG EGM, who shall have absolute discretion as to whether or not to accept it.** The completion and return of a form of proxy for the Court Meeting and/or the HXG EGM will not preclude you from attending and voting in person at the relevant meeting. In such event, the returned form of proxy will be deemed to have been revoked.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and/or the HXG EGM, you will still be bound by the outcome of the Court Meeting and the HXG EGM if, among other things, the resolutions proposed at the Court Meeting and the HXG EGM are passed by the requisite majorities of HXG Shareholders. You are strongly urged to attend and vote at the Court Meeting and the HXG EGM in person or by proxy.

For the purposes of determining the entitlement of HXG Shareholders to attend and vote at the Court Meeting and at the HXG EGM, the register of members of HXG will be closed during the period from Friday, 8 January 2021 to Wednesday, 13 January 2021 (both days inclusive) (or such other dates as may be notified by HXG by way of announcement(s)), and during such period, no transfer of HXG Shares will be effected. Such book closure period is not for determining entitlements under the Scheme. In order to qualify to attend and vote at the Court Meeting and the HXG EGM, the relevant forms of transfer of your HXG Shares accompanied by the relevant share certificates shall be lodged with HXG’s Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong by no later than 4:30 p.m. on Thursday, 7 January 2021 (Hong Kong time).

HXG and SDGM will make an announcement in relation to the results of the Court Meeting and the HXG EGM in accordance with Rule 19.1 of the Takeovers Code to the extent applicable. Information on the number of votes cast in favour of the Scheme and the number of CCASS participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS participants on whose instructions they are cast will be included in such announcement. If all the resolutions are passed at those meetings, further announcement(s) will be made on the results of the hearing by the Court of the petitions to, among other things, sanction the Scheme and confirm the Capital Reduction and, if the Scheme is sanctioned and the Capital Reduction is confirmed, the Scheme Effective Date and the date of withdrawal of the listing of the HXG Shares on the Stock Exchange.

Actions to be taken by persons holding HXG Shares through trust or CCASS

HXG will not recognise any person as holding any HXG Shares through any trust. If you are a Beneficial Owner whose HXG Shares are held upon trust by, and registered in the name of, a Registered Owner (other than HKSCC Nominees Limited), you should contact the Registered Owner and provide the Registered Owner with instructions or make arrangements with the Registered Owner in relation to the manner in which your HXG Shares should be voted at the Court Meeting and/or the HXG EGM. Such instructions and/or arrangements should be given or made in advance of the relevant latest time for the lodgment of forms of proxy in respect of the Court Meeting and the HXG EGM in order to provide the Registered Owner with sufficient time to accurately complete and submit his, her or its proxy. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner in advance of the relevant latest time for the lodgment of forms of proxy in respect of the Court Meeting and/or the HXG EGM, any such Beneficial Owner should comply with the requirements of the Registered Owner.

If you are a Beneficial Owner whose HXG Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited, you must, unless you are an Investor Participant, contact your broker, custodian, nominee or other relevant person who is, or has, in turn, deposited such HXG Shares with an Other CCASS Participant regarding voting instructions to be given to such person(s) if you wish to vote at the Court Meeting and/or the HXG EGM. You should contact your broker, custodian, nominee or other relevant person in advance of the relevant latest time for the lodgment of forms of proxy in respect of the Court Meeting and/or the HXG EGM, in order to provide such person with sufficient time to provide HKSCC with instructions in relation to the manner in which the HXG Shares of the Beneficial Owner should be voted at the Court Meeting and/or the HXG EGM. The procedure for voting in respect of the Scheme by HKSCC Nominees Limited with respect to the HXG Shares shall be in accordance with the “General Rules of CCASS” and the “CCASS Operational Procedures” in effect from time to time. HKSCC Nominees Limited may cast votes both for and against the Scheme in accordance with instructions received from CCASS participants for the purposes of determining whether or not the requirement that the Scheme being approved by a majority in number of the HXG Shareholders under Section 86(2) of the Companies Law has been satisfied. The number of votes cast in favour of the

Scheme and the number of CCASS participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS participants on whose instructions they are cast will be disclosed to the Court and may be taken into account to determine whether the statutory majorities have been achieved.

If you are a Beneficial Owner whose HXG Shares are deposited in CCASS, you may also elect to become a HXG Shareholder of record, and thereby have the right to attend and vote at the Court Meeting and at the HXG EGM as a HXG Shareholder. You can become a HXG Shareholder of record by withdrawing all or any of your HXG Shares from CCASS and becoming a Registered Owner of such HXG Shares. For withdrawal of HXG Shares from CCASS and registration thereof, you will be required to pay to CCASS a withdrawal fee per board lot withdrawn, a registration fee for each share certificate issued, stamp duty on each transfer instrument and, if your HXG Shares are held through a financial intermediary, any other relevant fees charged by your financial intermediary. You should contact your broker, custodian, nominee or other relevant person in advance of the latest time for lodging transfers of the HXG Shares into your name in order to provide such broker, custodian, nominee or other relevant person with sufficient time to withdraw the HXG Shares from CCASS and register them in your name so as to qualify you to attend and vote at the Court Meeting and the HXG EGM.

Petition hearing in the Court

Prior to the despatch of this Scheme Document, HXG has obtained directions from the Court for the convening of the Court Meeting to consider the Scheme and other procedural matters regarding the Scheme.

In accordance with Sections 14, 15 and 86 of the Companies Law, if the resolutions are approved at the Court Meeting and the HXG EGM, HXG must then make a further application to the Court to sanction the Scheme and to confirm the Capital Reduction. HXG and SDGM cannot complete the Scheme and the Proposal without obtaining these approvals. In this regard, HXG has filed a petition with the Court seeking these approvals which will be heard on Wednesday, 27 January 2021 (Cayman Islands time).

In determining whether to exercise its discretion and sanction the Scheme, the Court will determine, among other things, whether the votes cast at the Court Meeting fairly represented the decision of the Disinterested Shareholders.

If the Court sanctions the Scheme and if all other Conditions to the Scheme are satisfied or (to the extent allowed by law) waived, HXG intends to deliver the Court order sanctioning the Scheme to the Cayman Islands Registrar of Companies on or around Thursday, 28 January 2021 (Cayman Islands time) or as otherwise directed by the Court for registration, at which time the order sanctioning the Scheme will become effective.

21. ODD LOTS ARRANGEMENT

No arrangements are intended to be made for the trading of odd lots of SDGM H Shares resulting from the Scheme.

22. RECOMMENDATION

Your attention is drawn to the following:

- (a) the paragraph headed “14. Recommendation” in the letter from the HXG Board set out in Part IV of this Scheme Document;
- (b) the letter from the HXG Independent Board Committee set out in Part V of this Scheme Document; and
- (c) the letter from the HXG Independent Financial Adviser set out in Part VI of this Scheme Document.

23. FURTHER INFORMATION

Further information is set out in the Appendices to, and elsewhere in, this Scheme Document, all of which form part of this Explanatory Statement.

HXG Shareholders should rely only on the information contained in this Scheme Document. None of HXG, SDGM and their respective advisers and share registrars or any of their respective directors, employees, officers, agents or associates or any other person involved in the Proposal and the Scheme has authorised anyone to provide you with information that is different from what is contained in this Scheme Document.

1. FINANCIAL SUMMARY

The following is a summary of the audited financial results of the HXG Group for each of the three years ended 31 December 2019, which is extracted from the audited consolidated financial statements of the HXG Group as set forth in the annual reports of HXG for the three years ended 31 December 2019, and the unaudited financial results of the HXG Group for the six months ended 30 June 2020, which is extracted from the unaudited consolidated interim financial information of HXG as set forth in the interim report of HXG for the six months ended 30 June 2020.

No qualified or modified opinion was given by the auditor of HXG, PricewaterhouseCoopers, in respect of the HXG Group's audited consolidated financial statements for each of the three years ended 31 December 2019 and the HXG Group's unaudited consolidated interim financial information for the six months ended 30 June 2020. The auditor's reports issued by the auditor of HXG in respect of the audited consolidated financial statements of the HXG Group for each of the three years ended 31 December 2019 also did not contain any emphasis of matter or material uncertainty related to going concern.

Summary of Consolidated Statement of Profit or Loss and Other Comprehensive Income

	For the six months ended 30 June		For the financial year ended 31 December		
	2020 RMB'000	2019 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
Revenue	253,332	290,894	845,396	830,006	960,516
Cost of sales	(161,519)	(181,301)	(519,943)	(464,838)	(569,236)
Gross profit	91,813	109,593	325,453	365,168	391,280
Other income	381	350	5,937	1,006	711
Other gains — net	225	9,973	971	4,113	(7,795)
Selling and marketing expenses	(78)	(107)	(378)	(479)	(713)
General and administrative expenses	(20,104)	(27,096)	(57,360)	(37,266)	(32,362)
Write off of exploration and evaluation assets	—	—	—	—	(13,970)
Operating profit	72,237	92,713	274,623	332,542	337,151
Finance costs — net	235	(2,022)	(3,277)	(8,775)	(12,837)
Finance income	1,647	327	542	461	74
Finance costs	(1,412)	(2,349)	(3,819)	(9,236)	(12,911)
Profit before income tax	72,472	90,691	271,346	323,767	324,314
Income tax expense	(17,318)	(14,989)	(56,802)	(62,870)	(84,011)

	For the six months ended 30 June		For the financial year ended 31 December		
	2020	2019	2019	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit for the period, all attributable to HXG Shareholders	55,154	75,702	214,544	260,897	240,303
Other comprehensive income <i>Items that may be reclassified to profit or loss</i>					
— Change in the fair value of available-for-sale financial assets	—	—	—	—	(1,683)
Total comprehensive income for the period, all attributable to HXG Shareholders	<u>55,154</u>	<u>75,702</u>	<u>214,544</u>	<u>260,897</u>	<u>238,620</u>
Earnings per share attributable to HXG Shareholders for the period					
— Basic and diluted (Expressed in RMB per share)	<u>0.06</u>	<u>0.08</u>	<u>0.23</u>	<u>0.28</u>	<u>0.26</u>
Dividend declared per HXG Share (Expressed in HK\$ per share)	<u>—</u>	<u>—</u>	<u>0.100</u>	<u>0.100</u>	<u>0.155</u>
Amount of dividend distributed to owners of HXG	<u>85,096</u>	<u>81,369</u>	<u>81,406</u>	<u>124,750</u>	<u>80,281</u>

Save as disclosed above, there was no item of any income or expense which was material in respect of the consolidated financial results of the HXG Group for each of the three years ended 31 December 2019 and the six months ended 30 June 2020.

Since 30 June 2020 and as disclosed in the announcement of HXG dated 29 September 2020, the HXG Board has approved the declaration of the HXG Special Dividend of HK\$0.3585 per HXG Share which would be payable to the HXG Shareholders whose names appeared on the register of members of HXG on 16 October 2020. The HXG Special Dividend in the aggregate amount of RMB292 million has been paid on 30 October 2020.

