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# THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Lingbao Gold Group Company Ltd., you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities mentioned in this circular.

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LINGJIN  
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## Lingbao Gold Group Company Ltd. 靈寶黃金集團股份有限公司

(A joint stock limited company incorporated in the People's Republic of China with limited liability)  
(Stock Code: 3330)

### (1) CONNECTED TRANSACTION — SUBSCRIPTION AND ISSUANCE OF H SHARES UNDER SPECIFIC MANDATE (2) APPLICATION FOR WHITEWASH WAIVER AND (3) PROPOSED AMENDMENTS TO THE ARTICLES

Financial Adviser to the Company



Independent Financial Adviser to the Independent Board Committees and the  
Independent Shareholders



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Capitalised terms used in this cover page have the same meanings as defined in this circular unless otherwise provided.

A letter from the Board is set out on pages 6 to 28 of this circular. A letter from the Connected Transaction IBC is set out on pages 29 to 30 of this circular. A letter from the Whitewash Waiver IBC is set out on pages 31 to 32 of this circular. A letter from Octal Capital containing its advice to the Connected Transaction IBC, the Whitewash Waiver IBC and the Independent Shareholders is set out on pages 33 to 53 of this circular.

The notices convening the EGM, the Domestic Shareholders Class Meeting and the H Shareholders Class Meeting to be held on 3rd floor of the registered office of the Company at Hangu Road and Jingshan Road Intersection, Lingbao, Henan, the PRC originally scheduled on Friday, 31 December 2021 at 9:00 a.m., the time immediately after the conclusion of the EGM and the time immediately after the conclusion of the Domestic Shareholders Class Meeting, respectively or the adjournment thereof, have been despatched to the Shareholders and published on 12 November 2021. The EGM, the Domestic Shareholders Class Meeting and the H Shareholders Class Meeting have been adjourned to 9:00 a.m. on Monday, 17 January 2022, the time immediately after the conclusion of the adjourned EGM and the time immediately after the conclusion of the adjourned Domestic Shareholders Class Meeting, respectively. Please refer to the announcement of the Company dated 29 December 2021 for details of the adjournment of such meetings.

Whether or not you are able to attend the meetings in person, you are requested to complete and return the form of proxy (as applicable) in accordance with the instructions printed thereon as soon as possible and in any event not less than 24 hours before the time appointed for holding of the meetings or any adjournment thereof. In order to be valid, the proxy form must be deposited by hand or by post to the H Share registrar of the Company, Computershare Hong Kong Investor Services Limited (in the case of holders of H Shares) or to the Company's registered office at Hangu Road and Jingshan Road Intersection, Lingbao, Henan, the PRC (in the case of holders of Domestic Shares), Computershare Hong Kong Investor Services Limited is located at 17M/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong. If the proxy form is signed by a person under a power of attorney or other authority, a notorially certified copy of that power of attorney or authority shall be deposited at the same time as mentioned in the proxy form. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meetings or any adjournment thereof if you so wish.

#### THE PRECAUTIONARY MEASURES FOR THE EGM, DOMESTIC SHAREHOLDERS CLASS MEETING AND H SHAREHOLDERS CLASS MEETING

- In order to control the spread of COVID-19, the Company will implement the following precautionary measures at the aforesaid meetings: all attendees will be required to check temperature at the entrance of the meeting venue;
- all attendees will be required to maintain proper distance between seats;
- all attendees will be required to wear face masks during the meetings;
- no beverages or refreshments will be served and no Company gift will be distributed; and
- any other precautionary measures the Company may think appropriate and necessary.

Any person who does not comply with the above precautionary measures may be denied entry into the meeting venue.

The Company strongly encourages the Shareholders to exercise their voting rights by appointing the chairman of the meetings as their proxy to vote according to their indicated voting instructions as an alternative to attending the meetings in person. Completion and return of the proxy forms will not preclude the Shareholders from attending and voting in person at the meeting or any adjournment thereof should they subsequently so wish, and in such case, the proxy forms previously submitted shall be deemed to be revoked.

31 December 2021

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## DEFINITIONS

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*In this circular, the following expressions have the meanings set out below unless the context requires otherwise:*

“acting in concert”	has the meaning ascribed thereto under the Takeovers Code
“Amendments to the Articles”	collectively, Subscription-related Amendments to the Articles and Corporate Governance-related Amendments to the Articles
“Announcement Date”	11 November 2021, being the date of the Whitewash Announcement
“Articles”	the articles of association of the Company, as amended from time to time
“associate(s)”	has the meaning ascribed thereto under the Takeovers Code or Chapter 14A of the Listing Rules (as the case may be)
“Board”	the board of Directors
“Business Day(s)”	a business day is a day on which the Stock Exchange is open for the transaction of business
“Chief Executive”	chief executive of the Company
“Company”	靈寶黃金集團股份有限公司 (Lingbao Gold Group Company Ltd.), a joint stock company incorporated in the PRC with limited liability, whose H Shares are listed on the Main Board of the Stock Exchange with stock code 3330
“Completion Date”	such date as may be notified by the Company to the Subscriber within the validity period of the CSRC approval and upon fulfilment of the conditions precedent under the Subscription Agreement (or such other date as the Company and the Subscriber may agree in writing)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Connected Transaction IBC”	an independent committee of the Board, comprising all the independent non-executive Directors, namely Mr. Wang Guanghua, Mr. Wang Jiheng, Mr. Xu Rong and Mr. Tan Chong Huat, established pursuant to the requirements of the Listing Rules to advise the Independent Shareholders on the Subscription (including the grant of Specific Mandate and the approval of Subscription Agreement)
“Corporate Governance-related Amendments to the Articles”	the proposed amendments to the Articles to improve the corporate governance of the Company based on the need for corporate management

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## DEFINITIONS

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“CSRC”	China Securities Regulatory Commission
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	the ordinary domestic share(s) of the Company with a nominal value of RMB0.20 each in the share capital of the Company
“Domestic Shareholder(s)”	holder(s) of the Domestic Share(s)
“Domestic Shareholders Class Meeting”	the class meeting of the Domestic Shareholders to be held at Hangu Road and Jingshan Road Intersection, Lingbao, Henan, the PRC immediately after the conclusion of the EGM, or any adjournment thereof to consider, and if thought fit, to approve the Subscription (including the grant of Specific Mandate and the approval of Subscription Agreement), the Whitewash Waiver and the Amendments to the Articles
“EGM”	the extraordinary general meeting of the Company to be convened at Hangu Road and Jingshan Road Intersection, Lingbao, Henan, the PRC originally scheduled at 9:00 a.m. on Friday, 31 December 2021, and adjourned to 9:00 a.m. on Monday, 17 January 2022, or any further adjournment thereof to consider, and if thought fit, to approve the Subscription (including the grant of Specific Mandate and the approval of Subscription Agreement), the Whitewash Waiver and the Amendments to the Articles
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of such Executive Director
“Financial Adviser” or “Lego”	Lego Corporate Finance Limited, a licensed corporation to conduct type 6 (advising on corporate finance) regulated activity under the SFO, being the financial adviser to the Company in relation to the Subscription
“Group”	the Company and its subsidiaries from time to time
“H Share(s)”	the overseas listed foreign share(s) with a nominal value of RMB0.20 each in the share capital of the Company which are listed on the Stock Exchange and are traded in Hong Kong dollars
“H Shareholder(s)”	the holder(s) of H Shares

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## DEFINITIONS

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“H Shareholders Class Meeting”	the class meeting of the H Shareholders to be held at Hangu Road and Jingshan Road Intersection, Lingbao, Henan, the PRC immediately after the conclusion of the Domestic Shareholders Class Meeting or any adjournment thereof to consider, and if thought fit, to approve the Subscription (including the grant of Specific Mandate and the approval of Subscription Agreement), the Whitewash Waiver and the Amendments to the Articles
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committees”	collectively, the Connected Transaction IBC and the Whitewash Waiver IBC
“Independent Financial Adviser” or “Octal Capital”	Octal Capital Limited, a licensed corporation 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 the Company for the purpose of advising the Independent Board Committees and the Independent Shareholders in relation to the Subscription (including the grant of Specific Mandate and the approval of Subscription Agreement), the Whitewash Waiver, and to make recommendations on voting
“Independent Shareholders”	Shareholders other than (i) the Subscriber and parties acting concert with it; (ii) the Subscriber and its associates (as defined in the Listing Rules); and (iii) all other Shareholders who are interested or involved in the Subscription (including the grant of Specific Mandate and approval of Subscription Agreement) and/or the Whitewash Waiver (if any)
“Last Trading Day”	10 November 2021, being the last trading day immediately prior to the date of the Subscription Agreement
“Latest Practicable Date”	28 December 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	31 December 2022 (or such other date as the Company and the Subscriber may agree)

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## DEFINITIONS

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“PRC”	the People’s Republic of China, for the purpose of this circular, shall exclude Hong Kong, the Macao Special Administrative Region of the People’s Republic of China and Taiwan
“Relevant Period”	the period from 11 May 2021, being the date six months before the Announcement Date, up to and including the Latest Practicable Date
“RMB”	Renminbi, the lawful currency of the PRC
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	collectively, the Domestic Share(s) and the H Share(s)
“Shareholder(s)”	holder(s) of the Share(s)
“Specific Mandate”	the specific mandate proposed to be granted by the Independent Shareholders to the Directors at the EGM, Domestic Shareholders Class Meeting and H Shareholders Class Meeting to issue and allot the H Shares pursuant to the Subscription Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	達仁投資管理集團股份有限公司 (D&R Asset Management Group Co. Ltd.*), a joint stock company incorporated in the PRC with limited liability, or such Final Subscriber Entity as defined in the section headed “Principal Terms of the Subscription Agreement” in the letter from the Board in this circular or its designated person(s) or company so as to facilitate settlement of the Subscription Shares
“Subscription”	the subscription of the Subscription Shares by the Subscriber pursuant to the Subscription Agreement
“Subscription Agreement”	the conditional subscription agreement entered into between the Company and the Subscriber dated 11 November 2021 in relation to the Subscription, as amended and/or supplemented from time to time
“Subscription Price”	HK\$0.85 per Subscription Share
“Subscription Shares”	319,772,164 new H Shares proposed to be subscribed pursuant to the Subscription Agreement

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## DEFINITIONS

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“Subscription-related Amendments to the Articles”	the proposed amendments to the Articles to increase the registered share capital of the Company and reflect the shareholding structure of the Company as a result of the issuance of the Subscription Shares
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules or the SFO (as the case may be)
“Supervisor(s)”	supervisor(s) of the Company
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Whitewash Announcement”	the announcement of the Company dated 11 November 2021 in respect of, among other things, the Subscription (including the grant of Specific Mandate and the approval of Subscription Agreement), the Whitewash Waiver and the Subscription-related Amendments to the Articles
“Whitewash Waiver”	the waiver by the Executive under Note 1 to the Notes on Dispensation from Rule 26 of the Takeovers Code of the obligation on the part of the Subscriber to make a general offer to the Shareholders for all issued shares and other securities of the Company not already owned or agreed to be acquired by the Subscriber or any persons acting in concert with it as a result of the allotment and issue of the Subscription Shares to the Subscriber
“Whitewash Waiver IBC”	an independent committee of the Board, comprising those non-executive Directors and independent non-executive Directors who have no direct or indirect interest in the Subscription and the Whitewash Waiver, namely Mr. Zhang Feihu, Mr. Wang Guanghua, Mr. Wang Jiheng, Mr. Xu Rong and Mr. Tan Chong Huat, established pursuant to the requirements of the Takeovers Code to provide recommendations to the Independent Shareholders on the Subscription and the Whitewash Waiver
“%”	per cent

\* *For identification purposes only*

*In this circular, unless the context otherwise require, the terms “associate(s)”, “connected person(s)”, “connected transaction(s)” and “subsidiary(ies)” shall have the meanings given to such terms in the Listing Rules.*

*Unless otherwise specified in this circular and for the purpose of illustration only, RMB has been translated to HK\$ at the rate of RMB1 = HK\$1.21. No representation has been made by the Company that any amount expressed in foreign currency in this circular has been, could have been or could be converted at any rates at all.*



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**Lingbao Gold Group Company Ltd.**  
**靈寶黃金集團股份有限公司**

*(A joint stock limited company incorporated in the People's Republic of China with limited liability)*  
**(Stock Code: 3330)**

*Executive Directors:*

Mr. Zeng Xiangxin (*Chairman*)  
Mr. Xing Jiangze  
Mr. He Chengqun  
Mr. Dai Weitao  
Mr. Wu Liming

*Registered Office:*

Hangu Road and  
Jingshan Road Intersection  
Lingbao City  
Henan Province  
The PRC

*Non-executive Directors:*

Mr. Zhang Feihu  
Mr. Wang Guanran

*Principal Place of Business in Hong Kong:*

Room 1104, 11/F.,  
Leighton Centre 77 Leighton Road  
Causeway Bay, Hong Kong

*Independent non-executive Directors:*

Mr. Wang Guanghua  
Mr. Wang Jiheng  
Mr. Xu Rong  
Mr. Tan Chong Huat

31 December 2021

*To the Shareholders*

Dear Sir/Madam

**(1) CONNECTED TRANSACTION — SUBSCRIPTION AND  
ISSUANCE OF H SHARES UNDER SPECIFIC MANDATE  
(2) APPLICATION FOR WHITEWASH WAIVER  
AND  
(3) PROPOSED AMENDMENTS TO THE ARTICLES**

**1. INTRODUCTION**

Reference is made to the Whitewash Announcement and the announcement of the Company dated 12 November 2021 in relation to the Corporate Governance-related Amendments to the Articles. The purpose of this circular is to provide you with, among other things, (i) details of the Subscription (including the grant of Specific Mandate and the



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## LETTER FROM THE BOARD

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approval of Subscription Agreement), the Whitewash Waiver and the Amendments to the Articles; (ii) a letter of advice from the Connected Transaction IBC on the Subscription (including the grant of Specific Mandate and the approval of Subscription Agreement); (iii) a letter of advice from the Whitewash Waiver IBC on the Subscription and the Whitewash Waiver; and (iv) a letter of advice from the Independent Financial Adviser to the Independent Board Committees and Independent Shareholders on the Subscription (including the grant of Specific Mandate and the approval of Subscription Agreement) and the Whitewash Waiver.

### 2. THE SUBSCRIPTION AND ISSUANCE

On 11 November 2021 (after trading hours), the Company and the Subscriber entered into the Subscription Agreement, pursuant to which the Company has conditionally agreed to issue and allot, and the Subscriber has conditionally agreed to subscribe for, 319,772,164 H Shares, representing approximately 37.0% of the issued Shares as at the Latest Practicable Date and approximately 27.0% of the enlarged issued Shares after completion of the Subscription, at the Subscription Price of HK\$0.85 per H Share. Set forth below are the principal terms of the Subscription Agreement.

#### (a) Principal terms of the Subscription Agreement

**Parties** : D&R Asset Management Group Co. Ltd. (as subscriber); and

The Company (as issuer).

D&R Asset Management Group Co. Ltd. may conduct the Subscription by itself and/or an entity wholly controlled and/or managed by it (regardless of whether the entity is a limited company, partnership, fund or other entity and where it is incorporated), which subscribes for the Subscription Shares by means of, including but not limited to, outbound direct investment (ODI), qualified domestic institutional investor (QDII) or any other means that comply with the laws and regulations in the relevant jurisdictions (“**Final Subscriber Entity**”).

