
FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

See section headed “Business — Business strategies” in this prospectus for a detailed description of our business strategies and future plans.

REASONS FOR THE LISTING

Our business is capital intensive and will require substantial expenditure for, among other things, the construction of our mining infrastructure, purchase of machinery and equipment and other operational capital expenditure. Our expansion plan is also capital intensive as we have planned to consolidate quality gold mine resources through mergers and acquisitions. In order to implement our strategic goal to maintain our position in the gold mining industry in the Shandong Province and meet our capital needs, our Directors consider that the separate listing of our Group on the Stock Exchange will provide us with sufficient funds because immediate implementation of these business strategies would place undue financial burden on our Group in terms of cashflow if we are to use all our cash on hand for business growth purposes. Please also refer to the section headed “History, reorganisation and corporate structure — Reasons for Listing” in this prospectus for the reasons of spin-off and separate listing of our Group from that of our Controlling Shareholder. Our Directors consider that the Listing will benefit our Group as follows:

(i) Funding our expansion plans

Based on our current estimate, our expansion plans to, among others, further construction of mining infrastructure in accordance with our mine optimisation plan, upgrade our gold reserves to increase LoM through additional exploration activities and expand our business through selective acquisitions will involve an investment of approximately RMB395.8 million. Such expansion plans as detailed in the section headed “Business — Business strategies” in this prospectus and “Use of proceeds” in this section will ramp up our operations and scale up our gold concentrate production output in a rapid and effective manner to boost our revenue growth, as well as to upgrade our gold reserves to support our sustainable growth in the longer run. Although we were able to successfully expand our business organically using internally generated funds and bank borrowings during the Track Record Period and had been able to repay bank loans as they fell due in the past, going forward, we require working capital to maintain our current capacity, fund our acquisitions and construction costs of new mining infrastructure and exploration activities, as well as extra funding to finance our business strategies for expansion. We believe that it is crucial to maintain a robust liquidity position at all times, particularly in the form of steady and strong level of cash balance, to ensure smooth business operations and be able to devote sufficient resources in the implementation of our business plans upon Listing.

(ii) Establish an efficient and sustainable fundraising platform

The Listing can provide our Group with an efficient and sustainable fund-raising platform both at the time of Listing and post-Listing to gain direct access to the capital market for equity such as the issuance of new Shares by way of a rights issue and an open offer in the secondary market post-Listing

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and/or debt financing. Our Directors consider that the Global Offering will broaden our Group's capital base and expose us to a wide range of private and institutional investors especially those from the Asia Pacific region and strengthening our financial position.

(iii) Strengthening our corporate profile, credibility and competitiveness

The Listing on the Stock Exchange in Hong Kong is an efficient and complementary means of advertising our Group which would enhance our profile and recognition in Hong Kong and the PRC and assist us in reinforcing our corporate image, which would help implement our business strategies, especially in terms of consolidate quality gold mine resources through mergers and acquisitions. Our listing status in Hong Kong would assist us in reinforcing our image and place confidence in enhancing the confidence of stakeholders in the industry including our investors, business partners and/or sellers of various acquisition targets in the PRC, who are more willing to establish business relationship with listed companies given their reputation, listing status, public financial disclosures and enhanced internal control system and corporate governance. Our Directors are of the view that the Listing will increase our bargaining power in negotiating transaction terms with suppliers and/or sellers of various acquisition targets. For instance, our Group may be able to negotiate more favourable terms from our suppliers and/or sellers of acquisition targets, such as longer settlement period and higher credit limit, after the Listing due to the enhanced transparency on our Group's financial and operational information as a listed company of the Stock Exchange. We believe that the public listing status will help us in our pursuit for attracting business opportunities by way of collaboration or strategic partnership.