2. CONSOLIDATED FINANCIAL STATEMENTS

HXG is required to set out or refer to in this Scheme Document the consolidated statement of financial position, consolidated statement of cash flows and any other primary statement as shown in (i) the audited consolidated financial statements of the HXG Group for the year ended 31 December 2017 (the “**HXG 2017 Financial Statements**”), (ii) the audited consolidated financial statements of the HXG Group for the year ended 31 December 2018 (the “**HXG 2018 Financial Statements**”), (iii) the audited consolidated financial statements of the HXG Group for the year ended 31 December 2019 (the “**HXG 2019 Financial Statements**”), and (iv) the unaudited consolidated interim financial statements of the HXG Group for the six months ended 30 June 2020 (the “**HXG 2020 Interim Financial Statements**”), together with the notes to the relevant published accounts which are of major relevance to the appreciation of the above financial information.

The HXG 2017 Financial Statements are set out on pages 54 to 111 in the annual report of HXG for the year ended 31 December 2017 (the “**HXG 2017 Annual Report**”), which was published on 26 April 2018. The HXG 2017 Annual Report was posted on the respective websites of the Stock Exchange (<http://www.hkexnews.hk>) and HXG (<http://www.hxgoldholding.com>), and is accessible via the following hyperlinks:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0426/ltn20180426719.pdf>
<http://www.hxgoldholding.com/media/1029/2017-e.pdf>

The HXG 2018 Financial Statements are set out on pages 63 to 127 in the annual report of HXG for the year ended 31 December 2018 (the “**HXG 2018 Annual Report**”), which was published on 29 April 2019. The HXG 2018 Annual Report was posted on the respective websites of the Stock Exchange (<http://www.hkexnews.hk>) and HXG (<http://www.hxgoldholding.com>), and is accessible via the following hyperlinks:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0429/ltn20190429629.pdf>
http://www.hxgoldholding.com/media/1116/2018-annual_en.pdf

The HXG 2019 Financial Statements are set out on pages 60 to 119 in the annual report of HXG for the year ended 31 December 2019 (the “**HXG 2019 Annual Report**”), which was published on 28 April 2020. The HXG 2019 Annual Report was posted on the respective websites of the Stock Exchange (<http://www.hkexnews.hk>) and HXG (<http://www.hxgoldholding.com>), and is accessible via the following hyperlinks:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0428/2020042800980.pdf>
<http://www.hxgoldholding.com/media/1133/2019-annual-report.pdf>

The HXG 2020 Interim Financial Statements are set out on pages 16 to 34 in the interim report of HXG for the six months ended 30 June 2020 (the “**HXG 2020 Interim Report**”), which was published on 14 September 2020. The HXG 2020 Interim Report was posted on the respective websites of the Stock Exchange (<http://www.hkexnews.hk>) and HXG (<http://www.hxgoldholding.com>), and is accessible via the following hyperlinks:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0914/2020091400479.pdf>
http://asia.blob.euroland.com/press-releases-attachments/1248744/HKEX-EPS_20200914_9440423_0.PDF

The HXG 2017 Financial Statements, the HXG 2018 Financial Statements, the HXG 2019 Financial Statements and the HXG 2020 Interim Financial Statements (but not any other part of the HXG 2017 Annual Report, the HXG 2018 Annual Report, the HXG 2019 Annual Report and the HXG 2020 Interim Report) are incorporated by reference into this Scheme Document and form part of this Scheme Document.

3. INDEBTEDNESS

HXG recognised right-of-use assets and corresponding lease liabilities in respect of all leases unless they qualify for low value or short-term lease. The lease liabilities represent obligation to make lease payment for right of using underlying assets. As at the close of business on 30 September 2020, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this Scheme Document, the HXG Group had lease liabilities of approximately RMB0.74 million.

Save as disclosed above and normal trade payments in the normal courses of business, at the close of business on 30 September 2020, the HXG Group did not have any borrowings, loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, lease liabilities or hire purchase commitments, guarantees or material contingent liabilities.

4. MATERIAL CHANGES

The directors of HXG confirm that, save and except as disclosed below, there was no material change in the financial or trading position or outlook of the HXG Group since 31 December 2019 (being the date to which the latest published audited consolidated financial statements of the HXG Group were made up) and up to the Latest Practicable Date:

- (i) as disclosed in the HXG 2020 Interim Report, the HXG Group recorded decreases in revenue of approximately RMB37.6 million and net profit attributable to HXG Shareholders of approximately RMB20.5 million for the six months ended 30 June 2020 as compared to the revenue and net profit attributable to HXG Shareholders of approximately RMB290.9 million and RMB75.7 million for the corresponding period in 2019, due to the decline of gold production and sales volume as a result of the outbreak of COVID-19 in the PRC at the beginning of 2020 as the strict travel

restrictions and quarantine measures imposed by the government had led to major delay in work force returning from the Chinese New Year holiday and the delivery of necessary production materials;

- (ii) as disclosed in the HXG 2020 Interim Report, the HXG Group recorded a material decrease in current assets by approximately RMB66.8 million from approximately RMB580.5 million as at 31 December 2019 to approximately RMB513.7 million as at 30 June 2020, due to the use of cash on dividend payment to the shareholders during the six months ended 30 June 2020;
- (iii) as disclosed in the HXG 2020 Interim Report, the HXG Group recorded a material decrease in current liabilities by approximately RMB39.1 million from approximately RMB131.2 million as at 31 December 2019 to approximately RMB92.1 million as at 30 June 2020, due to decrease in staff salaries payables, other tax payables and current income tax liabilities during the six months ended 30 June 2020;
- (iv) as disclosed in the announcement of HXG dated 8 June 2020, HXG has received a writ of summons with an indorsement of claim dated 21 May 2020 by Jiang Xi An Fa Da Wine Company Limited as plaintiff against Mr. Ke Xiping as the 1st defendant, and HXG as the 3rd defendant, amongst other parties as 2nd, 4th and 5th defendants regarding a land dispute in Fuzhou city for claims against HXG of RMB160 million; and
- (v) as disclosed in the announcement of HXG dated 29 September 2020, the HXG Board has approved the declaration of the HXG Special Dividend of HK\$0.3585 per HXG Share which would be payable to the HXG Shareholders whose names appeared on the register of members of HXG on 16 October 2020, and the HXG Special Dividend has been paid on 30 October 2020.

1. RESPONSIBILITY STATEMENT

This Scheme Document includes particulars given in compliance with the Takeovers Code for the purpose of providing information with regard to the HXG Group, the Proposal and the Scheme.

The directors of HXG jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (other than the information relating to the SDGM Group and the SDGM Concert Parties) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Scheme Document (other than those expressed by the directors of SDGM) have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document the omission of which would make any statements in this Scheme Document misleading.

2. SHARE CAPITAL

As at the Latest Practicable Date:

- (a) the authorised share capital of HXG was HK\$20,000,000 divided into 2,000,000,000 HXG Shares;
- (b) the issued and paid up share capital of HXG was HK\$9,250,000 divided into 925,000,000 HXG Shares;
- (c) HXG had not issued any HXG Shares since 31 December 2019, being the end of the last financial year of HXG, up to the Latest Practicable Date;
- (d) all of the issued HXG Shares ranked pari passu in all respects with each other, including all rights as to dividends, voting and capital; and
- (e) there were no outstanding options, convertible securities, warrants, derivatives or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) issued by HXG that carried a right to subscribe for or which were convertible or exchangeable into HXG Shares.

3. DISCLOSURE OF INTERESTS, DEALINGS AND OTHER ARRANGEMENTS

(i) Disclosure of interests

As at the Latest Practicable Date:

- (a) HXG did not own or control any SDGM Shares or any convertible securities, warrants, options or derivatives in respect of SDGM Shares;
- (b) save as disclosed in the sections headed “8. Shareholding Structure of HXG” and “9. Shareholding Structure of SDGM” in the Explanatory Statement set out in Part VII of this Scheme Document, none of the directors of HXG was

interested (within the meaning of Part XV of the SFO) in any HXG Shares, any SDGM Shares or any convertible securities, warrants, options or derivatives in respect of HXG Shares or SDGM Shares;

- (c) (i) no subsidiary of HXG, (ii) no pension fund of HXG or of a subsidiary of HXG, and (iii) no person who is presumed to be acting in concert with HXG by virtue of class (5) of the definition of “acting in concert” under the Takeovers Code or who is an associate of HXG by virtue of class (2) of the definition of “associate” under the Takeovers Code (but excluding exempt principal traders and exempt fund managers) owned or controlled (as the case may be) any HXG Shares or any SDGM Shares or any convertible securities, warrants, options or derivatives in respect of HXG Shares or SDGM Shares;
- (d) neither HXG nor any person who is presumed to be acting in concert with HXG by virtue of classes (1), (2), (3) and (5) of the definition of “acting in concert” under the Takeovers Code or who is an associate of HXG by virtue of classes (2), (3) and (4) of the definition of “associate” under the Takeovers Code had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with any person;
- (e) no HXG Shares, no SDGM Shares, and no convertible securities, warrants, options or derivatives in respect of HXG Shares or SDGM Shares, was managed on a discretionary basis by any fund managers connected with HXG;
- (f) as disclosed in the section headed “4. Irrevocable Undertaking and Warranties” in the Explanatory Statement set out in Part VII of this Scheme Document, the IU Shareholders (being Gold Virtue and Xi Wang which are wholly-owned by Mr. Ke Xiping and Mr. Ke Jiaqi, both directors of HXG, respectively) have provided the Irrevocable Undertaking to SDGM pursuant to which each of the IU Shareholders has undertaken to, among other things, exercise all voting rights attached to the relevant IU Shares in favour of the resolutions to approve the Proposal and any such other matters in connection therewith at the Court Meeting and the HXG EGM;
- (g) neither HXG nor any director of HXG had borrowed or lent (as the case may be) any HXG Shares or any SDGM Shares, or any convertible securities, warrants, options or derivatives in respect of HXG Shares or SDGM Shares; and
- (h) no material contract has been entered into by SDGM in which any director of HXG has a material personal interest.

(ii) Dealings in HXG's or SDGM's securities

During the Relevant Period:

- (a) save as disclosed in note 4 to the section headed "9. Shareholding structure of SDGM" in the Explanatory Statement set out in part VII of this Scheme Document, neither HXG nor any director of HXG had dealt for value in any SDGM Shares or any convertible securities, warrants, options or derivatives in respect of SDGM Shares; and
- (b) none of the directors of HXG had dealt for value in any HXG Shares or any convertible securities, warrants, options or derivatives in respect of HXG Shares.

During the Offer Period and up to the Latest Practicable Date:

- (a) (i) no subsidiary of HXG, (ii) no pension fund of HXG or of a subsidiary of HXG, and (iii) no person who is presumed to be acting in concert with HXG by virtue of class (5) of the definition of "acting in concert" under the Takeovers Code or who is an associate of HXG by virtue of class (2) of the definition of "associate" under the Takeovers Code (but excluding exempt principal traders and exempt fund managers) had dealt for value in any HXG Shares or any SDGM Shares or any convertible securities, warrants, options or derivatives in respect of HXG Shares or SDGM Shares;
- (b) no person having any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with HXG or with any person who is presumed to be acting in concert with HXG by virtue of classes (1), (2), (3) and (5) of the definition of "acting in concert" under the Takeovers Code or who is an associate of HXG by virtue of classes (2), (3) and (4) of the definition of "associate" under the Takeovers Code had dealt for value in any HXG Shares or any SDGM Shares, or any convertible securities, warranties, options or derivatives in respect of HXG Shares or SDGM Shares; and
- (c) none of the non-exempt discretionary fund managers connected with HXG had dealt for value in any HXG Shares or any SDGM Shares, or any convertible securities, warrants, options or derivatives in respect of HXG Shares or SDGM Shares.