**Class and par value of Subscription Shares to be issued** : H Share with a par value of RMB0.20 each

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## LETTER FROM THE BOARD

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**Number of Subscription Shares to be issued** : 319,772,164 H Shares will be issued at the Subscription Price of HK\$0.85 per H Share under the Subscription, which represents (i) approximately 107.6% of the existing number of issued H Shares and approximately 37.0% of the existing issued Shares, in each case as at the Latest Practicable Date; and (ii) approximately 51.8% of the enlarged number of issued H Shares and approximately 27.0% of the enlarged issued Shares, in each case immediately after completion of the Subscription.

The aggregate nominal value of the Subscription Shares to be issued, with a par value of RMB0.20 each, will be RMB63,954,432.8 (equivalent to approximately HK\$77,384,863.7).

Subject to the conditions precedent of the Subscription, the Subscription Shares will be issued and allotted to the Subscriber (or its designated person(s) as to facilitate settlement of the Subscription Shares) on the Completion Date.

**Subscription Price** : HK\$0.85 per H Share represents:

- (i) a discount of approximately 12.4% to the closing price of HK\$0.97 per H Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 10.9% to the average closing price of approximately HK\$0.954 per H Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day;
- (iii) a discount of approximately 11.0% to the average closing price of approximately HK\$0.955 per H Share as quoted on the Stock Exchange for the ten consecutive trading days up to and including the Last Trading Day;

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## LETTER FROM THE BOARD

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- (iv) a discount of approximately 7.6% to the closing price of HK\$0.92 per H Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (v) a discount of approximately 63.4% to the unaudited net asset value per Share of approximately HK\$2.32 per Share based on the unaudited net asset value of the Company of approximately RMB1,660.3 million (equivalent to approximately HK\$2,009.0 million) as at 30 June 2021.

The Subscription Price was determined after arm's length negotiation between the Company and the Subscriber which has taken into account, among others, (i) the prevailing market price of the H Shares; (ii) the current market condition; (iii) the low trading volume of the H Shares; and (iv) the amount of funds the Company intends to raise under the Subscription for the purposes described in the section headed "Use of proceeds and reasons for and benefits of the Subscription" in this letter.

- Expected proceeds from the Subscription** : It is expected that the gross proceeds from the Subscription will be approximately HK\$271.8 million and the net proceeds from the Subscription will be not less than approximately HK\$265.6 million (after deduction of expenses of the Subscription). The estimated net subscription price for each Subscription Share will be approximately HK\$0.83.
- Ranking of the Subscription Shares** : The Subscription Shares will rank *pari passu* in all respects with the then existing H Shares in issue, including the right to receive all future dividends and distributions which are declared, made or paid after the date of allotment and issue of the H Shares in their fully-paid form.
- Application for the listing of the Subscription Shares** : Application has been made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

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## LETTER FROM THE BOARD

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### **(b) Conditions precedent of the Subscription**

The Subscription shall take place at the Completion Date, subject to the following conditions precedent:

- (i) the passing of all relevant resolutions in respect of the Subscription by the Independent Shareholders at the EGM, the Domestic Shareholders Class Meeting and the H Shareholders Class Meeting, including:
  - (a) subject to the completion of Subscription, the increase in the Company's registered share capital to 1,184,021,255 Shares, comprising 566,975,091 Domestic Shares and 617,046,164 H Shares and the Subscription-related Amendments to the Articles;
  - (b) the grant of the Specific Mandate;
  - (c) the Subscription and the entering into and performance of the obligations of the Company under the Subscription Agreement; and
  - (d) the Whitewash Waiver;
- (ii) the Executive having granted, and not having withdrawn or revoked such grant, the Whitewash Waiver and the fulfilment of all conditions (if any) attached to the Whitewash Waiver;
- (iii) the Listing Committee of the Stock Exchange having granted the listing approval in relation to the listing of, and permission to deal in the Subscription Shares and such listing approval has not subsequently been withdrawn or revoked prior to the Completion Date;
- (iv) the Company having obtained necessary approvals from CSRC in relation to the transactions contemplated in the Subscription Agreement;
- (v) the Subscriber having obtained all necessary approvals from CSRC, State Administration of Foreign Exchange, local financial supervision and administration authority and/or the relevant authority regulating qualified domestic institutional investor (QDII) or qualified domestic limited partnership (QDLP) or qualified domestic investment enterprise (QDIE), and/or the relevant authority regulating outbound direct investment (ODI) in the PRC (including without limitation, the National Development and Reform Commission of the PRC, the Ministry of Commerce of the PRC and the State Foreign Exchange Administration of the PRC) (if applicable) in relation to the Subscription, and such approval not having been withdrawn or revoked;

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## LETTER FROM THE BOARD

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- (vi) the Company having obtained any approval or consent from any third parties (other than the relevant governmental or regulatory authorities referred to in the immediately preceding conditions set out in paragraphs (iii) and (iv) above) which is necessary to be obtained for the execution and performance of the Subscription Agreement and any of the transactions contemplated therein;
- (vii) the Subscriber having obtained any approval or consent from any third parties (other than the relevant governmental or regulatory authorities referred to in the immediately preceding conditions set out in paragraphs (ii) and (v) above) which is necessary to be obtained for the execution and performance of the Subscription Agreement and any of the transactions contemplated therein;
- (viii) the absence of any valid order, declaration or injunction issued by jurisdictional court, regulatory authorities or governmental organisations to restrict or prohibit the transactions contemplated under the Subscription Agreement;
- (ix) the absence of any third party initiating or threatening to initiate legal proceedings in court or governmental organisations in order to restrict or prohibit or declare illegal the transactions contemplated under the Subscription Agreement;
- (x) the representation and warranties made by the Company under the Subscription Agreement shall be true, accurate and not misleading in all material aspects as at the Completion Date;
- (xi) the representation and warranties made by the Subscriber under the Subscription Agreement shall be true, accurate and not misleading in all material aspects as at the Completion Date;
- (xii) the Company having fulfilled all obligations and undertakings under the Subscription Agreement and any requirements as prescribed by the Subscription Agreement in all material respect; and
- (xiii) the absence of any material adverse change in the Company from the date of the Subscription Agreement to the Completion Date, except for those as disclosed in public documents.

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## LETTER FROM THE BOARD

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In respect of condition (vi) above, the Company is required to obtain certain bank consents/approvals pursuant to the covenants of the relevant loan agreements and guarantee contracts of the Group. In respect of condition (vii) above, the Subscriber is not aware of any other third party (other than the relevant governmental or regulatory authorities) consents or approvals in relation to the Subscription and the transactions contemplated thereunder.

The Company may in its sole and absolute discretion waive in whole or in part the conditions set out in paragraphs (vii), (viii), (ix) and (xi) above, respectively. The Subscriber may in its sole and absolute discretion waive in whole or in part the conditions set out in paragraphs (vi), (viii), (ix), (x) and (xii) above, respectively. Save as aforementioned, none of the other conditions precedent may be waived. The conditions set out in paragraphs (viii) and (ix) shall be treated as fulfilled for so long as, to the reasonable satisfaction of the Subscriber, no circumstances have arisen to trigger them. As at the Latest Practicable Date, none of the above conditions to the Subscription has been or has been treated as fulfilled.

If any of the above conditions precedent has not been fulfilled or waived (as applicable) by the relevant parties to the Subscription Agreement by the Long Stop Date, the Subscription Agreement shall lapse immediately thereafter and be of no further effect and no party shall have any claim against or liability or obligation to any other party save in respect of claims arising out of any antecedent breach of the Subscription Agreement.

### **(c) Completion**

The completion of the Subscription shall take place on such date as may be notified by the Company to the Subscriber within the validity period of the CSRC approval and upon fulfilment of the conditions precedent under the Subscription Agreement (or such other date as the Company and the Subscriber may agree in writing).

### ***Implications under the Listing Rules***

#### ***Connected Transaction***

As at the Latest Practicable Date, the Subscriber holds 185,339,000 Domestic Shares, representing approximately 21.4% of the total number of issued Shares. As the Subscriber is a substantial shareholder of the Company and therefore a connected person of the Company, the Subscription constitutes a connected transaction for the Company and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

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## LETTER FROM THE BOARD

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The Subscriber and parties acting in concert with it and the Subscriber's associates and Shareholders who are involved in or interested in the Subscription (including the grant of the Specific Mandate and the approval of Subscription Agreement), the Whitewash Waiver and the Subscription-related Amendments to the Articles will be required to abstain from voting in respect of the resolution(s) to approve the Subscription (including the grant of the Specific Mandate and the approval of Subscription Agreement), the Whitewash Waiver and the Subscription-related Amendments to the Articles at the EGM, the Domestic Shareholders Class Meeting and the H Shareholders Class Meeting.

The Subscriber is majority-owned as to approximately 52.26% by Beijing Jiesi Weiye Co., Ltd (北京傑思偉業控股有限公司), which in turn is majority-owned as to approximately 93.04% and 6.96% by Mr. Wang Guanran and two limited liability partnerships whose general partner is Mr. Wang Guanran, respectively (noting that the share transfer agreement has been entered into between Mr. Wang Weidong and Mr. Wang Guanran to transfer the 99% interests in each of the two limited liability partnerships from Mr. Wang Weidong to Mr. Wang Guanran and Mr. Wang Guanran has become the general partner of the two limited liability partnerships, where the registration with the local industry and commerce authority has yet been completed, but the share transfer agreement is legally binding and the consideration has been fully paid). The Subscriber is also directly owned as to approximately 5.79% by Mr. Wang Guanran. The Subscriber will therefore abstain from voting on the resolutions to be proposed at the EGM, the Domestic Shareholders Class Meeting and the H Shareholders Class Meeting (if applicable) for approving the Subscription (including the grant of Specific Mandate and the approval of Subscription Agreement), the Whitewash Waiver and the Subscription-related Amendments to the Articles.

### *Board's Approval and Restrictions on Voting*

Mr. Zeng Xiangxin, an executive Director, is a director of the Subscriber. Mr. Wu Liming, an executive Director, is a director of the Subscriber. Mr. Wang Guanran, a non-executive Director, is the chairman, legal representative and the ultimate controlling shareholder of the Subscriber. As such, Mr. Zeng Xiangxin, Mr. Wu Liming and Mr. Wang Guanran are regarded as having a material interest and have abstained from voting for the Board resolutions for approving the Subscription (including the grant of Specific Mandate and the approval of Subscription Agreement), the Whitewash Waiver and the Subscription-related Amendments to the Articles.

Save as disclosed above, none of the Directors has a material interest in the Subscription or is required to abstain from voting on the Board resolutions for considering and approving the Subscription (including the grant of Specific Mandate and the approval of Subscription Agreement), the Whitewash Waiver and the Subscription-related Amendments to the Articles pursuant to the Listing Rules and/or the Articles.



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## LETTER FROM THE BOARD

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The Board (excluding Mr. Zeng Xiangxin, Mr. Wu Liming and Mr. Wang Guanran) has unanimously approved the resolutions for approving the Subscription (including the grant of Specific Mandate and the approval of Subscription Agreement), the Whitewash Waiver and the Subscription-related Amendments to the Articles, subject to the Independent Shareholders' approval at the EGM, the Domestic Shareholders Class Meeting and the H Shareholders Class Meeting.

### *Implications under the Takeovers Code and Application for Whitewash Waiver*

As at the Latest Practicable Date, the Subscriber holds in aggregate 185,339,000 Domestic Shares, representing approximately 21.4% of the total number of issued Shares.

Upon completion of the Subscription, the Subscriber and parties acting in concert with it will together be interested in a total of 185,339,000 Domestic Shares and 319,772,164 H Shares, which represent approximately 42.7% of the total issued share capital of the Company (as enlarged by the Subscription Shares and assuming there will be no other change in the issued share capital of the Company since the Latest Practicable Date and up to completion of the Subscription).

As such, under Rule 26.1 of the Takeovers Code, the allotment and issuance of the Subscription Shares to the Subscriber will give rise to an obligation on the part of the Subscriber to make a mandatory general offer for all the securities of the Company not already owned or agreed to be acquired by the Subscriber and parties acting in concert with it unless the Whitewash Waiver is obtained from the Executive.

An application has been made on behalf of the Subscriber to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code.

The Executive may or may not grant the Whitewash Waiver. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval by at least 75% and more than 50% of the votes cast by the Independent Shareholders either in person or by proxy by way of poll in respect of the Whitewash Waiver and the Subscription (including the grant of the Specific Mandate and the approval of the Subscription Agreement), respectively, at the EGM, the Domestic Shareholders Class Meeting and the H Shareholders Class Meeting. The Subscription will not proceed if the Whitewash Waiver is not granted or approved. The Company noted that the Executive may not grant the Whitewash Waiver if the Subscription does not comply with other applicable rules and regulations.



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## LETTER FROM THE BOARD

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The Subscriber and parties acting in concert with it will abstain from voting in respect of the resolution(s) to approve the Subscription and the Whitewash Waiver at the EGM, the Domestic Shareholders Class Meeting and the H Shareholders Class Meeting (if applicable). As far as the Directors are aware, as at the Latest Practicable Date, save for the Subscriber, there are no other Shareholders who are interested or involved in the Subscription and/or the Whitewash Waiver.

As at the Latest Practicable Date, there is no reason for the Company to believe that the Subscription would give rise to any concerns in relation to compliance with other applicable rules or regulations (including the Listing Rules). If a concern should arise after the Latest Practicable Date, the Company will endeavour to resolve the matter to the satisfaction of the relevant authority as soon as possible. The Company notes that the Executive may not grant the Whitewash Waiver if the Subscription does not comply with other applicable rules and regulations.

### **Specific Mandate**

The 319,772,162 Subscription Shares will be issued pursuant to the Specific Mandate to be sought from the Independent Shareholders at the EGM and the Domestic Shareholders Class Meeting and H Shareholders Class Meeting.

### **Application for Listing of the Subscription Shares**

Application has been made by the Company to the Listing Committee of the Stock Exchange for the grant of the listing of, and permission to deal in, the Subscription Shares on the Main Board of the Stock Exchange.

## **EFFECT ON SHAREHOLDING STRUCTURE OF THE COMPANY**

As at the Latest Practicable Date, the number of issued Shares is 864,249,091 Shares, comprising 566,975,091 Domestic Shares and 297,274,000 H Shares. The Company has no other outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares or any derivatives as at the Latest Practicable Date.