(iv) Meaningful incentive scheme to retain talents

In addition, a public listing status may also enable us to attract and retain talents as they are more willing to establish employment relationships with a listed company. We have, as part of the Listing, adopted the Share Option Scheme as our incentives to our employees. As our business requires the support of experienced engineers and skilled personnel who have experience in gold mining industry, the Listing enables us to adopt a meaningful stock options programme for our employees to drive their performance and commitment. The Listing will enable our Company to offer equity-based and publicly tradable shares under the Share Option Scheme to our employees as incentive. As the performance of the Share price will generally relate to our performance, we believe through the incentive scheme, our employees will be more motivated to improve our performance to create value for our Shareholders.

In view of the above, although our Group had sufficient financial resources to meet the working capital requirements during the Track Record Period, our Directors consider that it is strategically and commercially justifiable to pursue the Listing and the Global Offering, and the net proceeds from the Global Offering are required and necessary to finance the future growth and expansion of our Group.

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USE OF PROCEEDS

The aggregate net proceeds from the Global Offering, after deducting underwriting fees and other estimated expenses in connection with the Global Offering, assuming that the Over-allotment Option is not exercised and an Offer Price of HK\$0.65 per Offer Share (being the mid-point of the indicative Offer Price range of HK\$0.55 to HK\$0.75 per Offer Share) will be approximately HK\$265.0 million. Our Directors intend to apply the net proceeds from the Global Offering for the following purposes:

| | Amount of net proceeds from the Global Offering <i>HK\$ million</i> | Amount of net proceeds from the Global Offering <i>RMB million</i> | Percentage of the net proceeds from the Global Offering <i>%</i> |
|---|--|---|---|
| (a) Further construction of mining infrastructure in accordance with our mine optimisation plan | 54.0 | 48.2 | 20.4 |
| (b) Upgrade gold reserves to increase LoM through additional exploration activities at our existing mine area | 5.3 | 4.7 | 2.0 |
| (c) Expand our business through selective acquisitions of gold mining assets | 145.6 | 130.0 | 55.0 |
| (d) Repayment of existing bank loans guarantees | 33.6 | 30.0 | 12.6 |
| (e) Working capital | <u>26.5</u> | <u>23.7</u> | <u>10.0</u> |
| | <u><u>265.0</u></u> | <u><u>236.6</u></u> | <u><u>100.0</u></u> |

We set out below the detailed breakdown and description of our intended use of net proceeds of the Global Offering:

- approximately HK\$54.0 million (RMB48.2 million), representing approximately 20.4% of the net proceeds will be used to fund the construction of mining infrastructure in accordance with our mine optimisation plan, which includes the extension of the southern boundary of the pit opening of our Songjiagou Open-Pit Mine by about 150 metres increasing the pit opening area from 0.34 sq.km. to 0.46 sq.km., the construction of the remaining four of the seven new benches under the new mining surface area for our mining activities, the construction of other mining and ancillary infrastructure including water pool and drainage system, site office, substation and topsoil storage yard and the acquisition of excavators. For further information, please refer to the sections headed “Business — Business strategies — Further construction of mining infrastructure in accordance with our mine optimisation plan” and “Business — Our mineral assets and reserves — Our two gold mines — Our Songjiagou

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Open-Pit Mine” in this prospectus. More specifically, we plan to construct and develop certain mining infrastructure at the new mining area and to purchase certain machineries as follows:

| | Amount of net proceeds from the Global Offering | | Timeframe |
|---|--|--------------------|---------------------------------------|
| | <i>HK\$ million</i> | <i>RMB million</i> | |
| (a) Construction and development of mining infrastructure at the new mining site | | | |
| — stripping of 667 kt waste rocks and 95 kt ore for the construction of phase 2 of the fourth bench of 12 metres below the third bench of the new mining surface area (ie, between the elevation of +81 metres ASL and +93 metres ASL) of open-pit slope to carry out mining activities | 5.1 | 4.6 | 1 January 2024 to 30 June 2024 |
| — stripping of 1,062 kt waste rocks and 169 kt ore for the construction of phase 2 of the fifth bench of 12 metres below the fourth bench of the new mining surface area (ie, between the elevation of +69 metres ASL and +81 metres ASL) of open-pit slope to carry out mining activities | 8.3 | 7.4 | 1 January 2024 to 30 June 2024 |
| — stripping of 1,873 kt waste rocks and 331 kt ore for the construction of the sixth bench of 12 metres below the fifth bench of the new mining surface area (ie, between the elevation of +57 metres ASL and +69 metres ASL) of open-pit slope to carry out mining activities | 14.8 | 13.2 | 1 April 2024 to 31 December 2024 |
| — stripping of 1,411 kt waste rocks and 205 kt ore for the construction of phase 1 of the seventh bench of 12 metres below the sixth bench of the new mining surface area (ie, between the elevation of +45 metres ASL and +57 metres ASL) of open-pit slope to carry out mining activities | 10.9 | 9.7 | 1 October 2024 to 31 December 2024 |
| — stripping of 705 kt waste rocks and 102 kt ore for the construction of phase 2 of the seventh bench of 12 metres below the sixth bench of the new mining surface area (ie, between the elevation of +45 metres ASL and +57 metres ASL) of open-pit slope to carry out mining activities | 5.4 | 4.8 | 1 January 2025 to 30 June 2025 |
| (b) Construction of water drainage system to dewater groundwater | | | |
| — water storage pool and drainage system equipped with water sprinkles, substation, cables and water pumps | 0.6 | 0.5 | by 31 December 2023 |
| (c) Construction of auxiliary facilities | | | |
| — site office and accommodation, including construction of fencing, cabling and network | 2.2 | 2.0 | by 31 December 2023 |
| — topsoil storage yard for stock piling of topsoil to prepare for future reclamation | <u>2.2</u> | <u>2.0</u> | by 31 December 2023 |
| | 49.5 | 4.2 | |
| (d) Purchase of machineries | | | |
| — three excavators | <u>4.5</u> | <u>4.0</u> | by 31 December 2023 |
| Total | <u><u>54.0</u></u> | <u><u>48.2</u></u> | |

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- approximately HK\$5.3 million (RMB4.7 million), representing approximately 2.0% of the net proceeds will be used to upgrade gold reserves to increase LoM through additional exploration activities involving additional 26 drillings at various depths ranging from 0 to 550 metres with the aggregate depth of over 6,500 metres in three phases with an intention to increase our gold mineral reserves and to increase the LoM of our Songjiagou Open-Pit Mine. Pursuant to a preliminary study conducted by SRK, by modifying the final pit structure of our Songjiagou Open-Pit Mine in the future, there are potentials for our Songjiagou Open-Pit Mine to increase its LoM. For further information, please refer to the section headed “Business — Business strategies — Upgrade our gold reserves to increase LoM through additional exploration activities at our existing mine area” in this prospectus. More specifically, we plan to allocate as follows:

| | Amount of net proceeds | | Timeframe |
|---|---------------------------------|--------------------|------------------------------------|
| | from the Global Offering | | |
| | <i>HK\$ million</i> | <i>RMB million</i> | |
| (a) phase 1 of additional 10 drillings | 1.7 | 1.5 | 1 January 2024 to 30 June 2024 |
| (b) phase 2 of additional 16 drillings | 2.7 | 2.4 | 1 July 2024 to 31 December 2024 |
| (c) professional fees for preparation of geological report and assessment | 0.9 | 0.8 | 1 April 2024 to 31 May 2024 |
| Total | <u>5.3</u> | <u>4.7</u> | |

As at the Latest Practicable Date, we had not commenced any additional exploration works.

- approximately HK\$145.6 million (RMB130.0 million), representing approximately 55.0% of the net proceeds will be used to expand our business and grow our market share through selective acquisitions of high-quality gold mining assets in the Shandong Province. We primarily focus on mines near commencement of commercial operations with high growth prospect. In deciding whether to invest in or acquire a particular mining asset, we consider multiple key factors such as strategic value-accretion location, licensing and compliance matters and quantum of mineral reserves and the level of synergies created by the investment. We would consider acquisition targets that fulfill criteria including, among others, (i) within Shandong Province; (ii) either open-pit or underground mines with potential gold resources of at least 10 tonnes and a depth of less than 1,000 metres for better economic benefits; (iii) has LoM of over five years after commencement of operations (excluding mine construction period); and (iv) has payback period of less than ten years. For acquisition target that is a mine near commencement of commercial operations, we expect the acquisition cost for the mining right to be high as we expect such mining asset would have a valid mining licence of over two years, valid land-use-right and related mining infrastructure (including an ore processing plant) ready for use.