(iii) Other arrangements in relation to the Proposal

In view of the additional workload arising from the Proposal and the Scheme and in accordance with HXG's usual practice, on 26 August 2020, the HXG Board resolved to provide the non-executive director and the independent non-executive directors of HXG with an allowance of HK\$5,000 per day for the work undertaken by such directors in discharge of their duty as non-executive directors of HXG under the Takeovers Code (the "Arrangement").

It is expected that each of the non-executive directors of HXG will receive an aggregate amount of HK\$60,000 to HK\$80,000 under the Arrangement. As at the Latest Practicable Date, Dr. Pan Guocheng is entitled to receive HK\$65,000 (of which HK\$40,000 has been received) and each of Ms. Wong, Yan Ki Angel, Dr. Tim Sun and Mr. Albert Fook Lau Ho is entitled to receive HK\$55,000 (of which HK\$30,000 has been received) for the work undertaken by them from July 2020 to the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date:

- (a) no benefit was or would be given to any director of HXG as compensation for loss of office or otherwise in connection with the Proposal;
- (b) save for the Irrevocable Undertaking, there was no agreement, arrangement or understanding (including any compensation arrangement) existing between SDGM or any of the SDGM Concert Parties on one hand and any of the directors, recent directors, shareholders or recent shareholders of HXG on the other hand, having any connection with or was dependent upon the Proposal;
- (c) there was no agreement or arrangement between any director of HXG and any other person which was conditional on or dependent upon the outcome of the Proposal or otherwise connected with the Proposal; and
- (d) there was no understanding, arrangement or agreement which constitutes special deal (as defined under Rule 25 of the Takeovers Code) between (1) any HXG Shareholder (on one hand); and (2) HXG or any of its subsidiaries or associated companies (on the other hand).

4. MARKET PRICES

The table below shows the closing prices per HXG Share on the Stock Exchange on (i) the Latest Practicable Date; (ii) the HXG Last Trading Day; (iii) the HXG Last Full Trading Day; and (iv) the last trading day of each of the calendar months during the Relevant Period.

Date	Closing price per HXG Share (HK\$)
31 March 2020	1.68
29 April 2020	1.94
29 May 2020	2.37
30 June 2020	2.62
31 July 2020	3.22
31 August 2020	3.47
HXG Last Full Trading Day (i.e. 28 September 2020)	3.06
HXG Last Trading Day (i.e. 29 September 2020)	3.40
30 September 2020	N/A ^(Note)
30 October 2020	3.06
30 November 2020	3.06
Latest Practicable Date (i.e. 18 December 2020)	3.05

Note: Trading in HXG Shares on the Stock Exchange was halted with effect from 2:21 p.m. on 29 September 2020 and was resumed with effect from 9:00 a.m. on 5 October 2020.

During the Relevant Period, the highest closing price of the HXG Shares as quoted on the Stock Exchange was HK\$4.10 per HXG Share on 7 August 2020, and the lowest closing price of the HXG Shares as quoted on the Stock Exchange was HK\$1.50 per HXG Share on 30 March 2020.

5. MATERIAL LITIGATION

HXG has received a writ of summons with an indorsement of claim dated 21 May 2020 by Jiang Xi An Fa Da Wine Company Limited as plaintiff against Mr. Ke Xiping as the 1st defendant, and HXG as the 3rd defendant, amongst other parties as 2nd, 4th and 5th defendants regarding a land dispute in Fuzhou city for claims against HXG of RMB160 million. Please refer to the announcement of HXG dated 8 June 2020 for details. As at the Latest Practicable Date, the parties have exchanged pleadings.

Save as disclosed above, as at the Latest Practicable Date, to the best of the knowledge, information and belief of the directors of HXG, no member of the HXG Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the directors of HXG to be pending or threatened by or against any member of the HXG Group.

6. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the HXG Group) had been entered into by members of the HXG Group within the two years before the commencement of the Offer Period up to and including the Latest Practicable Date that were or might be material:

- (i) a trust agreement dated 1 March 2019 entered into between Xinjiang Jinchuan Mining Co., Ltd. (新疆金川礦業有限公司) (“**Jinchuan Mining**”), a wholly-owned subsidiary of HXG, and Xiamen International Trust Co., Ltd. (廈門國際信託有限公司) (“**XITCL**”) in relation to a fixed-income entrusted loan product in the principal amount of RMB100,000,000;
- (ii) a trust agreement dated 18 March 2019 entered into between Jinchuan Mining and XITCL in relation to a fixed-income entrusted loan product in the principal amount of RMB120,000,000; and
- (iii) a trust agreement dated 19 March 2019 entered into between Jinchuan Mining and XITCL in relation to a fixed-income entrusted loan product in the principal amount of RMB30,000,000.

7. SERVICE CONTRACTS

As at the Latest Practicable Date, save as disclosed below, none of the directors of HXG had any service contract with HXG or any of its subsidiaries or associated companies in force which (a) (including both continuous and fixed term contracts) had been entered into or amended within 6 months preceding the Announcement Date; or (b) was a continuous contract with a notice period of 12 months or more; or (c) was a fixed term contract that has more than 12 months to run irrespective of the notice period.

Name	Position	Date of service contract	Expiry date	Amount of remuneration
Mr. KE Xiping	President	31 March 2020	Continuous	HK\$1,000,000 per year
	Executive Director	28 May 2020 (previously 28 May 2017)	27 May 2023	—
Ms. WONG Yan Ki, Angel	Independent Non-Executive Director	1 April 2020 (previously 1 April 2019)	31 March 2022	HK\$200,000 per year (previously HK\$150,000 per year)
Mr. Albert Fook Lau HO	Non-Executive Director	1 April 2020 (previously 18 May 2018)	30 May 2021	HK\$200,000 per year (previously HK\$150,000 per year)

Name	Position	Date of service contract	Expiry date	Amount of remuneration
Dr. PAN Guocheng	Independent Non-Executive Director	1 April 2020 (previously 18 May 2018)	30 May 2021	HK\$200,000 per year (previously HK\$150,000 per year)
Dr. Tim SUN	Independent Non-Executive Director	1 April 2020 (previously 1 May 2017)	31 March 2023	HK\$200,000 per year (previously HK\$150,000 per year)

The above directors of HXG are not entitled to any variable remuneration under the above service contracts.

8. CONSENT AND QUALIFICATIONS OF EXPERT

The following are the qualifications of the expert who has been named in this Scheme Document or has given opinion or advice which is contained in this Scheme Document:

Name	Qualification
Octal Capital Limited	a licenced corporation permitted to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

The above expert has given and has not withdrawn its written consent to the issue of this Scheme Document with the inclusion herein of its letters, opinions, reports and/or advices (as the case may be) and/or references to its name, opinions, reports and/or letters (as the case may be) in the form and context in which they respectively appear.

9. MISCELLANEOUS

- (i) The registered office of HXG is situated at c/o Ocorian Trust (Cayman) Limited, Windward 3, Regatta Office Park, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands.
- (ii) The principal place of business of HXG in Hong Kong is situated at Suite 3203, Central Plaza, 18 Harbor Road, Wanchai, Hong Kong.
- (iii) The HXG Board comprises Mr. Ke Xiping, Mr. Chen, David Yu and Mr. Ke Jiaqi as executive directors, Mr. Albert Fook Lau Ho as non-executive director, and Ms. Wong, Yan Ki Angel, Dr. Tim Sun and Dr. Pan Guocheng as independent non-executive directors.
- (iv) The company secretary of HXG is Ms. Wong Wai Ling, who is an associate of The Hong Kong Institute of Chartered Secretaries and an associate of The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators).

- (v) The principal share registrar of HXG is Ocorian Trust (Cayman) Limited, situated at Windward 3, Regatta Office Park, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands.
- (vi) The branch share registrar of HXG in Hong Kong is Tricor Investor Services Limited, situated at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (vii) The principal place of business of the HXG Independent Financial Adviser is 801–805, 8/F, Nan Fung Tower, 88 Connaught Road Central, Hong Kong.

1. FINANCIAL SUMMARY

The following is a summary of the audited financial results of the SDGM Group for each of the three years ended 31 December 2019, which is extracted from the audited consolidated financial statements of the SDGM Group as set forth in the annual reports of SDGM for the two years ended 31 December 2019 and the accountant's report in appendix I to the prospectus of SDGM, and the unaudited financial results of the SDGM Group for the six months ended 30 June 2020, which is extracted from the unaudited consolidated interim financial information of SDGM as set forth in the interim report of SDGM for the six months ended 30 June 2020.

The auditors of SDGM, PricewaterhouseCoopers (for the years ended 31 December 2017 and 31 December 2018) and SHINEWING (HK) CPA Limited (for the year ended 31 December 2019), did not issue any qualified or modified opinion (including emphasis of matter, adverse opinion, disclaimer of opinion or material uncertainty related to going concern) on the respective audited consolidated financial statements of the SDGM Group for the years ended 31 December 2017, 31 December 2018 and 31 December 2019.

Summary of Consolidated Statement of Profit or Loss and Other Comprehensive Income

	For the six months ended 30 June		For the financial year ended 31 December		
	2020 RMB'000	2019 RMB'000 (restated)	2019 RMB'000	2018 RMB'000 (restated)	2017 RMB'000 (note)
Revenue	33,039,934	31,924,822	62,613,141	56,250,494	51,041,303
Cost of sales	<u>(29,892,246)</u>	<u>(29,632,471)</u>	<u>(57,601,794)</u>	<u>(52,213,915)</u>	<u>(47,398,660)</u>
Gross profit	3,147,688	2,292,351	5,011,347	4,036,579	3,642,643
Selling and commission expenses	(46,473)	(110,778)	(188,120)	(126,995)	(31,152)
General and administrative expenses	(912,390)	(785,128)	(1,768,667)	(1,445,860)	(1,214,344)
Research and development expenses	(155,775)	(147,948)	(333,050)	(321,041)	(273,559)
Other income	11,714	3,209	37,704	14,398	15,979
Other gains and losses, net	(55,025)	(44,271)	107,585	253,554	(30,625)
Finance income	33,501	31,059	71,466	67,646	37,445
Finance costs	(384,088)	(401,766)	(866,894)	(936,319)	(575,966)
Share of results of associates	<u>7,830</u>	<u>22,769</u>	<u>1,319</u>	<u>38,066</u>	<u>34,024</u>
Profit before tax	1,646,982	859,497	2,072,690	1,580,028	1,604,445
Income tax expenses	<u>(378,399)</u>	<u>(231,326)</u>	<u>(660,376)</u>	<u>(559,231)</u>	<u>(431,452)</u>
Profit for the period/year	<u>1,268,583</u>	<u>628,171</u>	<u>1,412,314</u>	<u>1,020,797</u>	<u>1,172,993</u>