Set out below is the shareholding structure of the Company (i) as the Latest Practicable Date; and (ii) immediately after completion of the Subscription (assuming there is no

## LETTER FROM THE BOARD

change in the issued share capital of the Company since the Latest Practicable Date and up to completion of the Subscription save for the issue of the Subscription Shares):

Name of Shareholder	Class of Shares	As at the Latest Practicable Date		Immediately after completion of the Subscription	
		Number of Shares	Approximate % of total issued Shares	Number of Shares	Approximate % of total issued Shares
<b><i>The Subscriber and parties acting in concert with it:</i></b>					
The Subscriber (Note 1)	Domestic H	185,339,000	21.4%	185,339,000	15.7%
Parties acting in concert with the Subscriber		—	—	319,772,164	27.0%
		185,339,000	21.4%	505,111,164	42.7%
<b><i>Subtotal for the Subscriber and parties acting in concert with it</i></b>					
Lingbao State-owned Assets Operation Company Limited (靈寶市國有資產經營有限責任公司)	Domestic	73,540,620	8.5%	73,540,620	6.2%
Shanghai Zhengxi Investment Management Partnership (Limited Partnership) (上海正禧投資管理合夥企業(有限合夥))	Domestic	57,000,000	6.6%	57,000,000	4.8%
Other Domestic Shareholders	Domestic	251,095,471	29.1%	251,095,471	21.2%
Public H Shareholders	H	297,274,000	34.4%	297,274,000	25.1%
<b>Total</b>		<b>864,249,091</b>	<b>100.0%</b>	<b>1,184,021,255</b>	<b>100.0%</b>

Notes:

- (1) The Subscriber is majority-owned as to approximately 52.26% by Beijing Jiesi Weiye Co., Ltd (北京傑思偉業控股有限公司), which in turn is majority-owned as to approximately 93.04% and 6.96% by Mr. Wang Guanran, a non-executive Director and two limited liability partnerships whose general partner is Mr. Wang Guanran, respectively (noting that the share transfer agreement has been entered into between Mr. Wang Weidong and Mr. Wang Guanran to transfer the 99% interests in each of the two limited liability partnerships from Mr. Wang Weidong to Mr. Wang Guanran and Mr. Wang Guanran has become the general partner of the two limited liability partnerships, where the registration with the local industry and commerce authority has yet been completed, but the share transfer agreement is legally binding and the consideration has been fully paid). The Subscriber is also directly owned as to approximately 5.79% by Mr. Wang Guanran.

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## LETTER FROM THE BOARD

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- (2) Save for the interests held through the Subscriber by Mr. Wang Guanran, a non-executive Director, as disclosed in note (1) above, no other Directors have any relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company as at the Latest Practicable Date.

### FUND RAISING ACTIVITY OF THE COMPANY IN THE PAST 12 MONTHS

The Company did not conduct any fund raising activity through the issue of equity securities in the 12 months immediately before the Latest Practicable Date.

### USE OF PROCEEDS AND REASONS FOR AND BENEFITS OF THE SUBSCRIPTION

The net proceeds from the Subscription (after deducting all applicable costs and expenses, including the legal fees) are expected to be approximately HK\$265.6 million.

The Company intends to apply the net proceeds from the Subscription for as to:

- (i) approximately HK\$139.2 million for financing of the deep exploration of Henan Lingjin No. 1 Mine. The expected total exploration cost is approximately HK\$278.3 million, of which approximately HK\$47.2 million has been paid. The exploration cost is expected to be fully settled by end of 2023. The remaining exploration cost will be financed by the Group's internal resources;
- (ii) approximately HK\$41.7 million for the financing of the construction and setting up of cyanide-containing sewage desalination facilities. The total investment cost of the project is approximately HK\$44.8 million, of which approximately HK\$3.1 million has been paid; and
- (iii) approximately HK\$84.7 million as general working capital of the Group for purchases of gold concentrates for production of gold bullion. The estimated amount of gold concentrate that the Group will purchase using the proceeds from the Subscription is approximately 4,700 tonnes.

The Group is principally engaged in the businesses of mining, processing, smelting and sales of gold and other metallic products in the PRC.

As at 30 June 2021, the cash and cash equivalents balance of the Group was approximately RMB125.9 million. The Group had total borrowings of approximately RMB3,368.2 million with gearing ratio and current ratio of approximately 51.7% and 69.4% as at 30 June 2021. Furthermore, the Group was at a net current liabilities position of approximately RMB1,396.9 million as at 30 June 2021. All the loans of the Group shall be repayable within one year. As at 30 June 2021, the Group had unutilised bank facilities of approximately RMB1,603.0 million, of which approximately RMB474.0 million were directly related to bank loan facilities. In view of the aforesaid financial position of the Group, there is a need for the Group to strengthen its financial resources for satisfying its financial obligations and supporting its daily operation. In particular, it is noted that the current cash and cash equivalents balance of the Group is insufficient to finance the outstanding payments for the deep exploration of Henan Lingjin No. 1 Mine and the construction of cyanide-containing sewage desalination facilities. The net proceeds from the Subscription provide funding to settle such payment obligations.

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## LETTER FROM THE BOARD

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Besides, the Directors consider that the current cash and cash equivalents of the Group should be reserved for the operating expenses of the Group which amounted to approximately RMB281.7 million for the year ended 31 December 2020. Notwithstanding that the Group had unutilised bank loan facilities of approximately RMB474.0 million as at 30 June 2021, in view of the current high gearing ratio and net current liabilities position of the Group, the Directors considers bank borrowings is not a preferred means of fundraising under the Group's current circumstances. The net proceeds from the Subscription, which will be utilised to supplement the general working capital, could alleviate the funding pressure of the Group and generally improve the financial position of the Group.

In respect of other equity fund raising methods, including rights issue or open offer, the Directors have considered the possibilities of such alternatives as they are offered to Shareholders on a pro-rata basis. However, such alternative fund raising methods (i) generally require a longer timeframe to complete, with a relatively lengthy process and heavy preparation of requisite compliance and legal documentations; (ii) involve relatively higher administrative costs in relation to the issuance of listing document and application forms; and (iii) would incur underwriting fee/placing commission. The Subscription, on the other hand, could provide a higher certainty to the Company to raise the amount of funds as required. As such, the Directors consider that conducting equity fund raising such as open offer and/or rights issue is not a preferable choice. The Directors also do not consider placing of new Shares to independent third parties to be a preferable fund raising means because having considered the net liabilities position of the Group, the uncertain economic atmosphere and the relatively large amount of new H Shares to be issued, there is high uncertainty as to whether appropriate and interested placee(s) can be identified and the amount of funds to be raised, and placing commission will be incurred.

Based on the foregoing, the Directors (including the members of the Connected Transaction IBC and the Whitewash Waiver IBC whose views have been formed after considering the advice of the Independent Financial Adviser with regard to the Subscription and are set out in the letters from the Connected Transaction IBC and the Whitewash Waiver IBC on pages 29 to 30 and 31 to 32 of this circular, respectively) are of the view that, despite the dilution effect brought by the Subscription to the minority Shareholders, the terms of the Subscription Agreement (including the Subscription Price) are fair, reasonable and in the interests of the Company and Shareholders as a whole.

### **FUTURE INTENTIONS OF THE SUBSCRIBER REGARDING THE GROUP**

The Subscriber intends to continue the existing principal businesses of the Group and has no intention to (i) discontinue the employment of any employees of the Group; (ii) redeploy the fixed assets of the Company other than those in its ordinary and usual course of business; or (iii) change the current Board composition. The Subscriber and the Company also intend to maintain the listing of the H Shares on the Stock Exchange following the completion of the Subscription.

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## LETTER FROM THE BOARD

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### GENERAL INFORMATION ON THE PARTIES TO THE SUBSCRIPTION AGREEMENT

#### (a) The Company

The Company is a joint stock company established under the laws of the PRC with limited liability, the H Shares of which are listed on the Main Board of the Stock Exchange. The Group is principally engaged in the businesses of mining, processing, smelting and sales of gold and other metallic products in the PRC. The Group will continue to expand its mining operation as disclosed in its annual report for the year ended 31 December 2020.

#### (b) The Subscriber

The Subscriber is a joint stock company established under the laws of the PRC with limited liability on 12 March 2010. As at the Latest Practicable Date, the Subscriber is a substantial shareholder of the Company that held 185,339,000 Domestic Shares representing approximately 21.4% of the total number of issued Shares. The Subscriber is an enterprise holding group focusing on industries investments.

The Subscriber is majority-owned as to approximately 52.26% by Beijing Jiesi Weiye Co., Ltd (北京傑思偉業控股有限公司), which in turn is majority-owned as to approximately 93.04% and 6.96% by Mr. Wang Guanran and two limited liability partnerships whose general partner is Mr. Wang Guanran, respectively (noting that the share transfer agreement has been entered into between Mr. Wang Weidong and Mr. Wang Guanran to transfer the 99% interests in each of the two limited liability partnerships from Mr. Wang Weidong to Mr. Wang Guanran and Mr. Wang Guanran has become the general partner of the two limited liability partnerships, where the registration with the local industry and commerce authority has yet been completed, but the share transfer agreement is legally binding and the consideration has been fully paid). The Subscriber is also directly owned as to approximately 5.79% by Mr. Wang Guanran.

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## LETTER FROM THE BOARD

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### THE INCREASE IN THE COMPANY'S REGISTERED SHARE CAPITAL AND THE AMENDMENTS TO THE ARTICLES

The Board proposed to make the following Subscription-related Amendments to the Articles, to take effect subject to and upon completion of the Subscription, in order to reflect the latest registered share capital of 1,184,021,255 Shares, comprising 566,975,091 Domestic Shares and 617,046,164 H Shares and shareholding structure of the Company as a result of the issue of the new H Shares (assuming there is no other change in the share capital of the Company since the Latest Practicable Date up to completion of the Subscription).

	<b>Original Articles</b>	<b>Amended Articles</b>
Article 20(1)	After the Company's establishment, upon the granting of approval from the China Securities Regulatory Commission on 7 December 2005, the Company issued 297,274,000 overseas listed foreign shares for the first time. On 7 February 2018, the Company issued 94,000,000 domestic shares by way of non-public issuance.	After the Company's establishment, upon the granting of approval from the China Securities Regulatory Commission on 7 December 2005, the Company issued 297,274,000 overseas listed foreign shares for the first time. On 7 February 2018, the Company issued 94,000,000 domestic shares by way of non-public issuance. <u><b>On [to insert the Completion Date at which the Subscription Shares have been issued (on the basis that the Completion having been occurred)], the Company issued 319,772,164 H shares by way of non-public issuance.</b></u>
Article 20(2)	The current shareholding structure of the Company is: the Company's total number of shares is 864,249,091 shares, among which 566,975,091 are domestic shares and 297,274,000 are overseas listed foreign shares.	The current shareholding structure of the Company is: the Company's total number of shares is <u><b>1,184,021,255</b></u> shares, among which 566,975,091 are domestic shares and <u><b>617,046,164</b></u> are overseas listed foreign shares.

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## LETTER FROM THE BOARD

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	<b>Original Articles</b>	<b>Amended Articles</b>
Article 20(3)	<p>The number of shares held by the promoters of the Company are as follows: Lingbao Stated-owned Assets Operation Co., Ltd* (靈寶市國有資產經營有限責任公司) holds 73,540,620 shares which represents 8.51% of the Company's total number of issued shares; Lingbao City Electric Company* (靈寶市電業總公司) holds 17,435,687 shares which represents 2.02% of the Company's total number of issued shares; Lingbao Jinxiang Auto Parts Co., Ltd* (靈寶市金象汽車零部件有限責任公司) holds 13,750,000 shares which represents 1.59% of the Company's total number of issued shares; and Lingbao Guoshi Mining Co., Ltd* (靈寶郭氏礦業有限責任公司) holds 12,250,000 shares which represents 1.42% of the Company's total number of issued shares.</p>	<p>The number of shares held by the promoters of the Company are as follows: Lingbao Stated-owned Assets Operation Co., Ltd* (靈寶市國有資產經營有限責任公司) holds 73,540,620 shares which represents <b><u>6.21%</u></b> of the Company's total number of issued shares; Lingbao City Electric Company* (靈寶市電業總公司) holds 17,435,687 shares which represents <b><u>1.47%</u></b> of the Company's total number of issued shares; Lingbao Jinxiang Auto Parts Co., Ltd* (靈寶市金象汽車零部件有限責任公司) holds 13,750,000 shares which represents <b><u>1.16%</u></b> of the Company's total number of issued shares; and Lingbao Guoshi Mining Co., Ltd* (靈寶郭氏礦業有限責任公司) holds 12,250,000 shares which represents <b><u>1.03%</u></b> of the Company's total number of issued shares.</p>
Article 23(1)	<p>The Company's registered capital is RMB172,849,818.2.</p>	<p>The Company's registered capital is <b><u>RMB236,804,251.</u></b></p>



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## LETTER FROM THE BOARD

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Further, based on the need for corporate management, the Board considers that it is necessary and in the interests of the Company and the Shareholders as a whole to propose the following Corporate Governance-related Amendments to the Articles:

	<b>Original Articles</b>	<b>Amended Articles</b>
Article 11	The term “senior management” herein shall include the Company’s Chairman and Vice Chairman of the Board of Directors, Executive Directors, members of the Management Executive Committee, the Secretary of the Board, President, Senior Executive Vice President and Chief Financial Officer.	The term “senior management” herein shall include <u>the Company’s Chairman, Vice Chairman, President, Vice President, the Secretary of the Board and Chief Financial Officer.</u>
Article 64	Prior forty-five days notice in writing informing all the registered shareholders of the matters to be examined at the meeting as well as the date and place of such meeting. Shareholders that intent to attend the general meeting shall, within twenty days prior to the meeting, deliver a written reply to the Company on meeting attendance.	<u>At least twenty business days’ notice in writing (announcement or circular) convening an annual general meeting and at least ten business days’ or fifteen day’s (whichever is longer) notice in writing (announcement or circular) convening an extraordinary general meeting</u> shall be given to those whose names appear on the register of shareholders, specifying the matters to be examined as well as the date and place of such meetings. Shareholders who intend to attend the annual general meeting shall, within <u>seven days prior to the meeting</u> , deliver a written reply to the Company on meeting attendance.



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## LETTER FROM THE BOARD

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### Original Articles

### Amended Articles

The announcement, notice and circular (as the case may be) in relation to, among other things, the disclosable transactions, major transactions, very substantial acquisitions or disposals, reverse takeovers as well as connected transactions (as defined in the Listing Rules) which is subject to pre-approval procedures by the stock exchange or the securities regulatory authority, may not be published until they are approved by such a stock exchange or securities regulatory authority.

Article 70 (first sentence of paragraph 1) Based on the written replies received 20 days prior to a general meeting, the Company shall calculate the number of voting shares represented by the shareholders intending to attend the meeting.

(first sentence of paragraph 1) Based on the written replies received **7 days** prior to a general meeting, the Company shall calculate the number of voting shares represented by the shareholders intending to attend the meeting.

Article 72 The notice of a general meeting shall be entitled to the shareholders (whether or not entitled to vote thereat) by assigned persons or pre-paid mail to the recipient's address shown in the register of shareholders or by being published on the website of the Company. For holders of the Domestic Shares, the notice of a general meeting may also be given by public announcement.

The notice of a general meeting shall be entitled to the shareholders (whether or not entitled to vote thereat) by assigned persons or pre-paid mail **(being circular)** to the recipient's address shown in the register of shareholders of the Company. For holders of the Domestic Shares, the notice of a general meeting may also be given by public announcement **(being notice)**.

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## LETTER FROM THE BOARD

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### Original Articles

The public announcement referred to in the preceding Article shall be published in one or more newspapers or periodicals designated by the competent securities department under the State Council during the period between 45 and 50 days before the meeting is held. Once the announcement is made, all holders of the Domestic Shares shall be deemed to have received the notice of the relevant shareholder's meeting.

The Company shall send the notice carried so onto the papers in the form of public announcement, to the sufficient communication extent, so as to enable the shareholders in Hong Kong to have the time sufficient enough to exercise respective rights or do the acts and things as required in the terms mentioned in such notice.