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As of the Latest Practicable Date, we had not engaged in any commercial negotiation or entered into any letter of intent or agreement for potential acquisitions, and had yet to identify any specific acquisition target. However, being identified by the Yantai People's Government as one of the key target companies for listing, our Group was advised by the Muping People's Government that it had issued the Integration Plan in June 2021 (updated in December 2021) and Yantai Zhongjia was to be one of the four gold mining companies to acquire other gold mining resources in the Muping District. According to the Integration Plan, among all the mining companies in the Muping District, it was the government's plan to allow Yantai Zhongjia to acquire other gold mining assets and as a result, Yantai Zhongjia will be one of the four consolidated gold mining companies at the end. Further, as stated in the Integration Plan, there were 21 underground gold mines (mining licences or companies, including our mines) in the Muping District which are owned by private companies and state-owned enterprises. Based on the above, our Directors were aware not less than 14 underground gold mines in the Shandong Province that fulfil certain of (ie, not all) the abovementioned selection criteria available for our selection and such business strategy is in line with the direction of the local government policy. No open-pit gold mine is identified. In addition, this is supported by Frost & Sullivan's market research as they were able to identify at least 40 gold mines in the Shandong Province, which included the 14 underground gold mines in the Muping District, as stated in the Integration Plan, that fulfil most of the acquisition selection criteria set by us as described above, that are mostly underground mines and have a LoM of more than five years after commencement of operations. In the event that none of the due diligence results of the acquisition target selected from such lists meet our expectation, we will consider other companies in the Shandong Province as well as outside the Shandong Province, such as Yunan, Sichuan and Gansu, that fulfil certain of the abovementioned selection criteria, as the alternative plans. As at the Latest Practicable Date, based on the understanding we have obtained so far, we have shortlisted three underground gold mines within the Muping District, Shandong Province that align with our criteria for selective acquisition. Our Directors believe that the expected timeframe for selective acquisition is feasible primarily because the owners of the shortlisted three new mines, upon enquiry, are fully willing to collaborate and provide all necessary due diligence information. For details, please refer to the section headed "Business — Expand our business and grow our market share through selective acquisitions of gold mining assets — Feasibility of our acquisition plan" in this prospectus.

We intend to, through our indirect wholly-owned subsidiary in Hong Kong, establish a new sino-foreign joint venture entity in the PRC after the Listing, to acquire a controlling stake of not less than 51% of the equity interest in a mining asset. A combination of the net proceeds from the Global Offering of RMB130.0 million and internal resources of the remaining amount will be used to fund all of our portion of the total initial commitment of capital contribution of the joint venture entity in the aggregate amount of not less than RMB300 million. It is intended that the capital contribution will cover, among others, the acquisition cost for mining licence, the value of the mining asset and additional investment for construction of additional mining infrastructure. The capital will be contributed by both parties in stages over a period of two years after the date when the business licence of the

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joint venture entity is obtained. If the capital contribution amount is not sufficient to cover the abovementioned costs or if the new mining asset requires further investment for further development of mining infrastructure or working capital, we expect the joint venture entity to obtain external financing from banks and/or further capital contribution from its shareholders. The table below sets forth the capital contribution to be made out of the net proceeds from the Global Offering for the new sino-foreign joint venture entity to be established for acquiring the new mining asset.

| | Amount of net proceeds | | Timeframe |
|---------------------------------|---------------------------------|-------------------------|----------------------|
| | from the Global Offering | | |
| | <i>HK\$ million</i> | <i>RMB million</i> | |
| (a) first capital contribution | 72.8 | 65.0 | by 31 March 2024 |
| (b) second capital contribution | 36.4 | 32.5 | by 30 June 2024 |
| (c) third capital contribution | <u>36.4</u> | <u>32.5</u> | by 30 September 2024 |
| Total | <u><u>145.6</u></u> | <u><u>130.0</u></u> | |

For further information (including the detailed expected timeframe and key milestones), please see the section headed “Business — Business strategies — Expand our business and grow our market share through selective acquisitions of gold mining assets — Feasibility of our acquisition plan” in this prospectus.