	For the six months ended 30 June		For the financial year ended 31 December		
	2020	2019	2019	2018	2017
	RMB'000	RMB'000 (restated)	RMB'000	RMB'000 (restated)	RMB'000 (note)
Profit for the period/year attributable to:					
— Owners of SDGM (note)	1,122,253	548,948	1,290,503	964,411	1,118,920
— Non-controlling interests	146,330	79,223	121,811	56,386	54,073
	<u>1,268,583</u>	<u>628,171</u>	<u>1,412,314</u>	<u>1,020,797</u>	<u>1,172,993</u>
EARNINGS PER SHARE					
— Basic and diluted (RMB) (note)	<u>0.26</u>	<u>0.13</u>	<u>0.30</u>	<u>0.25</u>	<u>0.31</u>
Profit for the period/year	<u>1,268,583</u>	<u>628,171</u>	<u>1,412,314</u>	<u>1,020,797</u>	<u>1,172,993</u>
Other comprehensive income:					
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Share of other comprehensive losses of associates	—	—	—	(49)	(56)
Currency translation differences	66,115	8,593	69,593	(23,094)	(2,482)
Other comprehensive income for the period, net of tax	<u>66,115</u>	<u>8,593</u>	<u>69,593</u>	<u>(23,143)</u>	<u>(2,538)</u>
Total comprehensive income for the period	<u>1,334,698</u>	<u>636,764</u>	<u>1,481,907</u>	<u>997,654</u>	<u>1,170,455</u>
Total comprehensive income for the period attributable to:					
— Owners of SDGM	1,188,368	557,541	1,360,096	941,268	1,116,382
— Non-controlling interests	146,330	79,223	121,811	56,386	54,073
	<u>1,334,698</u>	<u>636,764</u>	<u>1,481,907</u>	<u>997,654</u>	<u>1,170,455</u>
Dividend declared per SDGM Share for the period (Express in RMB per share)	—	—	0.1	0.1	0.12
Amount of dividend distributed to owners of SDGM in the period (RMB'000)	<u>—</u>	<u>—</u>	<u>219,850</u>	<u>73,764</u>	<u>331,938</u>

Note: The consolidated financial information during the years ended 31 December 2017 was extracted from the Prospectus that do not incorporate the financial information of SD Gold Capital Management Co., Ltd. (山金金控資本管理有限公司) and its subsidiaries (collectively as the “**SDG Capital Management Group**”) which was acquired by SDGM through business combination involving entities under common control during the year ended 31 December 2019.

The calculation of basic and diluted earnings per share has been retrospectively adjusted for the bonus issue on 20 August 2019 and 19 August 2020.

The profit attributable to owners of SDGM in 2017 used for the calculation of basic and diluted earnings per share was extracted from the Prospectus without taking into consideration the profit attributable to owners of SDGM as if the acquisition of the SDG Capital Management Group was completed on 1 January 2017.

Save as disclosed above, there was no item of any income or expense which was material in respect of the consolidated financial results of the SDGM Group for each of the three years ended 31 December 2019 and the six months ended 30 June 2020.

2. CONSOLIDATED FINANCIAL STATEMENTS

SDGM is required to set out or refer to in this Scheme Document the consolidated statement of financial position, consolidated statement of cash flows and any other primary statement as shown in (i) the audited consolidated financial statements of the SDGM Group for the year ended 31 December 2017 (the “**SDGM 2017 Financial Statements**”), (ii) the audited consolidated financial statements of the SDGM Group for the year ended 31 December 2018 (the “**SDGM 2018 Financial Statements**”), (iii) the audited consolidated financial statements of the SDGM Group for the year ended 31 December 2019 (the “**SDGM 2019 Financial Statements**”), (iv) the unaudited consolidated interim financial statements of the SDGM Group for the six months ended 30 June 2020 (the “**SDGM 2020 Interim Financial Statements**”) and (v) the unaudited consolidated management accounts of the SDGM Group for the nine months ended 30 September 2020 (the “**SDGM 2020 Third Quarter Financial Statements**”), together with the notes to the relevant published accounts which are of major relevance to the appreciation of the above financial information.

The SDGM 2017 Financial Statements are set out on pages I-5 to I-173 in the accountant’s report set out in appendix I to the prospectus of SDGM for the year ended 31 December 2017 (the “**SDGM Prospectus**”), which was published on 14 September 2018. The SDGM Prospectus was posted on the respective websites of the Stock Exchange (<http://www.hkexnews.hk>) and SDGM (<http://en.sdhjgf.com.cn/>), and is accessible via the following hyperlinks:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0914/ltn201809149999.pdf>
<http://en.sdhjgf.com.cn/upload/file/2018/09/14/1ab534600942417fac1389990106ad18.pdf>

The SDGM 2018 Financial Statements are set out on pages 126 to 233 in the annual report of SDGM for the year ended 31 December 2018 (the “**SDGM 2018 Annual Report**”), which was published on 25 April 2019. The SDGM 2018 Annual Report was posted on the respective websites of the Stock Exchange (<http://www.hkexnews.hk>) and SDGM (<http://en.sdhjgf.com.cn/>), and is accessible via the following hyperlinks:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0425/ltn201904251289.pdf>
<http://en.sdhjgf.com.cn/upload/file/2019/04/28/ba82819612f9465a823259ee2bef4527.pdf>

The SDGM 2019 Financial Statements are set out on pages 134 to 267 in the annual report of SDGM for the year ended 31 December 2019 (the “**SDGM 2019 Annual Report**”), which was published on 26 May 2020. The SDGM 2019 Annual Report was posted on the respective websites of the Stock Exchange (<http://www.hkexnews.hk>) and SDGM (<http://en.sdhjgf.com.cn/>), and is accessible via the following hyperlinks:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0526/2020052600388.pdf>
<http://en.sdhjgf.com.cn/upload/file/2020/05/27/8d5ae1fe62124006982188af661e0e55.pdf>

The SDGM 2020 Interim Financial Statements are set out on pages 32 to 67 in the interim report of SDGM for the six months ended 30 June 2020 (the “**SDGM 2020 Interim Report**”), which was published on 17 September 2020. The SDGM 2020 Interim Report was posted on the respective websites of the Stock Exchange (<http://www.hkexnews.hk>) and SDGM (<http://en.sdhjgf.com.cn/>), and is accessible via the following hyperlinks:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0917/2020091700667.pdf>
<http://en.sdhjgf.com.cn/upload/file/2020/09/21/4b0eac35d34e49e0bb117dee478cf946.pdf>

The SDGM 2020 Third Quarter Financial Statements are set out on pages 28 to 45 in the third quarterly report of SDGM for the nine months ended 30 September 2020 (the “**SDGM 2020 Third Quarterly Report**”), which was published on 28 October 2020. The SDGM 2020 Third Quarterly Report was posted on the respective websites of the Stock Exchange (<http://www.hkexnews.hk>) and SDGM (<http://en.sdhjgf.com.cn/>), and is accessible via the following hyperlinks:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/1028/2020102801349.pdf>
<http://en.sdhjgf.com.cn/upload/file/2020/10/29/e0dd21f6baeb4db1909a717e88dbc520.pdf>

The SDGM 2017 Financial Statements, the SDGM 2018 Financial Statements, the SDGM 2019 Financial Statements, the SDGM 2020 Interim Financial Statements and the SDGM 2020 Third Quarter Financial Statements (but not any other part of the SDGM Prospectus, the SDGM 2018 Annual Report, the SDGM 2019 Annual Report, the SDGM 2020 Interim Report and the SDGM 2020 Third Quarterly Report) are incorporated by reference into this Scheme Document and form part of this Scheme Document.

3. INDEBTEDNESS

At the close of business on 30 September 2020, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this Scheme Document, the SDGM Group had the following indebtedness:

(i) Borrowings

The total carrying amount of the borrowings outstanding as at 30 September 2020 was as follows:

	<i>RMB'000</i>
— Bank borrowings, guaranteed	4,495,196
— Bank borrowings, unsecured	6,233,605
— Corporate bonds, unsecured	3,035,563
— Borrowings from related party, unsecured	<u>335,073</u>
	<u><u>14,099,437</u></u>

(ii) Financial liabilities at fair value through profit or loss

At the close of business on 30 September 2020, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this Scheme Document, the SDGM Group had entered gold leasing contracts for short-term financing. The carrying amount of the gold leasing contracts outstanding was approximately RMB11,623,908,000.

(iii) Lease liabilities

At the close of business on 30 September 2020, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this Scheme Document, the carrying amount of the lease liabilities of the SDGM Group was approximately RMB96,991,000.

Contingent liabilities

At the close of business on 30 September 2020, the Veladero Mine held by Minera Andina del Sol. SRL experienced several environmental incidents as set out below:

- (a) Release of cyanide-bearing process solution incident in 2015 — the failure of a valve on a leach pad pipeline at the Veladero Mine resulted in the release of cyanide-bearing process solution into a nearby waterway through a diversion channel gate that was open at the time of the incident;
- (b) Release of crushed-ore saturated with process solution incident in 2016 — ice rolled down the slope of the leach pad damaged a pipe carrying process solution, and caused some material to leave the leach pad; and

- (c) Release of gold-bearing process solution incident in 2017 — the monitoring system at the Veladero Mine detected a rupture of a pipe carrying gold-bearing process solution on the leach pad.

As at 30 September, Minera Andina del Sol. SRL was involved in several ongoing administrative and civil proceedings with respect to the abovementioned environmental incidents.

In assessing loss contingencies, the SDGM Board have evaluated the legal proceedings and determined that no amounts should be made for any potential liabilities or asset impairment relating to the aforesaid legal proceedings as an amount cannot be reasonably estimated.

The SDGM Group has evaluated the legal proceedings with the assistance from its external legal counsel and no provision has been made for any potential liabilities or asset impairment relating to the aforesaid legal proceedings.

Except as disclosed above and apart from intra-group liabilities, the SDGM Group did not have, as at 30 September 2020, any other debt securities issued and outstanding, and authorised or otherwise created but unissued, other borrowings and indebtedness, bank overdrafts, liabilities under acceptance, acceptance credits, hire purchases commitments, other lease commitments, mortgages, charges, guarantees or other material contingent liabilities.