Article  
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(paragraph 1) When the Company is to hold a class meeting, it shall issue a prior 45 days notice in writing to the meeting to all the registered shareholders of that class to the effect that the matters to be examined at the class meeting as well as the date and place of the meeting. Shareholders that intend to attend the class meeting shall, within 20 days prior to the day of the meeting, deliver a written reply to the Company on meeting attendance.

### Amended Articles

The public announcement referred to in the preceding Article shall be **published on the designated website of the place where the securities of the Company are listed in accordance with the time specified in Article 64.** Once the announcement is made, all holders of the Domestic Shares shall be deemed to have received the notice of the relevant shareholder's meeting.

The Company shall send the notice in the form of public announcement published **on the designated website of the place where the securities of the Company are listed,** to the sufficient communication extent, so as to enable the shareholders in Hong Kong to have the time sufficient enough to exercise respective rights or do the acts and things as required in the terms mentioned in such notice.

(paragraph 1) When the Company is to hold a class meeting, it shall issue at least a prior **20 working days** notice in writing to the meeting to all the registered shareholders of that class to the effect that the matters to be examined at the class meeting as well as the date and place of the meeting. Shareholders that intend to attend the class meeting shall, within 7 days prior to the day of the meeting, deliver a written reply to the Company on meeting attendance.

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## LETTER FROM THE BOARD

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The Subscription-related Amendments to the Articles are subject to approval by the Independent Shareholders by way of special resolutions at the EGM, the Domestic Shareholders Class Meeting and the H Shareholders Class Meeting, and the approval of and registration or filing with the relevant PRC and Hong Kong authorities.

The Corporate Governance-related Amendments to the Articles are subject to approval by the Shareholders by way of special resolutions at the EGM, and the approval of and registration or filing with the relevant PRC and Hong Kong authorities.

In the event of any inconsistency between the English version and the Chinese version of the Articles, the Chinese version shall prevail.

The Directors are of the view that the Amendments to the Articles are fair, reasonable and in the interests of the Company and the Shareholders as a whole.

### **INDEPENDENT BOARD COMMITTEES**

Pursuant to the Listing Rules, the Connected Transaction IBC (comprising all the independent non-executive Directors) has been formed to advise the Independent Shareholders on the Subscription (including the grant of Specific Mandate and the approval of the Subscription Agreement). Pursuant to Rule 2.8 of the Takeovers Code, the Whitewash Waiver IBC (comprising the non-executive Directors (excluding Mr. Wang Guanran) and independent non-executive Directors who have no direct or indirect interest in the Subscription and the Whitewash Waiver) has also been formed to advise the Independent Shareholders on the Subscription (including the grant of Specific Mandate and the approval of the Subscription Agreement) and the Whitewash Waiver. Mr. Wang Guanran, a non-executive Director, is the chairman, legal representative and the ultimate controlling shareholder of the Subscriber and is therefore considered to be interested in the Subscription and/or the Whitewash Waiver. Therefore, he does not form part of the Whitewash Waiver IBC.

### **INDEPENDENT FINANCIAL ADVISER**

Octal Capital has been appointed as the Independent Financial Adviser with the approval of the Independent Board Committees to advise such committees and the Independent Shareholders as to whether the Subscription (including the grant of Specific Mandate and the approval of the Subscription Agreement) and the Whitewash Waiver (as the case may be) are fair and reasonable and make recommendation as to voting.

### **EGM, DOMESTIC SHAREHOLDERS CLASS MEETING AND H SHAREHOLDERS CLASS MEETING**

The EGM, the Domestic Shareholders Class Meeting and the H Shareholders Class Meeting will be convened to consider and, if thought fit, approve (i) the Subscription and the entering into and performance of the obligations of the Company under the Subscription Agreement; (ii) the grant of Specific Mandate for the allotment and issue of the Subscription Shares; (iii) the Whitewash Waiver; and (iv) the Amendments to the Articles.

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## LETTER FROM THE BOARD

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The notices convening the EGM, the Domestic Shareholders Class Meeting and the H Shareholders Class Meeting to be held on 3rd floor of the registered office of the Company at Hangu Road and Jingshan Road Intersection, Lingbao, Henan, the PRC originally scheduled on Friday, 31 December 2021 at 9:00 a.m., the time immediately after the conclusion of the EGM and the time immediately after the conclusion of the Domestic Shareholders Class Meeting, respectively or the adjournment thereof, have been despatched to the Shareholders and published on 12 November 2021. The EGM, the Domestic Shareholders Class Meeting and the H Shareholders Class Meeting have been adjourned to 9:00 a.m. on Monday, 17 January 2022, the time immediately after the conclusion of the adjourned EGM and the time immediately after the conclusion of the adjourned Domestic Shareholders Class Meeting, respectively. Please refer to the announcement of the Company dated 29 December 2021 for details of the adjournment of such meetings.

The reply slips and proxy forms for use for the EGM, the Domestic Shareholder Class Meeting and the H Shareholder Class Meeting have been despatched to the Shareholders on 12 November 2021. Whether or not you are able to attend the meetings, you are requested to complete the reply slips and forms of proxy in accordance with the instructions printed thereon and return it to the Company's office at Hangu Road and Jingshan Road Intersection, Lingbao, Henan, the PRC (in the case of Domestic Shareholders) or to Company's H share registrar, at 17M/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (in the case of H Shareholders), as soon as possible but in any event for reply slips, on or before Tuesday, 28 December 2021, and for forms of proxy not less than 24 hours before the time appointed for the holding of the adjourned meetings, or any further adjournment thereof. For the avoidance of doubt, the reply slips duly completed, signed and returned in accordance with the instructions printed thereon by the Shareholders shall remain valid for the purpose of the adjourned EGM, Domestic Shareholders Class Meeting and H Shareholders Class Meeting and the relevant Shareholders are not required to re-submit the reply slips.

For the avoidance of doubt, the proxy forms duly completed, signed and returned in accordance with the instructions printed thereon by the Shareholders shall remain valid for the purpose of the adjourned EGM, Domestic Shareholders Class Meeting and H Shareholders Class Meeting and the relevant Shareholders are not required to re-submit the proxy forms.

Completion and return of the form of proxy shall not preclude you from attending and voting in person at the meetings or any adjournment thereof should you so wish, and in such event, the proxy form shall be deemed to be revoked.

In order to determine the list of Shareholders who are entitled to attend and vote at the EGM, the H Shareholders Class Meeting, the H Share register of members of the Company was originally scheduled to be closed from Thursday, 2 December 2021 to Friday, 31 December 2021 (both days inclusive), during which period no transfer of H Shares will be registered. In order to determine the entitlement to attend and vote at the adjourned EGM and H Shareholders Class Meeting, the period of closure of the H Share register of members of the Company will be extended to Monday, 17 January 2022. Accordingly, no transfer of Shares will be registered during the period from Thursday, 2 December 2021 to Monday, 17

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## LETTER FROM THE BOARD

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January 2022 (both days inclusive). In order to attend the EGM and the H Shareholders Class Meeting, all share certificates, together with the instruments of transfers, must have been lodged for registration with the H Share registrar of the Company, Computershare Hong Kong Investor Services Limited at 17M/F Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Wednesday, 1 December 2021.

The voting at the EGM, the Domestic Shareholders Class Meeting and the H Shareholders Class Meeting will be conducted by way of poll. On a poll, every Shareholder present in person or by proxy or (being a corporation) by its duly authorised representative shall have one vote for each Share registered in his/her name in the register of Shareholders.

The Subscription (including the grant of Specific Mandate and the approval of the Subscription Agreement) and the Subscription-related Amendments to the Articles will be proposed by way of special resolutions at the EGM, the Domestic Shareholders Class Meeting and the H Shareholders Class Meeting to be approved by the Independent Shareholders. The Whitewash Waiver will be proposed by way of a resolution to be passed by at least 75%, and the Subscription (including the grant of the Specific Mandate and the approval of the Subscription Agreement) will be proposed by way of resolution(s) to be passed by more than two-third, in each case of the vote that are cast either in person or by proxy, respectively, at the EGM, the Domestic Shareholders Class Meeting and the H Shareholders Class Meeting for approval by the Independent Shareholders.

The Subscriber and the parties acting in concert with it and the Subscriber's associates, who are Shareholders, holding 185,339,000 Domestic Shares representing approximately 21.4% of the total issued Shares as at the Latest Practicable Date will abstain from voting on the resolutions to be proposed at the EGM, the Domestic Shareholders Class Meeting and the H Shareholders Class Meeting (if applicable) for approving the Subscription (including the grant of Specific Mandate and the approval of Subscription Agreement), the Whitewash Waiver and the Subscription-related Amendments to the Articles.

An announcement of the poll results of the EGM, the Domestic Shareholders Class Meeting and the H Shareholders Class Meeting will be published on the websites of the Stock Exchange and the Company.

### RECOMMENDATION

Your attention is drawn to (i) the letter from the Connected Transaction IBC set out on pages 29 to 30 of this circular which contains its recommendation to the Independent Shareholders on the terms of the Subscription (including the grant of Specific Mandate and the approval of Subscription Agreement); (ii) the letter from the Whitewash Waiver IBC set out on pages 31 to 32 of this circular which contains its recommendation to the Independent Shareholders on the terms of the Subscription Agreement (including the grant of Specific Mandate and the approval of Subscription Agreement) and the Whitewash Waiver; and (iii) the letter from Octal Capital set out on pages 33 to 53 of this circular containing its advice to the Connected Transaction IBC, the Whitewash Waiver IBC and the Independent Shareholders. The Independent Shareholders are advised to read the aforesaid letters before

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## LETTER FROM THE BOARD

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deciding as to how to vote on the resolutions approving, *inter alia*, the Subscription (including the grant of Specific Mandate and the approval of Subscription Agreement), the Whitewash Waiver and the Subscription-related Amendments to the Articles.

The Board (including members of the Connected Transaction IBC and the Whitewash Waiver IBC whose views are set out in the letter from the Connected Transaction IBC and the letter from the Whitewash Waiver IBC in this circular, respectively) considers the term of the Subscription (including the grant of Specific Mandate and the approval of Subscription Agreement) and the Whitewash Waiver to be fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Accordingly, the Board (including members of the Connected Transaction IBC and the Whitewash Waiver IBC whose views are set out in the letter from the Connected Transaction IBC and the letter from the Whitewash Waiver IBC in this circular, respectively) recommends all Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM, the Domestic Shareholders Class Meeting and/or the H Shareholders Class Meeting.

***WARNING: Completion of the Subscription is subject to the fulfilment or waiver (as applicable) of the conditions precedent in accordance with the Subscription Agreement. Accordingly, the Subscription may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Shares, and are recommended to consult their stockbroker, company manager, solicitor or other professional adviser if they are in any doubt about their position and as to actions that they should take.***

### ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in other sections of and the appendices to this circular.

Yours faithfully,  
For and on behalf of the Board  
**Lingbao Gold Group Company Ltd.**  
**Zeng Xiangxin**  
*Chairman*





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**Lingbao Gold Group Company Ltd.**

**靈寶黃金集團股份有限公司**

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

**(Stock Code: 3330)**

31 December 2021

*To the Independent Shareholders*

Dear Sir or Madam,

**CONNECTED TRANSACTION IN  
RESPECT OF THE SUBSCRIPTION AND  
ISSUANCE OF H SHARES UNDER SPECIFIC MANDATE**

We refer to the circular issued by the Company to the shareholders dated 31 December 2021 (the “**Whitewash Circular**”) of which this letter forms part. Terms defined in the Whitewash Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed as members of the Connected Transaction IBC to advise the Independent Shareholders in respect of the Subscription (including the grant of Specific Mandate and the approval of Subscription Agreement), details of which are set out in the letter from the Board in the Whitewash Circular, and to recommend how the Independent Shareholders should vote at the EGM, the Domestic Shareholders Class Meeting and H Shareholders Class Meeting. Octal Capital has been appointed as the Independent Financial Adviser with our approval to advise the Connected Transaction IBC and the Independent Shareholders in this regard.

We wish to draw your attention to the letter from the Board, the letter from Octal Capital and the additional information set out in the appendices of the Whitewash Circular. Having considered the terms of the Subscription Agreement (including the grant of the Specific Mandate and the approval of the Subscription Agreement) and the principal factors and reasons considered by and the opinion of the Independent Financial Adviser as set out in its letter of advice, we consider that although the entering into of the Subscription Agreement is not in the ordinary and usual course of business of the Company, the terms of the Subscription (including the grant of the Specific Mandate and the approval of the Subscription Agreement) are on normal commercial terms and are fair and reasonable as far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

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**LETTER FROM THE CONNECTED TRANSACTION IBC**

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Accordingly, we recommend you to vote in favour of the resolutions to be proposed at the EGM, the Domestic Shareholders Class Meeting and H Shareholders Class Meeting for approving the Subscription (including the grant of Specific Mandate and the approval of Subscription Agreement).

Yours faithfully,  
For and on behalf of the Connected Transaction IBC of  
**Lingbao Gold Group Company Ltd.**

**Mr. Wang Guanghua**  
*Independent*  
*Non-executive*  
*Director*

**Mr. Wang Jiheng**  
*Independent*  
*Non-executive*  
*Director*

**Mr. Xu Rong**  
*Independent*  
*Non-executive*  
*Director*

**Mr. Tan Chong Huat**  
*Independent*  
*Non-executive*  
*Director*





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**Lingbao Gold Group Company Ltd.**

**靈寶黃金集團股份有限公司**

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

**(Stock Code: 3330)**

31 December 2021

*To the Independent Shareholders*

Dear Sir or Madam,

**(1) CONNECTED TRANSACTION IN  
RESPECT OF THE SUBSCRIPTION AND  
ISSUANCE OF H SHARES UNDER SPECIFIC MANDATE; AND  
(2) APPLICATION FOR WHITEWASH WAIVER**

We refer to the circular issued by the Company to the shareholders dated 31 December 2021 (the “**Whitewash Circular**”) of which this letter forms part. Terms defined in the Whitewash Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed as members of the Whitewash Waiver IBC under the Takeovers Code to advise the Independent Shareholders as to whether, in our opinion, the Subscription (including the grant of Specific Mandate and the approval of Subscription Agreement) and the Whitewash Waiver, details of which are set out in the letter from the Board in the Whitewash Circular, are fair and reasonable so far as the Independent Shareholders are concerned and if they are in the interests of the Company and the Shareholders, and to recommend how the Independent Shareholders should vote at the EGM and Class Meetings. Octal Capital has been appointed as the Independent Financial Adviser with our approval to advise the Whitewash Waiver IBC and the Independent Shareholders in this regard.

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## LETTER FROM THE WHITEWASH WAIVER IBC

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We wish to draw your attention to the letter from the Board, the letter from Octal Capital and the additional information set out in the appendices of the Whitewash Circular. Having considered the terms of the Subscription Agreement (including the grant of the Specific Mandate and the approval of the Subscription Agreement) and the Whitewash Waiver and the principal factors and reasons considered by and the opinion of the Independent Financial Adviser as set out in its letter of advice, we consider that although the entering into of the Subscription Agreement is not in the ordinary and usual course of business of the Company, the terms of the Subscription (including the grant of the Specific Mandate and the approval of the Subscription Agreement) and the Whitewash Waiver are on normal commercial terms and are fair and reasonable as far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend you to vote in favour of the resolutions to be proposed at the EGM and the Domestic Shareholders Class Meeting and H Shareholders Class Meeting for approving the Subscription (including the grant of Specific Mandate and the approval of Subscription Agreement) and the Whitewash Waiver.