- approximately HK\$33.6 million (RMB30.0 million), representing approximately 12.6% of the net proceeds will be used to repay certain borrowings from the PRC banks, which have been used as our working capital, within 12 months after Listing, to eliminate unnecessary continuing connected transactions, to repay borrowing with relatively higher interest rates and to improve our gearing ratio. As at 31 December 2020 and 2021 and 2022 and 30 June 2023, our gearing ratio was approximately 5.5%, 5.7%, 4.4% and 4.1%, respectively.

Our Directors believe that high gearing ratio for our Group could materially and adversely affect our liquidity. Following the completion of the Global Offering, we expect our gearing ratio to further improve, providing us with the balance sheet and cash flow strength to pursue strategic opportunities when they become available. Going forward, we intend to negotiate future bank borrowings in the PRC either with our Group’s assets as securities or a corporate guarantee to be provided by our Company.

- approximately HK\$26.5 million (RMB23.7 million), representing approximately 10.0% of the net proceeds will be used for general working capital purposes.

If the Offer Price is fixed at the top end of the indicative Offer Price range, being HK\$0.75 per Offer Share, and assuming the Over-allotment Option is not exercised, the net proceeds we receive from the Global Offering will increase by approximately HK\$48.2 million. We intend to apply the additional net proceeds for the above purposes on a pro-rata basis. If the Offer Price is set at the bottom end of the

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indicative Offer Price range, being HK\$0.55 per Offer Share, and assuming the Over-allotment Option is not exercised, the net proceeds we receive from the Global Offering will decrease by approximately HK\$48.2 million. We intend to reduce the net proceeds for the above purposes on a pro-rata basis.

If the Over-allotment Option is exercised in full, we estimate that we will receive net proceeds of approximately HK\$312.0 million, assuming an Offer Price of HK\$0.65 per Offer Share, being the mid-point of the indicative Offer Price range stated in this prospectus. If the Offer Price is set at the top end of the indicative Offer Price range, the additional estimated net proceeds upon full exercise of the Over-allotment Option will increase by approximately HK\$55.5 million. If the Offer Price is set at the bottom end of the indicative Offer Price range, the additional estimated net proceeds upon full exercise of the Over-allotment Option will decrease by approximately HK\$55.5 million. In the event the Over-allotment Option is exercised in full, we intend to apply the additional net proceeds for the above purposes in the proportions stated above.

In the event that we receive net proceeds from the Global Offering higher or lower than the estimated amount stated above (including where we make a Downward Offer Price Adjustment to set the Offer Price at HK\$0.495 per Offer Share upon making a full Downward Offer Price Adjustment), we will increase or decrease the intended use of the net proceeds for the above purposes on a pro rata basis. If we make a Downward Offer Price Adjustment to set the final Offer Price at HK\$0.495 per Offer Share, the estimated net proceeds we will receive from the Global Offering will be further reduced to approximately HK\$190.2 million. To the extent our net proceeds are further reduced, we will decrease the intended use of the net proceeds for the above purpose on a pro rata basis.

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable laws and regulations, we will deposit the net proceeds into short term demand deposits with authorised financial institutions and/or licensed banks (as defined under the Securities and Futures Ordinance or the applicable laws in the PRC for PRC based deposits).

We will issue an announcement in the event that there is any material change in the use of proceeds from the Global Offering as set out above.

We will bear the underwriting commissions, SFC transaction levy, AFRC transaction levy and Stock Exchange trading fee payable by us in connection with the issue of the Shares together with any applicable fees relating to the Global Offering.