4. MATERIAL CHANGES

Save as disclosed below and except for the Proposal, the SDGM Board confirmed that there was no material change in the financial or trading position or outlook of the SDGM Group since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the SDGM Group were made up, up to and including the Latest Practicable Date:

- (i) as disclosed in the SDGM 2020 Interim Report, trade and other receivables of SDGM increased significantly by RMB615.0 million to RMB2,531.8 million as at 30 June 2020 from RMB1,916.8 million as at 31 December 2019, which was mainly due to the increase in prepayments for externally procured gold of subsidiaries;
- (ii) as disclosed in the SDGM 2020 Interim Report, borrowings under current liabilities of SDGM increased significantly by RMB2,829.1 million to RMB8,793.3 million as at 30 June 2020 from RMB 5,964.3 million as at 31 December 2019, which was mainly due to the additional short-term borrowing facilities of the SDGM Group;
- (iii) as disclosed in the SDGM 2020 Interim Report, selling and commission expenses of SDGM for the six months ended 30 June 2020 decreased significantly by RMB64.3 million from RMB110.8 million for the same period in 2019, which is mainly due to the decrease in selling and commission expenses of the subsidiary's futures business;

- (iv) as disclosed in the SDGM 2020 Interim Report, gross profit of SDGM for the six months ended 30 June 2020 increased significantly by RMB855.3 million from RMB2,292.4 million for the same period in 2019; profit before tax for the six months ended 30 June 2020 increased significantly by RMB787.5 million from RMB859.5 million for the same period in 2019; profit for the period for six months ended 30 June 2020 increased significantly by RMB640.4 million from RMB628.2 million for the same period in 2019. The increase in gross profit, profit before tax and profit for the period were mainly due to the increase in gross profit of self-produced gold;
- (v) as disclosed in the SDGM 2020 Interim Report, income tax expenses of SDGM for the six months ended 30 June 2020 increased by RMB147.1 million from RMB231.3 million for the same period in 2019, mainly due to the increase in profit;
- (vi) as disclosed in the SDGM 2020 Interim Report, net cash from financing activities of SDGM for the six months ended 30 June 2020 decreased significantly by RMB760.5 million from RMB1,629.5 million for the same period in 2019, which is mainly due to the increase in cash paid by subsidiaries for debt repayment;
- (vii) as disclosed in 2020 Third Quarterly Report of the SDGM Group, based on the financial report for the nine months ended 30 September 2020 prepared pursuant to China Accounting Standards for Business Enterprises, profit attributable to the shareholders of SDGM for the nine months ended 30 September 2020 increased by 94.62% as compared with that for the same period of the nine months ended 30 September 2019, which was mainly attributable to factors including significant increase in the global price of gold since 2020 due to global economic downturn and global quantitative easing and risk aversion. SDGM seized the opportunities of the increase in gold prices and made sales of gold at appropriate time. During the nine months ended 30 September 2020, the gross profit from the sales of the self-produced gold increased significantly and achieved a year-on-year growth in profit; and
- (viii) as disclosed in the SDGM 2020 Third Quarterly Report, the 41st meeting of the fifth session of the Board held on 18 September 2020 and the 2020 fourth extraordinary general meeting held on 13 October 2020 considered and approved the resolution on SDGM's Proposed Issuance of Renewable Corporate Bonds (《關於公司本次發行可續期公司債券方案的議案》) in an aggregate amount of not more than RMB4 billion. The offering circular for the renewable corporated bonds was issued on 19 October 2020, where China International Capital Corporation Limited, which is the holding company of CICC, was the lead underwriter and the bookrunner.

5. FINANCIAL AND TRADING PROSPECTS OF THE SDGM GROUP

Since the beginning of 2020, the COVID-19 pandemic has been spreading across the world. The pandemic caused a serious economic recession across the world in the first half of 2020. Central banks and governments of major economies around the world roll out large-scale monetary and fiscal stimulation policies one after another to ease the pressure of economic slowdown. On the one hand, abundant liquidity has been injected into the financial market; on

the other hand, large-scale financial assistance has been offered to residents and enterprises. Extremely loose policies and measures and the risk aversion demand in the market have boosted the gold price to grow continuously since the beginning of 2020. International gold price has shown an overall upward trend in the first half of 2020. The average gold price in the first half of 2020 is higher than that in the first half of 2019. After entering into the month of August, under the combined effect of the rebound of the pandemic in the U.S., the rising expectations for global monetary easing, and the escalation of tensions between China and the United States, international gold price continued to rise and hit a new record high. Looking forward to the second half of 2020, as there are concerns from the market that the second wave of the COVID-19 pandemic may trigger a new round of risks and uncertainties including China-U.S. relations and the U.S. president election hums along, the international gold price is expected to present a continuous growth with fluctuations, and its volatility and uncertainty will also rise to a significantly higher level.

SDGM will adhere to the fundamental principle of “pursuing progress while ensuring stability” and follow the five business plans of “strengthening operation management, enhancing development standards, promoting technological innovation, accelerating the promotion of world-class mine construction and building a first-class corporate brand image”. At the same time, SDGM is committed to achieving its annual goals and missions by enhancing development quality and efficiency as well as core competitiveness.

In terms of strengthening operation management, firstly, it will place emphasis on strengthening of production management. SDGM will continue to enhance production organisation, optimise production layout and exercise strict technical index management in order to improve the quality and efficiency of operation and achieve quality development. Secondly, SDGM will accelerate the construction of key projects. SDGM will accelerate key projects and the progress of production connection project, and deeply explore potentials to ensure stable improvement in its production capacity. Thirdly, it will conduct good operation management. SDGM will further refine the appraisal of index including cash flow, net profit, asset-liability ratio and revenue margin.

To raise the level of development, firstly, SDGM will thoroughly streamline and analyse its production process and management aspect, comprehensively promote technological and management cost reduction, and effectively control the level of cost. Secondly, it will further strengthen technology management, improve technical index, tap internal potential, broaden development space, seek benefits from technology and management, and follow the path of high-quality development. Thirdly, it will comprehensively improve its ability to reserve resources, and adhere to resource acquisition as a breakthrough in strategic implementation. It will actively select high-quality projects in markets along the “One Belt and One Road” initiative and various resource-rich areas around the world, and adopt a combination of overall acquisition, equity cooperation and other methods to achieve new breakthroughs in its acquisitions.

In order to drive the technological innovation, SDGM targets to reinforce its all-round cooperation with leading enterprises in the same industry and science research institutions. Aiming at strategic, basic and cutting-edge mining fields, it will condense major technological issues and coordinate overall technical break-through projects with a target of creating great

scientific research results and jointly building a national research platform. It will focus on the innovation of key and core technologies in industries such as mining, beneficiation and filling, and actively promote the transformation of research results. It will accelerate the research on comprehensive utilisation projects of tailings and focus on creating green mines.

In an effort to promote world-class mines construction, SDGM will accelerate the promotion progress of projects such as smart site selection and the upgrading and reconstruction of ecological restoration demonstration areas. SDGM strives to improve the automated mining to ensure the successful completion of construction goals. It targets to form a set of replicable and promotable world-class mine construction standards and experience, and become a world-class leader.

To build a first-class corporate brand, SDGM will adhere to the goal of safety and environmental protection, improve the risk classification control system and continue to enhance its safety level. It will also put its green development philosophy into practice, and proactively promote construction of green mines. It will ensure that all of its mines in production will be included in the national or provincial green mine list and all of its smelting companies will be included in the national or provincial green factory list at the end of this year.

Upon completion of the Proposal: (i) in terms of assets, SDGM's gold reserves and assets will further increase; (ii) in terms of liabilities, the entire issued share capital of HXG will be owned by SDGM or its wholly-owned subsidiary (as the case may be) in consideration of issuance of new SDGM H Shares, and therefore the Proposal would not be reasonably expected to have a significant impact on SDGM's liabilities; (iii) in terms of profits, through enhancing gold production ability and sharing advanced technology, the recovery rate and gold production may be increased and the operation cost may be reduced; and (iv) in terms of business, the Proposal will allow SDGM to gain access to its first gold mine project in Xinjiang, further expanding its domestic gold production network with potential synergies to be realised with mines in neighbouring provinces. SDGM's competitiveness in terms of its resources diversity and resources capacity are expected to be further strengthened, thereby solidifying its industry-leading position in China and enhancing its scale and industry ranking globally.

1. RESPONSIBILITY STATEMENT

This Scheme Document includes particulars given in compliance with the Takeovers Code for the purpose of providing information with regard to the SDGM Group, the Proposal and the Scheme.

The directors of SDGM jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (other than the information relating to the HXG Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Scheme Document (other than those expressed by the directors of HXG) have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document the omission of which would make any statements in this Scheme Document misleading.

2. SHARE CAPITAL

As at the Latest Practicable Date:

- (a) the registered share capital of SDGM was RMB4,313,946,766 divided into 4,313,946,766 SDGM Shares;
- (b) the issued and paid up share capital of SDGM was RMB4,313,946,766 divided into 4,313,946,766 SDGM Shares;
- (c) save for (i) the bonus issue on the basis of 4 bonus SDGM Shares for every 10 SDGM Shares that was made by SDGM to all SDGM Shareholders on 19 August 2020; and (ii) the Exempt Share Buy-back, (a) SDGM had not issued or bought back any SDGM Shares since 31 December 2019, being the end of the last financial year of SDGM, up to the Latest Practicable Date; and (b) there was no reorganisation of capital of SDGM during the two financial years preceding the commencement of the Offer Period;
- (d) all of the issued SDGM Shares ranked *pari passu* in all respects with each other, including all rights as to dividends, voting and capital; and
- (e) there were no outstanding options, convertible securities, warrants, derivatives or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) issued by SDGM that carried a right to subscribe for or which were convertible or exchangeable into SDGM Shares.

3. DISCLOSURE OF INTERESTS, DEALINGS AND OTHER ARRANGEMENTS

(i) Disclosure of interests

As at the Latest Practicable Date,

- (a) SDGM did not own or control any HXG Shares or any convertible securities, warrants, options or derivatives in respect of HXG Shares;
- (b) save as disclosed in the sections headed “8. Shareholding Structure of HXG” and “9. Shareholding Structure of SDGM” in the Explanatory Statement set out in Part VII of this Scheme Document, none of the directors of SDGM was interested (within the meaning of Part XV of the SFO) in any HXG Shares, any SDGM Shares or any convertible securities, warrants, options or derivatives in respect of HXG Shares or SDGM Shares;
- (c) save as disclosed in the sections headed “8. Shareholding Structure of HXG” and “9. Shareholding Structure of SDGM” in the Explanatory Statement set out in Part VII of this Scheme Document, and save as disclosed below, none of the SDGM Concert Parties owned or controlled any HXG Shares, any SDGM Shares or any convertible securities, warrants, options or derivatives in respect of HXG Shares or SDGM Shares;

As at the Latest Practicable Date, members of the CICC group hold, on behalf of their clients, 776,250 SDGM H Shares (except in respect of SDGM Shares held by exempt principal traders or exempt fund managers, in each case recognised by the Executive as such for the purposes of the Takeovers Code and also excluding SDGM Shares held on behalf of non-discretionary investment clients of the CICC group);

- (d) save as disclosed in the section headed “8. Shareholding Structure of HXG” and “9. Shareholding Structure of SDGM” in the Explanatory Statement set out in Part VII of this Scheme Document and save for the Irrevocable Undertaking, none of SDGM and the SDGM Concert Parties had received any irrevocable commitment to accept the offer to cancel the Scheme Shares or to vote for or against the Scheme;
- (e) none of SDGM and the SDGM Concert Parties had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with any person; and
- (f) none of SDGM and the SDGM Concert Parties had borrowed or lent (as the case may be) any HXG Shares or any SDGM Shares, or any convertible securities, warrants, options or derivatives in respect of HXG Shares or SDGM Shares.