Yours faithfully,  
For and on behalf of the Whitewash Waiver IBC of  
**Lingbao Gold Group Company Ltd.**

<b>Mr. Zhang Feihu</b>	<b>Mr. Wang Guanghua</b>	<b>Mr. Wang Jiheng</b>	<b>Mr. Xu Rong</b>	<b>Mr. Tan Chong Huat</b>
<i>Non-executive Director</i>	<i>Independent Non-executive Director</i>	<i>Independent Non-executive Director</i>	<i>Independent Non-executive Director</i>	<i>Independent Non-executive Director</i>

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## LETTER FROM OCTAL CAPITAL

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*The following is the full text of the letter of advice from Octal Capital Limited to the Independent Board Committees and the Independent Shareholders in respect of the Subscription and the Whitewash Waiver.*



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

*To the Independent Board Committees and the Independent Shareholders*

31 December 2021

Dear Sirs,

### **(1) CONNECTED TRANSACTION — SUBSCRIPTION AND ISSUANCE OF H SHARES UNDER SPECIFIC MANDATE; AND (2) APPLICATION FOR WHITEWASH WAIVER**

#### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committees and the Independent Shareholders in relation to the Subscription and Whitewash Waiver, details of which are contained in the letter from the Board (the “**Letter from the Board**”) in the circular of the Company dated 31 December 2021 (the “**Circular**”). Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in the Circular.

On 11 November 2021 (after trading hours), the Board announced that the Company and the Subscriber entered into the Subscription Agreement, pursuant to which the Company has conditionally agreed to issue and allot, and the Subscriber has conditionally agreed to subscribe for 319,772,164 H Shares, representing approximately 37.0% of the issued share capital of the Company as at the Latest Practicable Date and approximately 27.0% of the enlarged share capital of the Company after the completion of the Subscription, at the Subscription Price of HK\$0.85 per Subscription Share.

As at the Latest Practicable Date, the Subscriber holds 185,339,000 Domestic Shares, representing approximately 21.4% of the total issued Shares. As the Subscriber is a substantial shareholder of the Company and therefore a connected person of the Company, the Subscription constitutes a connected transaction for the Company and is subject to the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Upon completion of the Subscription, the Subscriber and parties acting in concert with it will together be interested in a total of 185,339,000 Domestic Shares and 319,772,164 H Shares in the Company, which represent approximately 42.7% of the total issued Shares (as

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## LETTER FROM OCTAL CAPITAL

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enlarged by the Subscription Shares and assuming there will be no other change in the issued share capital of the Company since the Latest Practicable Date and up to the completion of Subscription).

As such, under Rule 26.1 of the Takeovers Code, the allotment and issuance of the Subscription Shares to the Subscriber will give rise to an obligation on the part of the Subscriber to make a mandatory general offer for all the securities of the Company not already owned or agreed to be acquired by the Subscriber and parties acting in concert with it unless the Whitewash Waiver is obtained from the Executive. The Subscriber has made an application to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code.

Pursuant to the Listing Rules, the Connected Transaction IBC has been formed to advise the Independent Shareholders on the Subscription. Pursuant to the Takeovers Code, the Whitewash Waiver IBC has been formed to advise the Independent Shareholders on the Subscription and the Whitewash Waiver.

As at the Latest Practicable Date, we, Octal Capital Limited, are not connected with the directors, chief executives and substantial shareholders of the Company or the Subscriber or any of their respective subsidiaries or associates or parties acting in concert with any of them and do not have any shareholding, directly or indirectly, in any members of the Company or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Company. We are therefore considered suitable to give independent advice to the Independent Board Committees and the Independent Shareholders.

During the last two years, other than this appointment concerning the Subscription and the Whitewash Waiver, we have not entered into any engagement with the Company, the Subscriber or any of their respective subsidiaries or associates. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we have or will receive any fees or benefits from the Group or any director, chief executive or substantial shareholders of the Company, the Subscriber or any of its subsidiaries, or their respective associates.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the date of the Circular. We have also relied on our discussion with the Directors and the management of the Company on the terms of the Subscription and the Whitewash Waiver, including the information and representations contained in the Circular. We consider that we have reviewed sufficient information, among other things, (i) the Subscription Agreement; (ii) the annual reports of the Company for each of the two years ended 31 December 2019 and 31 December 2020 (“**2020 Annual Report**”); (iii) the interim report of the Company for the six months ended 30 June 2021 (“**1H2021 Interim Report**”); (iv) other information as set out in the Circular; and (v) relevant market data and information available from public sources, to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable

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## LETTER FROM OCTAL CAPITAL

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basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and management of the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Company, the Subscriber and their respective associates nor have we carried out independent verification of the information supplied to us.

The Directors jointly and severally accept full responsibility for the accuracy of the information (other than any information relating to the Subscriber and parties acting in concert with it) contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed (other than those expressed by directors of the Subscriber) in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

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

Should there be any subsequent material changes which occur during the period from the Latest Practicable Date up to the date of the EGM, we will notify the Independent Board Committees and the Independent Shareholders as soon as possible.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

#### **1. Background of the Subscriber**

The Subscriber is a joint stock company established under the laws of the PRC with limited liability on 12 March 2010. The Subscriber is an enterprise holding group focusing on industries investments.

The Subscriber is majority-owned as to approximately 52.26% by Beijing Jiesi Weiye Co., Ltd (北京傑思偉業控股有限公司), which in turn is owned as to approximately 93.04% and 6.96% by Mr. Wang Guanran and two limited liability partnerships whose general partner is Mr. Wang Guanran, respectively (noting that the share transfer agreement has been entered into between Mr. Wang Weidong and Mr. Wang Guanran to transfer the 99% interests in each of the two limited liability partnerships from Mr. Wang Weidong to Mr. Wang Guanran and Mr. Wang Guanran has become the general partner of the two limited liability partnerships, where the registration with the local industry and commerce authority has yet been completed, but the share transfer agreement is legally binding and the consideration has been fully paid). The Subscriber is also directly owned as to approximately 5.79% by Mr. Wang Guanran.

## LETTER FROM OCTAL CAPITAL

The Subscriber may conduct the Subscription by itself and/or an entity wholly controlled and/or managed by it (regardless of whether the entity is a limited company, partnership, fund or other entity and where it is incorporated), which subscribes for the Subscription Shares by means of, including but not limited to, outbound direct investment (ODI), qualified domestic institutional investor (QDII) or any other means that comply with the laws and regulations in the relevant jurisdictions (“**Final Subscriber Entity**”).

### 2. Background, financial information and prospects of the Group

The Company is a joint stock company established under the laws of the PRC with limited liability, the H Shares of which are listed on the Main Board of the Stock Exchange. The Group is principally engaged in the businesses of mining, processing, smelting and sales of gold and other metallic products in the PRC.

The summary of the consolidated financial information of the Group for the years ended 31 December 2019 (“**FY2019**”) and 2020 (“**FY2020**”) and the six months ended 30 June 2020 (“**1H2020**”) and 30 June 2021 (“**1H2021**”) extracted from 2020 Annual Report and 1H2021 Interim Report respectively are set out as follows:

#### (a) *Financial Performance of the Group*

<i>RMB' million</i>	For the year ended 31 December		For the six months ended 30 June	
	2019 (audited)	2020 (audited)	2020 (unaudited)	2021 (unaudited)
Sale of gold bullion	5,102	5,168	2,418	2,019
— Sales volume (kg)	16,469	13,350	6,547	5,347
— Average unit price (RMB/kg)	309,853	387,184	369,378	377,514
Sale of other metals and products	772	432	147	194
Total revenue	5,874	5,600	2,565	2,214
Gross profit	360	655	234	225
Gross profit margin	6.1%	11.7%	9.1%	10.2%
Other revenue	33	76	27	23
Other net loss and expenses	(414)	(444)	(148)	(149)
Finance costs	(182)	(165)	(62)	(38)
Share of profits of associates	—	—	—	4
(Loss)/profit before taxation	(203)	122	52	66
Net (loss)/profit attributable to owners of the Company	(234)	90	28	52

#### (i) *Comparison between FY2020 and FY2019*

The Group’s revenue decreased from approximately RMB5,874 million for FY2019 to approximately RMB5,600 million for FY2020, representing a decrease of approximately RMB274 million or 4.7%, which was mainly attributable to (i) the decrease in sales of copper products and gold concentrates; and (ii) the decrease in sales of gold bullion processed from compound gold purchased from

the external suppliers as its gross profit margin was relatively lower. Although the revenue decreased during FY2020, the gross profit margin increased from 6.1% in FY2019 to 11.7% in FY2020. The increase in gross profit margin was mainly due to the increase in sales of gold bullion processed from the gold concentrates produced from the Group's own mines, which has higher gross profit margin than that of the gold bullion processed from the compound gold purchased from external suppliers. The Group recorded net loss attributable to owners of the Company amounted to approximately RMB234 million for FY2019 which turned into net profit attributable to owners of the Company amounted to approximately RMB90 million for FY2020. The increase in net profit attributable to owners of the Company was mainly due to the increase in gross profit margin as the Company reduced the production and sales of gold bullion processed from compound gold purchased from external suppliers which have a lower gross profit margin.

*(ii) Comparison between 1H2021 and 1H2020*

The Group's revenue decreased from approximately RMB2,565 million for 1H2020 to approximately RMB2,214 million for 1H2021, representing a decrease of approximately RMB351 million or 13.7%, which was mainly attributable to the decrease in the production and sales of gold bullion due to the road maintenance works in the vicinity of the smelting plant, and the downward oscillation of the international gold prices since the beginning of the 2021. Although the revenue decreased during 1H2021, the gross profit margin increased from approximately 9.1% in 1H2020 to approximately 10.2% in 1H2021. The increase in gross profit margin was mainly due to the increase in sales of gold bullion processed from the gold concentrates produced from the Group's own mines, which has higher gross profit margin than that of the gold bullion processed from the compound gold purchased from external suppliers. The Group recorded net profit attributable to owners of the Company amounted to approximately RMB52 million for 1H2021, representing an increase of approximately RMB24 million or 85.7% as compared to that for 1H2020. The increase in net profit attributable to owners of the Company was mainly due to the decrease in finance costs after the repayment of bank and other borrowings during 1H2021.



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**LETTER FROM OCTAL CAPITAL**

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**(b) Financial Position of the Group**

<i>RMB' million</i>	<b>As at 31 December 2020 (audited)</b>	<b>As at 30 June 2021 (unaudited)</b>
<b>Non-current Assets</b>	3,129	3,347
— Property, plant and equipment	1,364	1,337
— Other non-current assets	1,765	2,010
<b>Current Assets</b>	3,575	3,166
— Inventories	1,779	1,385
— Pledged deposits	1,394	1,462
— Cash and cash equivalents	133	126
— Other current assets	269	193
<b>Total Assets</b>	6,704	6,513
<b>Current Liabilities</b>	4,898	4,563
— Bank and other borrowings	3,761	3,368
— Other current liabilities	1,137	1,195
<b>Non-current Liabilities</b>	195	289
<b>Total Liabilities</b>	5,093	4,852
<b>Net Current Liabilities</b>	(1,323)	(1,397)
<b>Total Equity</b>	1,611	1,661
<b>Equity attributable to the equity holders of the Company</b>	1,783	1,842
Gearing Ratio (Total bank and other borrowings/Total assets)	56.1%	51.7%
Current Ratio	0.73	0.69
Net asset value per share (H + A) ( <i>RMB/Share</i> )	2.06	2.13

*Comparison between 1H2021 and FY2020*

The total assets of the Group amounted to approximately RMB6,513 million as at 30 June 2021 in which the property, plant and equipment, inventories and pledged deposits in aggregate amounted to approximately RMB4,184 million, representing 64.2% of the total assets of the Group. The cash and cash equivalents of the Group was thin, amounted to approximately RMB126 million, representing approximately 1.9% of the total assets of the Group.

The total liabilities of the Group amounted to approximately RMB4,852 million as at 30 June 2021 in which bank and other borrowings amounted to approximately RMB3,368 million, representing 69.4% of the total liabilities of the Group.

The gearing ratio of the Group was approximately 51.7% and the current ratio of the Group was approximately 0.69 times as at 30 June 2021.



*(c) Prospects of the Group*

The outbreak of the COVID-19 has severely affected the overall economic activities in the PRC including the production of the gold. It is uncertain that how the pandemic will continue affecting the business of the Group in the PRC, especially the pandemic prevention measures (for example, lockdown of cities, travel control and the restriction in resuming working) may be imposed again by the PRC government from time to time. These prevention measures may affect the production and operation activities of the Group, including purchase of raw materials, sales, transportation and mining. Having seen that the PRC government has not relaxed all the pandemic restrictions and even has re-imposed regional travel restrictions or has extended the quarantine time for overseas arrivals once confirmed COVID-19 cases are identified, it is expected that these pandemic restrictions will likely last for a period of time.

Moreover, the gold price has been fluctuated during the outbreak of the pandemic, the gold price was US\$1,525 per troy ounce at the beginning of January 2020, and surged to US\$2,056 per troy ounce in August 2020 and dropped to US\$1,782 at the end of October 2021. Furthermore, as disclosed in 2020 Annual Report, the PRC government has been tightening the regulations in relation to the environment and safety policies of the mining industry. A higher compliance cost will be required in order to comply with the relevant environment and safety regulations and to avoid suspension of operation of mine and smelting plants.

Although the Group has been facing certain difficulties in the operation of its business during the outbreak of COVID-19, the Group has been turned around from the loss-making position in FY2019 to the thin profitable position in FY2020 and 1H2021, mainly due to the improvement in gross profit through changing its production mix, whereby the Group increased its output of gold bullion that are produced from the Group's own mines and reduced the production of gold bullion processed from compound gold purchased from external suppliers (the gross profit margin of which is relatively lower). As disclosed in 2020 Annual Report, the Group will continue to strive to improve its financial performance amid the economic uncertainties by increasing the mining output from its own mines and implementing cost reduction measures.

In view of the short-term uncertainty of the COVID-19 pandemic, as disclosed in 2020 Annual Report, the Group will continue to arrange pandemic prevention measures and operation adjustments to maintain the Group's stable operation and minimize the impact on the Group. From a long-term perspective, in particular the movement of gold price and the tightening environment and safety regulations, the Company will take a prudent approach in the future development of the Group with the main corporate objective to increase the production of gold bullion that are produced from the Group's own mines in order to improve its profit margin.

### **3. Use of proceeds and reasons for the Subscription**

The net proceeds from the Subscription (after deducting all applicable costs and expenses, including the legal fees) are expected to be approximately HK\$265.6 million.

The Company intends to apply the net proceeds from the Subscription for as to:

- (i) approximately HK\$139.2 million for financing of the deep exploration of Henan Lingjin No. 1 Mine (the “**Exploration Project**”). The total exploration cost is approximately HK\$278.3 million, of which approximately HK\$47.2 million has been paid. The exploration cost is expected to be fully settled by the end of 2023;
- (ii) approximately HK\$41.7 million for financing of the construction and setting up of cyanide-containing sewage desalination facilities (the “**Construction Project**”). The total investment cost of the project is approximately HK\$44.8 million, of which approximately HK\$3.1 million has been paid; and
- (iii) approximately HK\$84.7 million as general working capital of the Group, mainly for purchases of gold concentrates for production of gold bullion.