(ii) Dealings in HXG's or SDGM's securities

During the Relevant Period:

- (a) SDGM had not dealt for value in any HXG Shares or any convertible securities, warrants, options or derivatives in respect of HXG Shares;
- (b) none of the directors of SDGM had dealt for value in any HXG Shares, any SDGM Shares, or any convertible securities, warrants, options or derivatives in respect of HXG Shares or SDGM Shares;
- (c) save as disclosed below, none of the SDGM Concert Parties had dealt for value in any HXG Shares, any SDGM Shares, or any convertible securities, warrants, options or derivatives in respect of HXG Shares or SDGM Shares; and

Set out below are the dealings for value by members of the CICC group (excluding trades conducted for and on behalf of non-discretionary investment clients of the CICC group and excluding dealings conducted by those entities in the CICC group that are exempt principal traders or exempt fund managers) during the period beginning on 30 March 2020 and ending on the Latest Practicable Date:

Date of Transaction	Class of SDGM Shares	Number of SDGM Shares involved		Price paid for each SDGM Share (HK\$)			
		Buy	Sell	Highest Buy Price	Lowest Buy Price	Highest Sell Price	Lowest Sell Price
<i>From 30 June 2020 to 29 August 2020 aggregated on a daily basis</i>							
10 July 2020	SDGM H Shares	340,000	348,250	20.2000	20.1000	20.7567	20.7074
13 July 2020	SDGM H Shares	—	444,500	—	—	20.4500	20.3500
6 August 2020	SDGM H Shares	—	271,000	—	—	24.9086	24.7500
21 August 2020	SDGM H Shares	—	380,000	—	—	21.6173	21.5266

Date of Transaction	Class of SDGM Shares	Number of SDGM Shares involved		Price paid for each SDGM Share (HK\$)	
		Buy	Sell	Buy Price	Sell Price
<i>From 30 August 2020 to the Latest Practicable Date on a non-aggregated basis</i>					
1 September 2020	SDGM H Shares	32,000	—	22.2000	—
1 September 2020	SDGM H Shares	55,750	—	22.2500	—
1 September 2020	SDGM H Shares	130,000	—	22.5000	—
1 September 2020	SDGM H Shares	70,000	—	22.5000	—
1 September 2020	SDGM H Shares	40,750	—	22.4000	—
1 September 2020	SDGM H Shares	14,250	—	22.4500	—
1 September 2020	SDGM H Shares	2,500	—	22.4500	—
1 September 2020	SDGM H Shares	36,250	—	22.5000	—
1 September 2020	SDGM H Shares	100,000	—	22.5000	—
1 September 2020	SDGM H Shares	97,500	—	22.6500	—
4 September 2020	SDGM H Shares	—	96,000	—	21.7000
4 September 2020	SDGM H Shares	—	200,000	—	21.6500
4 September 2020	SDGM H Shares	—	50,000	—	21.6000
8 September 2020	SDGM H Shares	—	200,000	—	20.5484
9 September 2020	SDGM H Shares	—	90,000	—	20.9000
9 September 2020	SDGM H Shares	—	60,000	—	20.7000
28 September 2020	SDGM H Shares	—	100,000	—	18.5600
28 September 2020	SDGM H Shares	—	100,000	—	18.6200
28 September 2020	SDGM H Shares	—	100,000	—	18.6400
28 September 2020	SDGM H Shares	—	100,000	—	18.7077
14 October 2020	SDGM H Shares	—	100,000	—	20.0000
14 October 2020	SDGM H Shares	—	100,000	—	20.0000

- (d) none of the IU Shareholders had dealt for value in any HXG Shares, any SDGM Shares or any convertible securities, warrants, options or derivatives in respect of HXG Shares or SDGM Shares.

(iii) Other arrangements in relation to the Proposal

As at the Latest Practicable Date:

- (a) no benefit was or would be given to any director of HXG as compensation for his loss of office or otherwise in connection with the Proposal;
- (b) save for the Irrevocable Undertaking, there was no agreement, arrangement or understanding (including any compensation arrangement) between SDGM or the SDGM Concert Parties (on one hand) and any directors, recent directors, shareholders or recent shareholders of HXG (on the other hand), having any connection with or was dependent upon the Proposal;
- (c) none of the directors of SDGM would be affected in terms of their emoluments by the Proposal or any other associated transaction;
- (d) save for the new SDGM H Shares to be allotted and issued to the Scheme Shareholders pursuant to the Scheme, there was no other consideration, compensation or benefits in whatever form provided or to be provided by SDGM or any of the SDGM Concert Parties to the Scheme Shareholders or any party acting in concert with any of them in relation to the Scheme Shares;
- (e) there was no understanding, arrangement or agreement which constitutes a special deal (under Rule 25 of the Takeovers Code) between (1) any HXG Shareholder (on one hand); and (2) SDGM or any of the SDGM Concert Parties (on the other hand);
- (f) save for the Conditions, there was no agreement or arrangement to which SDGM is a party which relate to circumstances in which it may or may not invoke or seek to invoke a condition to the Proposal;
- (g) save for the Irrevocable Undertaking, there was no arrangement (whether by way of option, indemnity or otherwise) in relation to the HXG Shares or the SDGM Shares between SDGM or any of the SDGM Concert Parties (on one hand) and any other person (on the other hand) which might be material to the Proposal; and
- (h) there was no agreement, arrangement or understanding pursuant to which the new HXG Shares to be issued to SDGM or (as SDGM may direct) its wholly owned subsidiary immediately after the cancellation and extinguishment of the Scheme Shares upon the Scheme becoming effective would be transferred, charged or pledged to any other persons.

4. MARKET PRICES

The table below shows the closing prices per SDGM H Share on the Stock Exchange on (i) the Latest Practicable Date; (ii) the SDGM Last Trading Day; and (iii) the last trading day of each of the calendar months during the Relevant Period.

Date	Closing price per SDGM H Share (HK\$)
31 March 2020	13.30
29 April 2020	16.46
29 May 2020	16.36
30 June 2020	16.46
31 July 2020	24.25
31 August 2020	21.80
SDGM Last Trading Day (i.e. 29 September 2020)	19.08
30 October 2020	18.22
30 November 2020	17.52
Latest Practicable Date (i.e. 18 December 2020)	18.24

During the Relevant Period, the highest closing price of the SDGM H Shares as quoted on the Stock Exchange was HK\$25.25 per SDGM H Share on 6 August 2020, and the lowest closing price of the SDGM H Shares as quoted on the Stock Exchange was HK\$13.06 per SDGM H Share on 2 April 2020.

5. MATERIAL LITIGATION

As at the Latest Practicable Date, to the best of the knowledge, information and belief of the directors of SDGM, no member of the SDGM Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the directors of SDGM to be pending or threatened by or against any member of the SDGM Group.

6. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the SDGM Group) had been entered into by members of the SDGM Group within the two years before the commencement of the Offer Period up to and including the Latest Practicable Date that were or might be material:

- (i) the sale and purchase agreement dated 21 June 2019 entered into between Shandong Gold Group, the controlling shareholder of SDGM, as the seller, and SDGM, as the purchaser, in relation to the acquisition of the entire equity interest in SD Gold Capital Management Co., Ltd. (山金金控資本管理有限公司), the wholly-owned subsidiary of Shandong Gold Group, at a consideration of RMB2,272,319,100; and
- (ii) the arrangement agreement dated 8 May 2020 entered into between SDGM, Shandong Gold Mining (HongKong) Co., Limited (山東黃金礦業(香港)有限公司) (“SDGHK”), a wholly-owned subsidiary of SDGM, and TMAC Resources Inc. (“TMAC”) in relation to the acquisition arrangement to acquire all the common shares of TMAC in issue and any new common shares of TMAC that may be issued from exercising the equity instruments (including restricted stock units, director share units and restricted share rights, at a consideration of approximately US\$148 million);
- (iii) the subscription arrangement dated 8 May 2020 entered into between SDGHK and TMAC in relation to the subscription and allotment of all the common shares of TMAC at US\$15.0 million; and
- (iv) the bid implementation agreement dated 18 June 2020 entered into between SDGHK, SDGM and Cardinal Resources Limited (“Cardinal”) in relation to, among other things, (i) the acquisition of all ordinary shares in the share capital of Cardinal (“Cardinal Shares”, each a “Cardinal Share”) at the price of AUD0.60 per Cardinal Share and options to subscribe for Cardinal Shares; and (ii) the subscription of 26 million Cardinal Shares at the price of AUD0.46 per Cardinal Share.

7. MISCELLANEOUS

- (i) SDGM was incorporated in the PRC with limited liability on 31 January 2000.
- (ii) The registered office of SDGM is situated at Building No. 3, Shuntai Plaza, Shunhua Road No. 2000, Jinan, Shandong Province, PRC.
- (iii) The principal place of business of SDGM in Hong Kong is situated at Rooms 4003–06, China Resources Building, No. 26 Harbour Road, Hong Kong.
- (iv) The SDGM Board comprises Mr. Wang Peiyue, Mr. Li Tao and Mr. Tang Qi as executive directors; Mr. Li Guohong, Mr. Wang Lijun and Ms. Wang Xiaoling as non-executive directors; and Mr. Gao Yongtao, Mr. Lu Bin and Ms. Hui Wing as independent non-executive directors.

- (v) The joint company secretaries of SDGM are Mr. Tang Qi and Ms. Ng Sau Mei, who is a fellow of The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) and a fellow of The Hong Kong Institute of Chartered Secretaries.
- (vi) The H share registrar of SDGM is Tricor Investor Services Limited, situated at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (vii) The ultimate controlling shareholder of SDGM is Shandong SASAC, which is controlled by the Shandong Provincial People's Government of the PRC.
- (viii) SDGM has appointed CICC as its financial adviser in connection with the Proposal and the Scheme. The main business address of CICC is at 29/F One International Finance Centre, 1 Harbour View Street, Central, Hong Kong.
- (ix) The principal members of SDGM's concert group are Shandong Gold Group and Shandong SASAC.
- (x) The registered office of Shandong Gold Group is Building No.3, Shuntai Plaza, Shunhua Road No. 2000, Jinan, Shandong Province, the PRC.
- (xi) The correspondence address of Shandong SASAC is Block C, Huangjin Shidai Plaza, Jingshi Road No. 9999, Jinan, Shandong Province, the PRC.
- (xii) The directors of Shandong Gold Group are Mr. Chen Yumin, Ms. Duan Huijie, Mr. Xu Jianzhong, Mr. Liu Shengjun, Mr. Men Honghua and Mr. Wang Lijun.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) at the principal place of business of HXG in Hong Kong at Suite 3203, Central Plaza, 18 Harbor Road, Wanchai, Hong Kong during normal business hours from 9:30 a.m. to 5:30 p.m. (except Saturdays, Sundays and public holidays), (ii) on the website of HXG at <http://www.hxgoldholding.com>, (iii) on the website of SDGM at <http://en.sdhjgf.com.cn/>, and (iv) on the website of the SFC at www.sfc.hk during the period from the date of this Scheme Document until the earlier of (a) the Scheme Effective Date and (b) the date on which the Scheme lapses or is withdrawn:

- (i) the memorandum and articles of association of HXG;
- (ii) the articles of association of SDGM;
- (iii) the annual reports of HXG for the years ended 31 December 2017, 2018 and 2019 and the interim report of HXG for the six months ended 30 June 2020;
- (iv) the accountant's report of SDGM for the year ended 31 December 2017, the annual reports of SDGM for the years ended 31 December 2018 and 2019 and the third quarterly report of SDGM for the nine months ended 30 September 2020;
- (v) the letter from the HXG Board, the text of which is set out in Part IV of this Scheme Document;
- (vi) the letter from the HXG Independent Board Committee, the text of which is set out in Part V of this Scheme Document;
- (vii) the letter from the HXG Independent Financial Adviser, the text of which is set out in Part VI of this Scheme Document;
- (viii) the Irrevocable Undertaking;
- (ix) the material contracts referred to in the paragraph headed "6. Material Contracts" in Appendix II to this Scheme Document;
- (x) the material contracts referred to in the paragraph headed "6. Material Contracts" in Appendix IV to this Scheme Document;
- (xi) the service contracts referred to in the paragraph headed "7. Service Contracts" in Appendix II to this Scheme Document;
- (xii) the written consent referred to in the paragraph headed "8. Consent and qualifications of expert" in Appendix II to this Scheme Document;
- (xiii) a full list of aggregated dealings in SDGM Shares by the relevant members of the CICC Group referred to in paragraph (3)(ii)(c) of Appendix IV to this Scheme Document; and
- (xiv) this Scheme Document.