As advised by the Directors, the Exploration Project has been commenced since 2014 and was operated by third party contractors. Since the relevant work of the Exploration Project had been completed earlier than the original schedule and the Group is consolidating its mining assets, the Company entered into a termination agreement with the third party contractors in May 2021 in relation to the deep exploration of Henan Lingjin No. 1 Mine. Based on the termination agreement, the settlement fee of approximately RMB230 million (equivalent to approximately HK\$278 million) will be payable by the Group to the third party contractors by three installments, among of which approximately RMB78 million (equivalent to approximately HK\$94 million) will be settled in 2021 and approximately RMB76 million (equivalent to approximately HK\$92 million) will be settled in each of 2022 and 2023. The mining assets constructed by third party contractors in Henan Lingjin No. 1 Mine will be transferred to the Group and the Group will continue to operate the Henan Lingjin No. 1 Mine. The Company intends to apply major part of the net proceeds from the Subscription to settle the settlement fee due in 2021 and 2022. As disclosed in 2020 Annual Report, the Group is integrating and consolidating its whole business process to increase the output of gold bullions that are produced from the Group’s own mines. The Directors are of the view that operating the Henan Lingjin No. 1 Mine by the Group itself will improve operation efficiency and whereby increasing the production volume of gold concentrate from the Group’s mining segment and is in line with the corporate strategy of the Group.

In January 2021, a subsidiary of the Company entered into a construction agreement with a constructor for the Construction Project of approximately RMB35.8 million (equivalent to approximately HK\$43 million). Based on the construction agreement, the Construction Project was originally expected to be completed in November 2021. The construction fee would be payable by the Group based on the construction progress. Due to the delay in the construction progress, the subsidiary of the Company has entered into a supplemental agreement with the constructor to extend the construction period to April

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## LETTER FROM OCTAL CAPITAL

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2022. The Construction Project, which is one of the key projects disclosed in 1H2021 Interim Report, will upgrade the Company's environmental protection standards. The new facilities will also increase the overall recovery rates of gold at the Group's smelting facilities. Moreover, the new facilities will reduce the unit cost of production of gold bullion by reducing the wastage of materials during production process, the sewage treatment cost and utility cost.

The Company intends to apply approximately HK\$84.7 million of the net proceeds from the Subscription for the purchases of gold concentrates for production of gold bullion and such procurement is the ordinary business activity of the Group. Gold concentrates, which are one of the major raw materials for the production of gold bullion, are either sourced from the Group's own mines or external suppliers. As advised by the Directors, the Group processes approximately 21,000 tonne of gold concentrates per month. The estimated amount of gold concentrates to be purchased by using the net proceeds from the Subscription is approximately 4,700 tonne, which accounts for approximately 22% of the monthly processing amount of gold concentrates and is approximately 2.3% of the procurement cost of gold concentrates from the external suppliers in FY2020. The Directors advised that despite the Group's strategy to reduce the production of gold bullion processed from compound gold purchased from external suppliers and increase the output of gold bullion that are produced from the Group's own mines, the amount of gold bullion produced from the Group's own mines is insufficient to support the Group's scale of production. Therefore, the Group still need to purchase gold concentrates from external suppliers for the production of gold bullion. In view of the above, the amount of proceeds from the Subscription to be allocated for the purchases of gold concentrates does not contradict with the Group's production strategy and is beneficial to the Group's operations as it could alleviate the funding pressure of the Group.

We concur with the Directors that allocating the net proceeds from the Subscription to the Exploration Project and the Construction Project are in line with the corporate strategy and planning, and the use of proceeds provide a long term benefit to the Group's business.

As at 30 June 2021, the cash and cash equivalents balance of the Group was approximately RMB125.9 million. The Group had total borrowings of approximately RMB3,368.2 million with gearing ratio and current ratio of approximately 51.7% and 0.69 times as at 30 June 2021 respectively. Moreover, the Group was at net current liabilities position of approximately RMB1,396.9 million as at 30 June 2021. All the loans of the Group shall be repayable within one year. As at 30 June 2021, the Group had unutilised short-term bank facilities (including trade line and loan facilities) of approximately RMB1,603.0 million, of which approximately RMB474.0 million were directly related to bank loan facilities. In view of the aforesaid financial position of the Group, there is an immediate need for the Group to strengthen its financial resources for satisfying its internal financial obligations and supporting its daily operation. In particular, given the current cash and cash equivalents balance of the Group is insufficient to finance the outstanding payments for the deep exploration of Henan Lingjin No. 1 Mine and the construction of cyanide-containing sewage desalination facilities. The net proceeds from the Subscription provide partial funding to fulfil such payment obligations.

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## LETTER FROM OCTAL CAPITAL

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With reference to the operating expenses of the Group of approximately RMB281.7 million for FY2020, the Directors consider that the current cash and cash equivalents of the Group should be reserved for settling the operating expenses of the Group. Notwithstanding that the Group had unutilised short-term bank loan facilities of approximately RMB474.0 million as at 30 June 2021, in view of the current high gearing ratio and net current liabilities position of the Group, the Directors considered that bank borrowing is not a preferred means of fundraising under the Group's current circumstances. The net proceeds from the Subscription, which will be utilised to supplement the general working capital, could slightly alleviate the funding pressure of the Group and improve the financial position of the Group.

The Directors considered that, utilising the existing bank facilities will further deteriorate the Group's financial position and gearing ratio and increase the finance cost of the Group. Furthermore, the unutilised bank facilities serve as an immediate funding source for the Group to meet its short term funding needs. We concur with the Directors that such short-term facilities are not appropriate to match with the Construction Project and the Exploration Project which are long term investments in nature. Having considered the Group's financial information and the usage of the unutilised bank facilities, the Directors considered that the usage of unutilized bank facilities is not a preferable choice for financing the Construction Project and the Exploration Project.

According to the Directors, they have considered alternative equity fund-raising methods, including rights issue or open offer. We understand that the Directors have considered the possibility of a rights issue or an open offer exercise as it is offered to all Shareholders on a pro-rata basis.

However, the Directors are of the view that they are not the best fund-raising options for the Group at the moment, having taken into account that (i) a rights issue or an open offer exercise will generally require a relatively lengthy process including but not limited to, the preparation of the requisite compliance and legal documentation (such as prospectus and application forms etc.); (ii) while a rights issue or an open offer requires the preparation of a circular and shareholder's approval same as the Subscription, extra administrative costs would be involved in the case of a rights issue or an open offer, including the printing cost for the prospectus and application forms and other professional fees in relation to the preparation of such documents; and (iii) if the rights issue or open offer is underwritten, an underwriting commission would be incurred. With reference to the rights issue and open offer transactions conducted in the period between July 2021 and November 2021, the underwriting commission was in the range of 1.5% to 4.0% of the gross proceeds. Moreover, amid uncertain economic atmosphere brought by the COVID-19 pandemic, it is uncertain whether the Company would identify an underwriter for rights issue or open offer exercise with acceptable terms. The Subscription, on the other hand, could provide a higher certainty to the Company to raise the amount of funds as required.

We have further discussed and understood from the Directors for the possibility of additional borrowings from the existing and new bankers. According to the 1H2021 Interim Report, the Group has already indebted to banks for secured bank loans of approximately RMB3,368 million as at 30 June 2021 and recorded net current liabilities of approximately

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## LETTER FROM OCTAL CAPITAL

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RMB1,397 million. The Group is in a high leverage status with a gearing ratio of 51.7% as at 30 June 2021. Having considered the above, the Directors are of the view that the additional borrowings will further increase the finance cost of the Group and it may not be feasible for the Group to obtain additional borrowings with terms favorable to the Group. Debt financing from banks or money lenders may be subject to lengthy due diligence and internal risk assessment process. Under such circumstances, the debt financing from banks or money lenders is not a preferable choice.

Having considered the above, we concur with the Directors that the Group has a genuine funding need for its business operations and the Subscription can provide the Group with new funding for its operation without further jeopardising its gearing level. Based on the foregoing, we are of the view that the Subscription is the most preferred means of fundraising under the Group's current circumstances.

#### 4. Principal terms of the Subscription Agreement

The major terms of the Subscription Agreement are set out as follows:

Parties : D&R Asset Management Group Co. Ltd. (as subscriber);  
and

The Company (as issuer).

Number of Subscription Shares to be issued : 319,772,164 H Shares will be issued at the Subscription Price of HK\$0.85 per H Share under the Subscription, which represents (i) approximately 107.6% of the existing number of issued H Shares and approximately 37.0% of the issued Shares as at the Latest Practicable Date; and (ii) approximately 51.8% of the enlarged number of issued H Shares and approximately 27.0% of the enlarged issued Shares immediately after completion of the Subscription.

Subject to the conditions precedent of the Subscription, the Subscription Shares will be issued and allotted to the Subscriber (or its designated person(s) as to facilitate settlement of the Subscription Shares) on the Completion Date.

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Subscription Price : HK\$0.85 per H Share represents:

- (i) a discount of approximately 12.4% to the closing price of HK\$0.97 per H Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 10.9% to the average closing price of approximately HK\$0.954 per H Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day;
- (iii) a discount of approximately 11.0% to the average closing price of approximately HK\$0.955 per H Share as quoted on the Stock Exchange for the ten consecutive trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 7.6% to the closing price of HK\$0.92 per H Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (v) a discount of approximately 63.4% to the unaudited net asset value per Share of approximately HK\$2.32 per Share based on the unaudited net asset value of the Company of approximately RMB1,660.3 million (equivalent to approximately HK\$2,009.0 million) as at 30 June 2021.

The Subscription Price was determined after arm's length negotiation between the Company and the Subscriber which has taken into account, among others, (i) the prevailing market price of the H Shares; (ii) the current market condition; (iii) the low trading volume of the H Shares; and (iv) the amount of funds the Company intends to raise under the Subscription for the purposes described in the section headed "Use of proceeds and reasons for and benefits of the Subscription" in the Letter from the Board.



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Expected proceeds from : The gross proceeds from the Subscription will be the Subscription approximately HK\$271.8 million and the net proceeds from the Subscription will be not less than approximately HK\$265.6 million (after deduction of expenses of the Subscription). The estimated net subscription price for each Subscription Share will be approximately HK\$0.83.

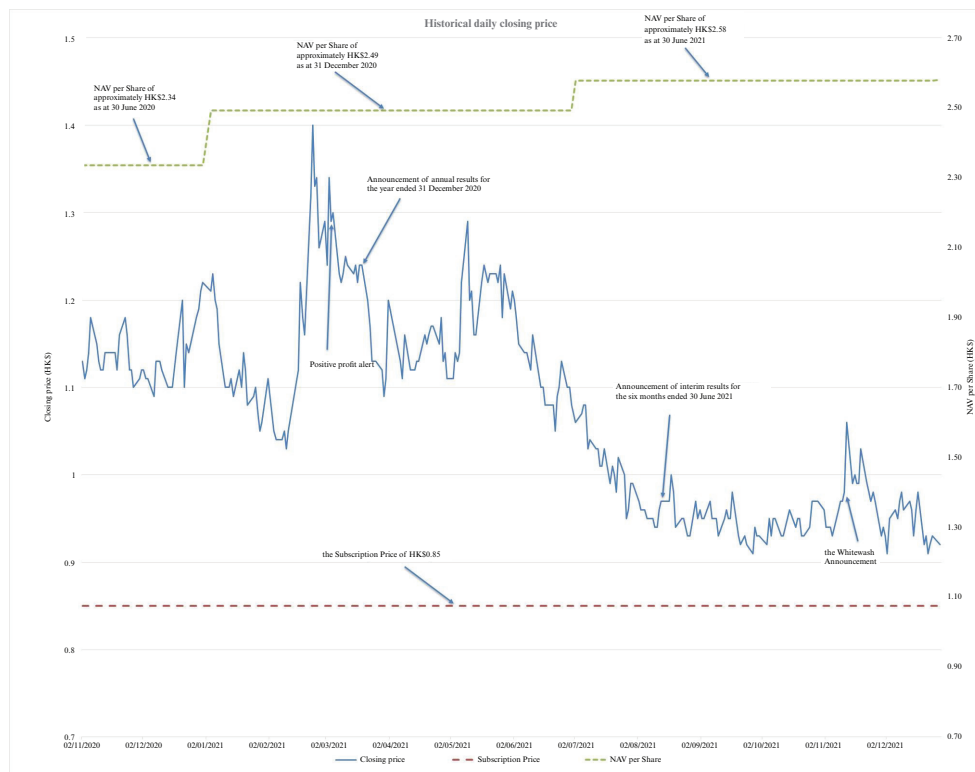
Further details of the Subscription Agreement are set out in Letter from the Board.

### 5. Analysis of the Subscription Price

For the purpose of assessing the fairness and reasonableness of the Subscription Price, we have compared the Subscription Price with reference to the historical price performance and the liquidity of the H Shares as follows:

#### (a) Historical H Share price performance

Set out below is a chart showing the daily closing prices of the H Shares as quoted on the Stock Exchange during the period from 1 November 2020 up to the Latest Practicable Date (the “Review Period”). We consider that the duration of the Review Period of slightly over one year would be a reasonable and sufficient period to illustrate the recent closing price movement of the H Shares.



Source: The website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk))



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As illustrated in the chart above, the H Shares were generally traded above HK\$1 for most of the trading days during the Review Period, which accounted for 179 trading days out of a total of 287 trading days (approximately 62.4%) during the Review Period. The H Shares closing price fluctuated within the range from HK\$1.03 to HK\$1.23 during November 2020 to mid of February 2021 and subsequently increased to the highest closing price during the Review Period of HK\$1.4 on 23 February 2021. Despite the Company published the positive profit alert announcement on 4 March 2021, the closing price was still declining and dropped below HK\$1 per H Share on 19 July 2021 and continued to exhibit a general downward trend. After the Whitewash Announcement was made on 11 November 2021, the closing price increased to HK\$1.06 on 12 November 2021 and then exhibited another downward movement. As advised by the Directors, they were not aware of any specific reasons for the price movement after the publication of the positive profit alert announcement on 4 March 2021 and the Whitewash Announcement. The lowest closing price during the Review Period was HK\$0.91 on 27 September 2021, 2 December 2021 and 22 December 2021. The average closing price of H Shares during the Review Period was approximately HK\$1.07 per H Share.

During the Review Period, the Subscription Price represented (i) a discount of approximately 39.3% to the highest closing price of the H Shares; (ii) a discount of approximately 6.6% to the lowest closing price of the H Shares; and (iii) a discount of approximately 20.6% to the average closing price of the Shares. The Subscription Price represented a discount to the average closing price of the Shares and the Subscription Price is below the closing share price throughout the Review Period.

As compared with the net asset value (“NAV”) per Share, the closing prices of H Shares during the Review Period had been traded below the NAV per Share. The average closing price of H Shares during the Review Period of approximately HK\$1.07 represented a discount of (i) approximately 57.0% to the audited net asset value attributable to equity shareholders of the Company of approximately HK\$2.49 per Share as at 31 December 2020; and (ii) approximately 58.5% to the unaudited net asset value attributable to equity shareholders of the Company of approximately HK\$2.58 per Share as at 30 June 2021.

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**(b) Liquidity of the H Shares**

The table below sets out the monthly statistics of the average daily volume of the Shares per month and the respective percentages of the average daily trading volume as compared to the total number of issued H Shares during the Review Period:

<b>Month</b>	<b>Total trading volume of H Shares (Shares)</b>	<b>Number of trading days in the month (days)</b>	<b>Average daily trading volume of H Shares (Shares) (Note 1)</b>	<b>Percentage of average daily trading volume over total number of issued H Shares held by public H Shareholders % (Note 2)</b>
<b>2020</b>				
November	5,548,800	21	264,229	0.09
December	6,362,000	22	289,182	0.10
<b>2021</b>				
January	8,268,130	20	413,407	0.14
February	25,970,000	18	1,442,778	0.49
March	6,742,000	23	293,130	0.10
April	8,470,000	19	445,789	0.15
May	15,564,000	20	778,200	0.26
June	7,006,000	21	333,619	0.11
July	16,430,010	21	782,381	0.26
August	5,737,510	22	260,796	0.09
September	9,071,000	21	431,952	0.15
October	3,087,000	18	171,500	0.06
November	8,676,000	22	394,409	0.13
December (up to the Latest Practicable Date)	5,106,000	19	268,737	0.09

Source: The website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk))

Note:

1. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days in the respective month/period.
2. The calculation is based on the average daily trading volume of H Shares divided by the total number of H Shares in issue at the end of each month/period.

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As illustrated in the above table, the average daily trading volume of H Shares during the Review Period was generally low with a range from approximately 171,500 H Shares to approximately 1,442,778 H Shares, representing 0.06% to approximately 0.49% of the total number of the H Shares in issue as at the end of the relevant month/period. During the Review Period, the total trading volume of H Shares increased moderately in February, May and July 2021, being more than 10 million of H Shares, hence, the average daily trading volume of H Shares were relatively thin and inactive throughout the Review Period. The low liquidity of the H Shares may imply the lack of interest from potential investors to in the H Shares and as such, it may be difficult for the Company to conduct other equity financing alternatives when considering fund raising exercises in the market such as rights issue or open offer.

As mentioned in the above sub-section that the closing share prices during the Review Period were all traded below the net asset value attributable to the equity shareholders of the Company with the average closing share prices representing a deep discount thereto, the Directors considered that it is commercially sound to make reference to the net asset value attributable to the equity shareholders of the Company when determining the Subscription Price and instead the market condition was the key factor considered, such as prevailing market prices, trading performance of the H Shares and market sentiment of the Group's businesses. In light of the above and the trading of the H Shares is not considered as active, setting the Subscription Price at a discount could provide more incentive for the Subscriber to participate in the Subscription. Although the Subscriber is a substantial Shareholder and presumably have no intention to dispose of the shareholding, the Directors consider that such fact did not affect the consideration in determining the Subscription Price on an arm's length basis. Given (i) the closing price of H Shares is in a downward trend, (ii) the closing prices of the H Shares were all traded below the net asset value attributable to equity shareholders of the Company during the Review Period; and (iii) the daily trading volume of H Shares is considered as thin, we are of the view that it is reasonable to set the Subscription Price at a discount to the latest H Share prices to balance the low liquidity of the H Shares during the Review Period.

### *(c) Industry comparable analysis*

In order to assess the fairness and reasonableness of the Subscription Price, we have tried to consider the price-to-earnings multiple (the "**P/E Ratio**") and the price-to-book multiple (the "**P/B Ratio**") implied by the Subscription Price and the P/E Ratio and the P/B Ratio of market comparable companies listed in the stock exchange in Hong Kong. Given that (i) the Group is in profit-making position for FY2020; and (ii) the Group is engaged in mining and sales of gold which is capital-intensive in nature, we considered that the P/E Ratio and the P/B Ratio are appropriate parameters for evaluating the valuation of profit-generating and asset-heavy entities.

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- *P/E Ratio Analysis*

While the Company is principally engaged in mining, processing, smelting and sales of gold and other metallic products in the PRC, we have independently performed research to identify comparable companies which are: (i) principally engaged in the gold mining and sales of gold; (ii) more than 50% of their revenue generated from gold mining and sales of gold in the latest financial year; (iii) with gold mines in the PRC; (iv) listed on the Stock Exchange; and (v) with market capitalisation as at the Last Trading Day of HK\$1 billion or below (with reference to the market capitalisation of the Company as at the Last Trading Day of approximately HK\$838 million). To the best of our knowledge, we have identified an exhaustive list of four companies fulfilled our selection criteria (the “**Industry Comparables**”). None of them has recorded profit in their latest financial year.

- *P/B Ratio Analysis*

Based on the aforesaid criteria, the P/B Ratio of the Industry Comparables are summarized as follow:

<b>Company Name</b>	<b>Market capitalisation as at the Last Trading Day</b> <i>(Note 1)</i> <i>(HK\$ million)</i>	<b>Net asset attributable to owners of the company</b> <i>(Note 2)</i> <i>(HK\$ million)</i>	<b>P/B Ratio</b> <i>(Note 3)</i> <i>(times)</i>
China Billion Resources Limited (274)	644	247	2.6
King Stone Energy Group Limited (663)	356	283	1.3
Bay Area Gold Group Limited (1194)	115	4,224	0.03
Grand TG Gold Holdings Limited (8299)	57	215	0.3
		<b>Maximum</b>	2.6
		<b>Minimum</b>	0.03
		<b>Average</b>	1.1
		<b>Median</b>	0.8
the Company	838	2,228	0.4
Implied P/B Ratio based on the Subscription Price	735 <sup><i>(Note 4)</i></sup>	2,228	0.3

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

*Note:*

1. Market capitalisation as at the Last Trading Day is derived from multiplying the total number of issued A shares, H shares and/or domestic shares (if any) of the company by the respective closing price quoted on the Stock Exchange as at the Last Trading Day.
2. Net asset value refers to net assets attributable to the owners of the company reported in the respective company’ latest published annual/interim report.

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3. P/B Ratio is derived from dividing the respective market capitalisation as at the Last Trading Day by the respective net asset value of the company as extracted from the latest published annual/interim report.
4. The implied market capitalisation of the Company as at the Last Trading Day is derived from multiplying the Subscription Price, being HK\$0.85 by the total number of issued Shares as at the Last Trading Day.

The P/B Ratio of the Industry Comparables ranged from 0.03 times to 2.6 times with an average of approximately 1.1 times and a median of approximately 0.8 times. The Implied P/B Ratio as at Last Trading Day was approximately 0.3 times, which is in the range of the P/B Ratio of the Industry Comparables but significantly lower than the average and median P/B Ratio of the Industry Comparables.

Having considered that (i) the Implied P/B Ratio is in the range of the P/B Ratios of the Industry Comparables; (ii) the price of the Shares has been at a persistent downward trend since June 2021 and the trading liquidity of the Shares was low during the Review Period; (iii) the difficulty of the Company to obtain other financing alternatives given its net current liabilities and high gearing ratio; (iv) the Subscription could immediately improve the Company's liquidity and settle the payment obligations in relation to the Exploration Project and the Construction Project; and (v) the use of proceeds is in line with the corporate strategy and planning, and provide a long term benefit to the Group's business, we are of the view that the Subscription Price is fair and reasonable.

### **6. Financial effects of the Subscription on the Group**

#### ***(i) Cashflow***

According to the 1H2021 Interim Report, the Group had cash and bank balances as at 30 June 2021 of approximately RMB126 million. Upon the Completion Date, the cash position of the Group will be improved by the amount of net proceeds of approximately HK\$265.6 million (equivalent to approximately RMB220 million).

#### ***(ii) Earnings***

Save for the expenses in relation to the Subscription, the Subscription will not have any material negative impact on the earnings of the Company. Upon the Completion Date, the number of issued Shares will be increased, thus the earning per Share (based on the net profit attributable to owners of the Company for FY2020) will be reduced.

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### *(iii) Net asset value*

According to the 1H2021 Interim Report, the NAV attributable to the equity shareholders of the Company as at 30 June 2021 was approximately RMB1,842 million and the NAV per Share as at 30 June 2021 was approximately RMB2.13. Upon the Completion Date and save for the expenses in relation to the Subscription, the total assets of the Company will increase as a result of the receipt of the net proceeds from the Subscription by approximately RMB220 million (equivalent to approximately HK\$265.6 million). Accordingly, there is expected to be a positive impact on the NAV attributable to the equity shareholders of the Company.

Given the net proceeds per Subscription Share is approximately HK\$0.83 (equivalent to approximately RMB0.69), which is lower than the NAV per Share of approximately HK\$2.58 (equivalent to approximately RMB2.13) as at 30 June 2021, it is expected that the NAV per Share will be diluted by approximately 18.2% to approximately HK\$2.11 (equivalent to approximately RMB1.74) upon the Completion Date (based on the estimated net asset value of the Group of RMB2,062 million divided by the enlarged number of issued Shares of 1,184,021,255).

Having considered (i) the H Shares has been trading below the NAV per Share during the Review Period; (ii) the reasons for the Subscription as mentioned in the section above headed “3. Use of proceeds and reasons for the Subscription”, in particular the investment in Exploration Project will increase the production volume of gold concentrates from the Group’s mining segment and the investment in Construction Project will increase the overall recovery rates of gold and reduce the production unit cost; (iii) the Subscription will not increase the finance cost and the gearing ratio of the Group; and (iv) the Subscription Price is fair and reasonable as mentioned above, we considered that the dilution effect on the NAV per Share as a result of the Subscription upon the Completion Date, is justifiable.

### **7. Potential dilution effect of the Shares Subscription**

As set out in the table showing the shareholdings changes of the Company under the section headed “Effect on Shareholding Structure of the Company” as contained in the Letter from the Board, upon completion of the Subscription, the shareholding percentage of Subscriber in the Company will increase from approximately 21.4% to approximately 42.7%. Assuming there are no other changes to the total issued share capital of the Company other than the Subscription from the Latest Practicable Date to the completion of the Subscription, (i) the shareholdings of the existing public H Shareholders will be diluted from approximately 34.4% to approximately 25.1%; and the shareholdings of the Domestic Shareholders (other than the Subscriber and parties acting in concert with it) will be diluted from approximately 44.2% to approximately 32.2%.

We noted that the shareholding interest of the existing Independent Shareholders is subject to dilution of the aforementioned extents as a result of the Subscription. However, having considered (i) the reasons stated in details in the section headed “3. Use of proceeds and reasons for the Subscription” above in this letter; and (ii) the terms of the Subscription Agreement including the issuance of H Shares under Specific Mandate and transaction

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contemplated thereunder being fair and reasonable so far as the Independent Shareholders are concerned, we are of the opinion that the possible shareholding dilution to the Independent Shareholders is acceptable.

### 8. The Whitewash Waiver

As at the Latest Practicable Date, the Subscriber hold in aggregate 185,339,000 Domestic Shares, representing approximately 21.4% of the total number of issued Shares. Upon completion of the Subscription, the shareholding percentage of the Subscriber and parties acting in concert with it in the Company will increase from approximately 21.4% to approximately 42.7%. In the absence of an applicable waiver from the Executive, the Subscription will give rise to an obligation on the part of the Subscriber to make a mandatory general offer for all the securities of the Company not already owned or agreed to be acquired by the Subscriber and parties acting in concert with it under Rule 26.1 of the Takeovers Code.

The Subscriber has applied to the Executive for the Whitewash Waiver from compliance with Rule 26.1 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, is expected to be subject to, among other things, the approval of the Whitewash Waiver by at least 75% and more than 50% of the votes cast by the Independent Shareholders either in person or by proxy by way of poll in respect of the Whitewash Waiver and the Subscription, respectively at the EGM. The Subscription will not proceed if the Whitewash Waiver is not granted by the Executive or not approved.

Given the possible benefits of the Subscription mentioned in the section headed “3. Use of proceeds and reasons for the Subscription” above in this letter and the terms of the Subscription Agreement being fair and reasonable so far as the Independent Shareholders are concerned, we are of the opinion that the approval for the Whitewash Waiver, which is a prerequisite of the Subscription, is in the interests of the Company and the Shareholders as a whole and is fair and reasonable for the purpose of proceeding with the Subscription.

### RECOMMENDATIONS

Having considered the above principal factors and reasons, in particular

- the Implied P/B Ratio is in the range of the P/B Ratios of the Industry Comparables;
- the price of the H Shares has been at a persistent downward trend since June 2021;
- the difficulty of the Company to obtain other debt financing alternatives given its latest published net current liabilities and high gearing ratio, and the finance cost of the Group will be increased, if such financing is materialised;
- the low liquidity of the H Shares may imply the lack of interest from potential investors in the H Shares and as such, it may be difficult for the Company to conduct other equity financing alternatives when considering fund raising exercises in the market;



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- the Subscription could partially improve the Company's liquidity and settle the payment obligations in relation to the Exploration Project and the Construction Project which are in line with the corporate strategy and planning, and provide long term benefit to the Group's business; and
- the Subscriber, being the substantial shareholder of the Company since 2016, is demonstrating its continuous support to the Group through the Subscription;

We are of the view that the Subscription Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole. We consider that although entering into the Subscription Agreement is not in the ordinary and usual course of business of the Group, the terms of the Subscription (including the grant of the Specific Mandate and the approval of Subscription Agreement) and the Whitewash Waiver are on normal commercial terms, and are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Independent Shareholders as a whole.

Accordingly, we advise the Independent Board Committees to advise the Independent Shareholders, and recommend the Independent Shareholders, to vote in favour of the relevant resolutions to be proposed at the EGM to approve the Subscription (including the grant of the Specific Mandate and the approval of Subscription Agreement) and the Whitewash Waiver.

Yours faithfully,  
For and on behalf of  
**Octal Capital Limited**  
**Alan Fung**                      **Wong Wai Leung**  
*Managing Director*      *Executive Director*

*Note:* 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 is also a responsible officer 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.

**1. FINANCIAL INFORMATION OF THE GROUP**

The audited consolidated financial statements of the Group for each of the three years ended 31 December 2018, 2019 and 2020 and the unaudited consolidated financial information of the Group for the six months ended 30 June 2021 are disclosed in the following documents which have been published on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<http://www.lbgold.com/>):

- annual report of the Company for the year ended 31 December 2018 published on 25 April 2019 (pages 69 to 183)  
<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0425/ltn20190425525.pdf>
- annual report of the Company for the year ended 31 December 2019 published on 13 May 2021 (pages 77 to 187)  
<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0513/2020051300377.pdf>
- annual report of the Company for the year ended 31 December 2020 published on 12 April 2021 (pages 73 to 159)  
<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0412/2021041200625.pdf>
- interim report of the Company for the six months ended 30 June 2021 published on 24 September 2021 (pages 18 to 42)  
<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0924/2021092400659.pdf>

Set out below is a summary of the consolidated financial information of the Group for each of the years ended 31 December 2018, 2019 and 2020 and the unaudited consolidated financial information of the Group for the six months ended 30 June 2021, as extracted from the relevant annual reports and interim report of the Company:

### Results

	For the year ended 31 December			For the six months ended
	2018	2019	2020	30 June 2021
	(audited)	(audited)	(audited)	(unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	3,781,660	5,874,357	5,599,947	2,214,430
Other net loss	(334,011)	(110,369)	(162,580)	(10,346)
Finance costs	(256,277)	(182,464)	(164,522)	(37,830)
(Loss)/profit before taxation	(1,348,161)	(203,232)	122,217	66,110
Income tax expense	169,236	(48,609)	(64,896)	(25,236)
(Loss)/profit for the year/period from continuing operations	(1,178,925)	(251,841)	57,321	40,874
Profit for the year/period from discontinued operation	1,956,759	—	—	—
Profit/(loss) for the year/period	777,834	(251,841)	57,321	40,874
(Loss)/profit attributable to:				
Owners of the Company				
— Continuing operations	(1,160,046)	(233,502)	89,700	51,590
— Discontinued operations	1,956,208	—	—	—
Non-controlling interests				
— Continuing operations	(18,879)	(18,339)	(32,379)	(10,716)
— Discontinued operations	551	—	—	—
Total comprehensive income attributable to:				
Owners of the Company				
— Continuing operations	(1,185,215)	(241,263)	130,812	58,428
— Discontinued operations	1,956,208	—	—	—
Non-controlling interests				
— Continuing operations	(24,938)	(20,291)	(22,813)	(9,123)
— Discontinued operations	551	—	—	—
Basic and diluted (loss)/earnings per Share (RMB cents)				
— Continuing operations	(135.7)	(27.0)	10.4	6.0
— Discontinued operations	228.8	—	—	—
Dividend per ordinary share (RMB cents)	20.0	—	—	—

**Assets and liabilities**

	As at 31 December			As at
	2018	2019	2020	30 June 2021
	(audited)	(audited)	(audited)	(unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	8,212,816	5,932,254	6,704,690	6,512,610
Total liabilities	6,275,390	4,429,232	5,093,669	4,852,284
Total equity	1,937,426	1,503,022	1,611,021	1,660,326
Equity attributable to owners of the Company	2,066,449	1,652,336	1,783,148	1,841,576
Non-controlling interests	(129,023)	(149,314)	(172,127)	(181,250)

The auditors of the Company for the years ended 31 December 2018, 2019 and 2020 were KPMG. KPMG has not issued any modified opinion, emphasis of matter or material uncertainty related to going concern of the Group on its financial statements for the three years ended 31 December 2020.