IN THE GRAND COURT OF THE CAYMAN ISLANDS CAUSE NO: FSD 296 OF 2020

IN THE MATTER OF

HENGXING GOLD HOLDING COMPANY LIMITED AND

IN THE MATTER OF

SECTION 86 OF THE COMPANIES LAW (2020 REVISION) OF
THE CAYMAN ISLANDS

SCHEME OF ARRANGEMENT

between

HENGXING GOLD HOLDING COMPANY LIMITED

and

THE SCHEME SHAREHOLDERS
(as hereinafter defined)

PRELIMINARY

- i. In this Scheme of Arrangement, unless inconsistent with the subject or context, the following expressions shall have the meanings respectively set out opposite them:

“acting in concert”	has the meaning ascribed to it in the Takeovers Code and “concert parties” shall be construed accordingly
“associates”	has the meaning ascribed to it under the Takeovers Code
“Business Day(s)”	a day (other than a Saturday, Sunday or public holiday) on which the Stock Exchange is open for the transaction of business
“CICC”	China International Capital Corporation Hong Kong Securities Limited, a company incorporated in Hong Kong with limited liability and licensed under the SFO to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 6 (advising on corporate finance) regulated activities, and the financial adviser to SDGM in respect of the Proposal and the Scheme

“Companies Law”	the Companies Law (2020 Revision) of the Cayman Islands, as consolidated and revised from time to time
“Company”	Hengxing Gold Holding Company Limited (恒興黃金控股有限公司), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 2303)
“Court”	the Grand Court of the Cayman Islands
“Court Meeting”	a meeting of HXG Shareholders to be convened at the direction of the Court at which the Scheme (with or without modification) will be voted upon, or any adjournment thereof
“Disinterested Shareholders”	all the HXG Shareholders, other than SDGM and the SDGM Concert Parties (except in respect of the holding of the Shares by the CICC group in the capacity of an exempt principal trader or exempt fund manager in each case recognised by the Executive as such for the purposes of the Takeovers Code and excluding the Shares held by the CICC group for and on behalf of its non-discretionary investment clients)
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any of his/her delegates
“exempt fund manager”	has the meaning ascribed to it in the Takeovers Code
“exempt principal trader”	has the meaning ascribed to it in the Takeovers Code
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Latest Practicable Date”	18 December 2020, being the latest practicable date for the purpose of ascertaining certain information for inclusion in the Scheme Document
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“Proposal”	the proposal to take private of the Company by SDGM by way of the Scheme involving the cancellation and the extinguishment of the Scheme Shares, the restoration of the share capital of the Company to the amount immediately before the cancellation of the Scheme Shares by means of the issuance of new Shares to SDGM or its wholly owned subsidiary (as the case may be), and the withdrawal of listing of the Shares on the Stock Exchange, on terms and subject to the conditions set out in the Scheme Document
“Register”	the principal or branch register of members of the Company (as the case may be)
“RMB”	Renminbi, the lawful currency of the People’s Republic of China
“Scheme”	the scheme of arrangement under section 86 of the Companies Law involving, amongst others, the cancellation of all the Scheme Shares and the restoration of the issued share capital of the Company to the amount immediately before the cancellation of the Scheme Shares by the issuance of new Shares to SDGM or its wholly owned subsidiary (as the case may be)
“Scheme Document”	the composite scheme document dated 22 December 2020 issued jointly by SDGM and the Company, including each of the letters, statements, appendices and notices in it
“Scheme Effective Date”	the date on which the Scheme, if approved and sanctioned by the Court, becomes effective in accordance with its terms and the Companies Law, being the date on which a copy of the order of the Court sanctioning the Scheme is delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to Section 86(3) of the Companies Law, and which is expected to be Thursday, 28 January 2021 (Cayman Islands time)
“Scheme Long Stop Date”	30 June 2021 or such later date as SDGM and the Company may agree, or to the extent applicable, as the Court may direct and, in all cases, as permitted by the Executive
“Scheme Record Date”	Thursday, 28 January 2021 (Hong Kong time), or such other date as shall have been announced by the Company, being the record date for the purpose of determining the entitlements of HXG Shareholders under the Scheme

“Scheme Share(s)”	the Shares in issue as at the Scheme Record Date other than those held by SDGM and SDGM Concert Parties
“Scheme Shareholder(s)”	holder(s) of the Scheme Share(s) as at the Scheme Record Date
“SDGM”	Shandong Gold Mining Co., Ltd. (山東黃金礦業股份有限公司), a joint stock company incorporated under the laws of the People’s Republic of China with limited liability on 31 January 2000, the H shares and A shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1787) and the Shanghai Stock Exchange (Stock Code: 600547) respectively, being the offeror under the Proposal
“SDGM A Shares”	domestic shares in the share capital of SDGM, with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange and traded in RMB
“SDGM Concert Party(ies)”	any party(ies) acting in concert, or presumed to be acting in concert with SDGM under the definition of “acting in concert” under the Takeovers Code (except in the capacity of an exempt principal trader or exempt fund manager in each case recognised by the Executive as such for the purpose of the Takeovers Code and excluding the Shares held by the CICC group on behalf of non-discretionary investment clients)
“SDGM H Shares”	overseas listed foreign shares in the share capital of SDGM, with a nominal value of RMB1.00 each, which are subscribed for and traded in HK\$ and which are listed on the Main Board of the Stock Exchange
“SFC”	the Securities and Futures Commission of Hong Kong
“Share Exchange Ratio”	the exchange ratio of 5/29 new SDGM H Share for every Scheme Share cancelled under the Scheme
“Shareholders”	registered holders of the Shares
“Shares”	ordinary shares with par value of HK\$0.01 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“%”	per cent

- ii. The Company was incorporated as an exempted company on 10 April 2012 in the Cayman Islands under the Companies Law.
- iii. The authorised share capital of the Company as at the Latest Practicable Date was HK\$20,000,000 divided into 2,000,000,000 Shares of which 925,000,000 Shares were issued and fully paid, with the remainder being unissued.
- iv. SDGM was incorporated in the People’s Republic of China with limited liability on 31 January 2000 under the laws of the People’s Republic of China.
- v. The issued share capital of SDGM as at the Latest Practicable Date comprised 699,503,419 SDGM H Shares and 3,614,443,347 SDGM A Shares.
- vi. SDGM has proposed to take private of the Company by way of the Scheme.
- vii. The primary purpose of the Scheme is that all of the Scheme Shares should be cancelled and extinguished, and the share capital of the Company shall thereafter be restored to the amount immediately before the cancellation and extinguishment of the Scheme Shares by means of the issuance of new Shares to SDGM or its wholly-owned subsidiary (as the case may be). Following the Scheme becoming effective, the Company should become wholly owned by SDGM or its wholly owned subsidiary.
- viii. In consideration for the cancellation and extinguishment of the Scheme Shares, new SDGM H Shares will be allotted and issued to the Scheme Shareholders on the Scheme Effective Date on the basis of 5/29 SDGM H Share for each Scheme Share held by them as at the Scheme Record Date.
- ix. As at the Latest Practicable Date, neither SDGM nor any SDGM Concert Parties legally and/or beneficially own any Share.
- x. As at the Latest Practicable Date, the Disinterested Shareholders held in aggregate 925,000,000 Scheme Shares and 10% of the votes attached to all Scheme Shares held by the Disinterested Shareholders was approximately 92,500,000 Scheme Shares.
- xi. All Disinterested Shareholders will be entitled to attend and vote at the Court Meeting, and their votes will be taken into account for the purpose of determining whether the requirements under Section 86 of the Companies Law are satisfied.
- xii. SDGM has undertaken to the Court to be bound by the Scheme, and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed or done by it for the purpose of giving effect to this Scheme.

THE SCHEME PART I**Cancellation of the Scheme Shares**

1. On the Scheme Effective Date:
 - (a) the issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares, and the Scheme Shareholders shall cease to have any rights with respect to the Scheme Shares except the right to receive 5/29 SDGM H Share for each Scheme Share held by them immediately prior to cancellation and extinguishment thereof;
 - (b) subject to and forthwith upon such reduction of capital taking effect, the share capital of the Company will be increased to its former amount by issuing such number of new Shares as is equal to the number of Scheme Shares cancelled under the Scheme; and
 - (c) the Company shall apply the credit arising in its books of account as a result of the capital reduction referred to in paragraph 1(a) above in paying up in full at par the new Shares to be issued to SDGM or its wholly owned subsidiary (as the case may be), credited as fully paid.

PART II**Consideration for the cancellation and extinguishment of the Scheme Shares**

2. In consideration of the cancellation and extinguishment of the Scheme Shares, SDGM shall allot and issue new SDGM H Shares, credited as fully paid, to the Scheme Shareholders whose names appear in the register of members of the Company as at the Scheme Record Date, subject to paragraph 3 of this Scheme, on the basis of 5/29 SDGM H Share for every one Scheme Share cancelled as set out above.

PART III**General**

3. (a) If the number of SDGM H Shares to be obtained by a Scheme Shareholder according to the Share Exchange Ratio will not result in a whole number, the Scheme Shareholder(s) concerned will be ranked according to the fractional value after the decimal point from highest to lowest, and one additional SDGM H Share will be given to each such Scheme Shareholder in such order until the aggregate number of SDGM H Shares actually exchanged is equal to the total number of SDGM H Shares proposed to be issued, i.e. 159,482,759 SDGM H Shares. If the number of Scheme Shareholders with the same fractional value after the decimal point is more than the number of remaining SDGM H Shares to be issued, SDGM H Shares will be allocated randomly by a computerised system until the aggregate number of SDGM H Shares actually exchanged is equal to the total number of SDGM H Shares proposed to be issued.

- (b) As soon as possible and in any event not later than seven (7) Business Days after the Scheme Effective Date, SDGM shall (i) allot and issue the new SDGM H Shares and (ii) send or cause to be sent to the holders of the Scheme Shares the certificates representing the appropriate number of new SDGM H Shares, in registered form, allotted and issued to the persons entitled thereto pursuant to paragraphs 2 and 3(a) above. Assuming the Scheme becomes effective on Thursday, 28 January 2021, the share certificates for the new SDGM H Shares are expected to be despatched to the holders of the Scheme Shares on or before Thursday, 4 February 2021.
 - (c) In respect of the new SDGM H Shares which the holders of the Scheme Shares on the Scheme Effective Date are entitled to receive as consideration for cancellation of their Scheme Shares under this Scheme, each holder of Scheme Shares on the Scheme Effective Date will be sent one share certificate representing all SDGM H Shares issued, except for HKSCC Nominees Limited which may request for share certificates to be issued in such denominations as it may specify.
 - (d) Share certificates for the new SDGM H Shares to be allotted and issued to the Scheme Shareholders under the Scheme will be despatched by ordinary post at the risk of the recipients to their registered addresses shown in the register of members of HXG as at the Scheme Record Date as soon as possible and in any event within seven (7) Business Days (as defined in the Takeovers Code) after the Scheme Effective Date. All such share certificates will be sent at the risk of the person(s) entitled thereto and none of the Company, SDGM, their respective advisers and share registrars, and any of their respective directors, employees, officers, agents or associates or any other persons involved in the Proposal will be responsible for any loss or delay in despatch.
 - (e) Upon cancellation of the Scheme Shares, the Register shall be updated to reflect such cancellation.
- 4. Each instrument of transfer and certificate existing as at the Scheme Record Date in respect of a holding of any number of Scheme Shares shall on the Scheme Effective Date cease to be valid for any purpose as an instrument of transfer or a certificate for such Scheme Shares and every holder of such certificate shall be bound at the request of SDGM to deliver up the same to SDGM for the cancellation thereof.
 - 5. All mandates or relevant instructions to the Company in force at the Scheme Record Date relating to any of the Scheme Shares shall cease to be valid as effective mandates or instructions on the Scheme Effective Date.
 - 6. This Scheme shall become effective as soon as a copy of the order of the Court sanctioning this Scheme under Section 86 of the Companies Law has been delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to Section 86(3) of the Companies Law.

7. Unless this Scheme shall have become effective on or before the Scheme Long Stop Date, this Scheme shall lapse.
8. The Company and SDGM may consent jointly for and on behalf of all concerned to any modification of or addition to this Scheme or to any condition that the Court may think fit to approve or impose.
9. All costs, charges and expenses of the advisers and counsels appointed by the Company will be borne by the Company, all costs, charges and expenses of the advisers and counsels appointed by SDGM will be borne by SDGM, and all other costs, charges and expenses of this Scheme will be shared between the Company and SDGM equally.

22 December 2020

**IN THE GRAND COURT OF THE CAYMAN ISLANDS FINANCIAL SERVICES
DIVISION**

Cause No. FSD 296 of 2020

IN THE MATTER of sections 15 and 86 of the Companies Law (2020 Revision)

AND IN THE MATTER of Order 102 of the Grand Court Rules 1995

AND IN THE MATTER of Hengxing Gold Holding Company Limited 恒興黃金控股有限公司

NOTICE OF COURT MEETING

NOTICE IS HEREBY GIVEN that, by an order dated 17 December 2020 (the “**Order**”) made in the above matter, the Grand Court of the Cayman Islands (the “**Court**”) has directed a meeting (the “**Court Meeting**”) to be convened of the Disinterested Shareholders for the purpose of considering and, if thought fit, approving, with or without modifications, a scheme of arrangement (the “**Scheme**”) proposed to be made between Hengxing Gold Holding Company Limited 恒興黃金控股有限公司 (the “**Company**”) and the Scheme Shareholders and that the Court Meeting will be held at 35/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Wednesday, 13 January 2021 at 10:00 a.m. (Hong Kong time)* at which place and time all Disinterested Shareholders whose names appear on the register of members of HXG on the Meeting Record Date are requested to attend. A copy of the Scheme and a copy of an explanatory statement explaining the effect of the Scheme are incorporated in the composite scheme document of which this Notice forms part (the “**Scheme Document**”). Capitalised terms used in this Notice shall have meanings given to them in the Scheme Document unless otherwise defined herein.

A copy of the Scheme Document and of the pink form of proxy referred to below can also be obtained by HXG Shareholders from the Hong Kong branch share registrar of the Company, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, at the registered office of the Company at c/o Ocorian Trust (Cayman) Limited, Windward 3, Regatta Office Park, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands, or at the office of the Company’s attorneys, Travers Thorp Alberga, at 1205A The Centrium, 60 Wyndham Street, Central, Hong Kong.

HXG Shareholders may vote in person at the Court Meeting or they may appoint another person (who must be an individual), whether a member of the Company or not, to attend and vote in their stead. A **pink** form of proxy for use at the Court Meeting is enclosed with the composite scheme document dated 22 December 2020 despatched to members of the Company on 22 December 2020.

In the case of joint holders of a share, any one of such persons may vote at the Court Meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto. However, if more than one of such joint holders be present at the Court Meeting

personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect of the relevant joint holding.

It is requested that forms appointing proxies be deposited at the Hong Kong branch share registrar of the Company in Hong Kong at Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 10:00 a.m. on Monday, 11 January 2021 but if forms are not so lodged they may be handed to the chairman of the Court Meeting at the Court Meeting who shall have absolute discretion as to whether or not to accept it.

By the Order, the Court has directed the chairman of the Court Meeting to report the results of the Court Meeting to the Court.

The Scheme will be subject to a subsequent application seeking the sanction of the Court.

By Order of the Court
Hengxing Gold Holding Company Limited
恒興黃金控股有限公司

Dated 22 December 2020

Registered office:

Windward 3
Regatta Office Park
P.O. Box 1350
Grand Cayman, KY1-1108
Cayman Islands

Principal place of business in Hong Kong:

Suite 3203, Central Plaza
18 Harbor Road
Wanchai
Hong Kong

- * If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above or post-super typhoon extreme conditions in force at or after 8:00 a.m. on Wednesday, 13 January 2021 and/or the Hong Kong Observatory has announced on Wednesday, 13 January 2021 at or before 8:00 a.m. that any of the above mentioned warnings is to be issued within the next two hours, the Court Meeting shall automatically be postponed to the next Business Day (as defined in the Scheme) on which no "black" rainstorm warning or tropical cyclone warning signal number 8 or above is hoisted or post-super typhoon extreme conditions are in force between the hours from 8:00 a.m. to 10:00 a.m. and in such case the Court Meeting shall be held at 10:00 a.m. on that Business Day at 35/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong. The Court Meeting will be held as scheduled even when a tropical cyclone warning signal no. 3 or below is hoisted or an amber or red rainstorm warning signal is in force. Eligible HXG Shareholders should make their own decision as to whether to attend the Court Meeting under bad weather conditions bearing in mind their own situation and, if they should choose to do so, they are advised to exercise care and caution.



Hengxing Gold Holding Company Limited
恒興黃金控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2303)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**Meeting**”) of Hengxing Gold Holding Company Limited (the “**Company**”) will be held at 35/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Wednesday, 13 January 2021 at 10:30 a.m. (Hong Kong time) (or immediately after the conclusion or the adjournment of the meeting of HXG Shareholders (as defined in the Scheme hereinafter mentioned) convened at the direction of the Grand Court of the Cayman Islands for the same day and place), for the purpose of considering, and if thought fit, passing (with or without modifications) the following special resolution:

SPECIAL RESOLUTION

“THAT AS A SPECIAL RESOLUTION:

- (a) the scheme of arrangement dated 22 December 2020 (the “**Scheme**”) between the Company and the Scheme Shareholders (as defined in the Scheme) in the form of the print thereof which has been produced to this Meeting, and for purpose of identification, signed by the chairman of this Meeting, subject to any modifications, additions or conditions as may be approved or imposed by the Grand Court of the Cayman Islands, be and is hereby approved;
- (b) for the purpose of giving effect to the Scheme, on the Scheme Effective Date (as defined in the Scheme):
 - (i) the issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares (the “**Capital Reduction**”);
 - (ii) subject to and forthwith upon the Capital Reduction taking effect, the issued share capital of the Company shall be increased to the amount prior to the Capital Reduction by issuing to Shandong Gold Mining Co., Ltd (“**SDGM**”) or, as SDGM may direct, its wholly owned subsidiary (as the case may be) such number of new ordinary shares with par value of HK\$0.01 each in the share capital of the Company (“**Shares**”) as is equal to the number of Scheme Shares cancelled as a result of the Scheme; and

- (iii) the Company shall apply the credit arising in the Company's books of accounts as a result of the Capital Reduction in paying up in full at par value the new Shares issued as aforesaid, credited as fully paid, to SDGM or, as SDGM may direct, its wholly owned subsidiary (as the case may be), and the directors of the Company be and are hereby authorised to allot and issue the same accordingly; and
- (c) each director of the Company be and is hereby authorised to do all acts and things considered by him/her to be necessary or desirable in connection with the implementation of the Scheme, including (without limitation) (i) giving consent to any modification of, or addition to, the Scheme which the Grand Court of the Cayman Islands may see fit to impose; (ii) in relation to the Capital Reduction; (iii) in relation to the allotment and issue of the new Shares as aforesaid; and (iv) applying to The Stock Exchange of Hong Kong Limited for the withdrawal of the listing of the Shares.”

By Order of the Board
Hengxing Gold Holding Company Limited
恒興黃金控股有限公司
Ke Xiping
Chairman

Dated 22 December 2020

Registered office:

Windward 3
Regatta Office Park
P.O. Box 1350
Grand Cayman, KY1-1108
Cayman Islands

Principal place of business in Hong Kong:

Suite 3203, Central Plaza
18 Harbor Road
Wanchai
Hong Kong

Notes:

1. A member of the Company entitled to attend and vote at the Meeting (or any adjournment thereof) is entitled to appoint one or, if he is the holder of two or more shares of the Company, more proxies (who must be individuals) to attend and vote instead of him. A proxy need not be a member of the Company.
2. In the case of joint holders of shares in the Company, any one of such persons may vote at the Meeting, either personally or by proxy, in respect of such share of the Company as if he/she was solely entitled thereto; if more than one of such joint registered holders be present, personally or by proxy, the vote of the most or, as the case may be, the more senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holder(s), seniority being determined by the order in which names stand in the register of members of the Company in respect of such joint holding.
3. For determining the entitlement to attend and vote at the Meeting, the register of members of the Company will be closed from Friday, 8 January 2021 to Wednesday, 13 January 2021, both days inclusive, during which period no transfer of shares of the Company will be effected. In order to be eligible to attend and vote at the Meeting, all transfers of shares of the Company, accompanied by the relevant share certificate(s), must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited of Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 7 January 2021.
4. In order to be valid, the form of proxy must be completed in writing and executed under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised, and must be deposited with the Hong Kong branch share registrar of the Company, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof) not later than 48 hours before the time fixed for holding of the Meeting (i.e. not later than 10:30 a.m. on Monday, 11 January 2021 (Hong Kong time)) or any adjournment thereof.
5. Delivery of an instrument appointing a proxy shall not preclude a shareholder of the Company from attending and voting in person at the Meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
6. A form of proxy for use at the Meeting is enclosed.
7. The special resolution as set out above will be determined by way of poll.
8. If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above or post-super typhoon extreme conditions in force at or after 8:00 a.m. on Wednesday, 13 January 2021 and/or the Hong Kong Observatory has announced on Wednesday, 13 January 2021 at or before 8:00 a.m. that any of the above mentioned warnings is to be issued within the next two hours, the Meeting shall automatically be postponed to the next Business Day (as defined in the Scheme) on which no "black" rainstorm warning or tropical cyclone warning signal number 8 or above is hoisted or post-super typhoon extreme conditions are in force between the hours from 8:00 a.m. to 10:00 a.m. and in such case the Meeting shall be held at 10:30 a.m. on that Business Day at 35/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong. The Meeting will be held as scheduled even when a tropical cyclone warning signal no. 3 or below is hoisted or an amber or red rainstorm warning signal is in force. Shareholders of the Company should make their own decision as to whether to attend the Meeting under bad weather conditions bearing in mind their own situation and, if they should choose to do so, they are advised to exercise care and caution.

As at the date of this notice, the executive directors of the Company are Mr. Ke Xiping, Mr. Chen, David Yu and Mr. Ke Jiaqi, the non-executive director of the Company is Mr. Albert Fook Lau Ho and the independent non-executive directors of the Company are Ms. Wong, Yan Ki Angel, Dr. Tim Sun and Dr. Pan Guocheng.