Save as disclosed above, the Group had no other material income or expense for the years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2021.

**2. INDEBTEDNESS STATEMENT**

At the close of business on 30 September 2021, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding indebtedness as follows:

**Bank loans**

The Group had outstanding bank loans of approximately RMB3,577 million as at 30 September 2021, comprising (a) bank loans of a subsidiary, named Shenzhen Jinda Gold Company Limited (“**Shenzhen Jinda**”), amounting to approximately RMB40 million were secured by its building and guaranteed by the Company; (b) bank loans of the Group amounting to approximately RMB1,733 million were secured by deposits; (c) bank loans of the Company amounting to approximately RMB203 million were secured by deposits and certain inventories; (d) bank loans of a subsidiary, named Full Gold Mining Limited Liability Company, amounting to approximately RMB44 million were guaranteed by the Company; (e) bank loans of the Company amounting to approximately RMB140 million were guaranteed by a subsidiary named Habahe Huatai Gold Company Limited (“**Huatai**”); (f) bank loans of the Company amounting to approximately RMB74 million were guaranteed by the Subscriber; and (g) unsecured bank loans amounting to approximately RMB1,343 million.

**Payables to suppliers in relation to long-term assets**

As at 30 September 2021, the Group had payables due to suppliers, of approximately RMB96 million and RMB114 million, which are classified under current liabilities and non-current liabilities of the Group respectively, in relation to the procurement of long-term assets in mining segment.

**Lease liabilities**

As at 30 September 2021, the Group had lease liabilities of approximately RMB4 million and RMB3 million, which are classified under current liabilities and non-current liabilities of the Group respectively, related to the Group's certain warehouses and plants of two subsidiaries in mining segment.

**Charges and mortgages**

The building of Shenzhen Jinda with carrying amount of approximately RMB69 million was pledged to secure bank loans amounting to approximately RMB40 million.

Certain deposits amounting to approximately RMB1,216 million were pledged to secure bank loans amounting to approximately RMB1,733 million.

Certain deposits amounting to approximately RMB4 million and inventories amounting to approximately RMB203 million were pledged to secure bank loans amounting to approximately RMB203 million.

**Debt securities issued and outstanding**

None of the companies in the Group had any issued and/or outstanding debt securities.

**Contingent liabilities or Guarantee**

None of the companies in the Group had material contingent liabilities or guarantee.

Save as disclosed above and apart from intra-group liabilities and normal trade payables, the Group did not have any outstanding bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance lease, hire purchases commitments, which were either guaranteed, unguaranteed, secured or unsecured, guarantees or other material contingent liabilities at the close of business on 30 September 2021 (being the latest practicable date for the purpose of this indebtedness statement).

### 3. WORKING CAPITAL STATEMENT

As at the Latest Practicable Date, the Directors, after due and careful enquiry, are of the opinion that, after taking into account net proceeds from the Subscription, the present available financial resources, including cash flows from operating activities and the existing banking facilities available, the Group will have sufficient working capital for its present requirements and for at least 12 months from the date of this circular in the absence of unforeseen circumstances. The Company has obtained the relevant confirmation as required under paragraph 30 of Appendix 1, Part B of the Listing Rules.

### 4. MATERIAL CHANGE

The Directors confirm that, save and except as disclosed below, there has been no material change in the financial or trading position or outlook of the Group since 31 December 2020 (being the date to which the latest published audited consolidated financial statements of the Group were made up) and up to the Latest Practicable Date:

- (i) as disclosed in the interim report of Company for the six months ended 30 June 2021 (the “**Interim Report**”), the Group recorded net profit attributable to owners of the Company amounted to approximately RMB52 million for the six months ended 30 June 2021 (“**1H2021**”), representing an increase of approximately RMB24 million or 85.7% as compared to the net profit attributable to owners of the Company amounted to approximately RMB28 million for the six months ended 30 June 2020 (“**1H2020**”). The increase in net profit attributable to owners of the Company was mainly due to the decrease in finance costs after the repayment of bank and other borrowings during 1H2021, offset by the increase in provision of legal claim during 1H2021; and
- (ii) as disclosed in the Interim Report, the Group recorded net current liabilities amounted to approximately RMB1,397 million as at 30 June 2021, representing an increase of approximately RMB74 million or 5.6% as compared to net current liabilities amounted to approximately RMB1,323 million as at 31 December 2020. The increase in net current liabilities was mainly attributable to the decrease in inventories and the decrease in fixed deposits held at banks with maturity over three months outweighed the decrease in bank and other borrowings.

### 5. FINANCIAL AND TRADING PROSPECT OF THE GROUP

While the Group continues to face various challenges, including bottleneck constraints in resources, technological innovation, safety and environmental protection, market risk and capital management in 2021, the Group will further improve and expand its mining business, focus on and strengthen its smelting business, streamline its management process and improve quality and efficiency. Looking forward, the Group will mainly focus on the following aspects: (i) to strive for major breakthroughs by continuing to overcome challenges in resource exploration; (ii) to gradually improve the lean management standards by strengthening the management of production units; (iii) to continuously improve the quality and efficiency of operation by efficiently procuring raw materials and marketing products; (iv) to strengthen the Group’s development momentum by fully promoting the

key project development at its branches and subsidiaries; (v) to fortify safety and environmental protection defences by establishing the red-line and bottom-line awareness; and (vi) to release the reform potential by steadily pushing forward with the reform of labour, personnel and salary system, and to build a professional management team by enhancing the cadre team building. In light of the current pandemic spread around the world and in the PRC, the Group will continue to intensify its efforts, and conscientiously arrange pandemic prevention measures, to ensure the Group will continue with its stable operation.

Looking forward, the synergistic efforts of the Group's major profit centres, including a mining subsidiary named Huatai and two branches of the Company (a mining branch named Nanshan and a smelting branch named Yelian), shall continue to provide solid support for the Group to achieve its stable growth. The continue optimisation of the mine production system and enhancement of production capacity of the mining segment are expected to enhance the Group's profitability.



## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts the omission of which would make any statement herein or this circular misleading.

This circular includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Group. The Directors jointly and severally accept full responsibility for the accuracy of the information (other than information relating to the Subscriber and parties acting in concert with it) contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed (other than those expressed by directors of the Subscriber in their capacity as such) in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

As at the Latest Practicable Date, the directors of the Subscriber are Mr. Wang Guanran, Mr. Zhou Guangling, Ms. Ma Jingsong, Mr. Wu Jun, Mr. Wu Liming, Ms. Wei Hong and Mr. Zeng Xiangxin. As at the Latest Practicable Date, the sole director of Beijing Jiesi Weiye Co., Ltd (北京傑思偉業控股有限公司) is Mr. Wang Guanran.

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

**2. MARKET PRICE**

The table below shows the closing price of the H Shares as recorded on the Stock Exchange (i) on the last Business Day of each of the calendar months during the Relevant Period; (ii) on the last Business Day immediately preceding the Announcement Date; and (iii) on the Latest Practicable Date.

<b>Date</b>	<b>Closing Price per H Share (HK\$)</b>
31 May 2021	1.19
30 June 2021	1.08
30 July 2021	0.99
31 August 2021	0.95
30 September 2021	0.93
29 October 2021	0.97
10 November 2021 (last Business Day immediately preceding the Announcement Date)	0.97
30 November 2021	0.94
28 December 2021 (Latest Practicable Date)	0.92

The highest and lowest closing prices of the H Shares as quoted on the Stock Exchange during the Relevant Period were HK\$1.29 per H Share on 10 May 2021 and HK\$0.91 per H Share on 27 September 2021, 2 December 2021 and 22 December 2021, respectively.

### 3. SHARE CAPITAL

The registered and issued share capital of the Company (i) as at the Latest Practicable Date; and (ii) immediately after completion of the Subscription (assuming there is no other change in the share capital of the Company since the Latest Practicable Date up to completion of the Subscription) are set out below:

*As at the Latest Practicable Date:*

<b>Registered capital</b>	<i>RMB</i>
Domestic Shares	113,395,018.2
H Shares	59,454,800
<b>Total</b>	<b>172,849,818.2</b>
 <b>Issued and fully paid or credited as fully paid</b>	
Domestic Shares	566,975,091
H Shares	297,274,000
<b>Total</b>	<b>864,249,091</b>

*Enlarged share capital of the Company immediately after completion of the Subscription:*

<b>Registered capital</b>	
566,975,091 Domestic Shares	113,395,018.2
617,046,164 H Shares	123,409,232.8
<b>Total</b>	<b>236,804,251</b>
 <b>Issued and fully paid or credited as fully paid</b>	
Domestic Shares	566,975,091
H Shares	617,046,164
<b>Total</b>	<b>1,184,021,255</b>

All the issued Shares rank *pari passu* in all respects as regards rights to capital, dividends and voting. The Subscription Shares will rank, upon issue, *pari passu* in all respects with the H Shares in issue, at the time of allotment and issue of such new H Shares.

Since 31 December 2020 (being the end of the last financial year of the Company) and up to the Latest Practicable Date, no new Shares have been issued by the Company.

The Company has no outstanding warrants, options or securities convertible into shares of the Company as at the Latest Practicable Date.

#### 4. DISCLOSURE OF INTERESTS

##### Director, Supervisor and Chief Executive's interests and short positions in Shares, underlying Shares and debentures of the Company and its associated corporations

As at the Latest Practicable Date:

- (a) save as disclosed below, none of the Directors, Supervisors, Chief Executive and their respective associates had interests or short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of SFO (including interests or short positions which were taken or deemed to have under such provisions of the SFO), or (ii) were required to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers in Appendix 10 of the Listing Rules;

Name	Position at the Company	Nature of interest	Number of Shares held	Approximate percentage of the total issued Shares	Approximate percentage of the relevant class of Shares
Wang Guanran (王冠然) (Note 1)	Non-executive Director	Interest of a controlled corporation	185,339,000 (L) Domestic Shares	21.4%	32.7%

Note:

(L): denotes long position

- (1) Mr. Wang Guanran is interested in the Shares through the Subscriber, which is directly owned as to approximately 5.79% by Mr. Wang Guanran. The Subscriber is majority-owned as to approximately 52.26% by Beijing Jiesi Weiye Co., Ltd (北京傑思偉業控股有限公司), which in turn is majority-owned as to approximately 93.04% and 6.96% by Mr. Wang Guanran and two limited liability partnerships, whose general partner is Mr. Wang Guanran, respectively (noting that the share transfer agreement has been entered into between Mr. Wang Weidong and Mr. Wang Guanran to transfer the 99% interests in each of the two limited liability partnerships from Mr. Wang Weidong to Mr. Wang Guanran and Mr. Wang Guanran has become the general partner of the two limited liability partnerships, where the registration with the local industry and commerce authority has yet been completed, but the share transfer agreement is legally binding and the consideration has been fully paid).

As disclosed in the Whitewash Announcement and this circular, the Subscriber has entered into the Subscription Agreement with the Company on 11 November 2021. Therefore, by virtue of the SFO, on 11 November 2021, the Subscriber was interested in the additional 319,772,164 H Shares to be issued upon and subject to completion of the Subscription Agreement.

- (b) except for the following Directors, i.e. Mr. Zeng Xiangxin, Mr. Wu Liming and Mr. Wang Guanran, none of the Directors or Supervisors is a director or employee of the substantial shareholder of the Company;
- (c) none of the Directors or Supervisors has entered into a service contract with the Company that cannot be terminated by the Company within one year without payment of compensation (other than statutory compensation);
- (d) none of the Directors or Supervisors has any interest, direct or indirect, in any assets which have been, since 31 December 2020 (being the date to which the latest published audited financial statements of the Company were made up) acquired or disposed of by or leased to any members of the Group, or which are proposed to be acquired or disposed of by or leased to any members of the Group; and
- (e) save for the Subscription Agreement in which Mr. Wang Guanran, Mr. Zeng Xiangxin and Mr. Wu Liming are materially interested by virtue of their common directorship in the Company and the Subscriber, and Mr. Wang Guanran additionally by virtue of his interest in the shares of the Subscriber as disclosed in Note (1) to section 4(a) above, none of the Directors or Supervisors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

#### Substantial Shareholders' interests and short positions in Shares or underlying Shares

As at the Latest Practicable Date, so far as was known to the Directors, Supervisors and Chief Executive, the interests and short positions of the following persons (other than the Directors, Supervisors or Chief Executive) in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholder	Nature of interest	Number of Domestic Shares	Approximate percentage of the total issued domestic share capital of the Company	Approximate percentage of the total issued share capital of the Company
The Subscriber ( <i>Note 1</i> )	Beneficial owner	185,339,000 (L)	32.69%	21.4%
Lingbao State-owned Assets Operation Company Limited (靈寶市國有資產經營有限責任公司)	Beneficial owner	73,540,620 (L)	12.97%	8.5%
Shanghai Zhengxi Investment Management Partnership (Limited Partnership) (上海正禧投資管理合夥企業(有限合夥))	Beneficial owner	57,000,000 (L)	10.05%	6.6%

*Note:*

(L): denotes long position

- (1) The Subscriber is majority-owned as to approximately 52.26% by Beijing Jiesi Weiye Co., Ltd (北京傑思偉業控股有限公司), which in turn is majority-owned as to approximately 93.04% and 6.96% by Mr. Wang Guanran and two limited liability partnerships, whose general partner is Mr. Wang Guanran, respectively (noting that the share transfer agreement has been entered into between Mr. Wang Weidong and Mr. Wang Guanran to transfer the 99% interests in each of the two limited liability partnerships from Mr. Wang Weidong to Mr. Wang Guanran and Mr. Wang Guanran has become the general partner of the two limited liability partnerships, where the registration with the local industry and commerce authority has yet been completed, but the share transfer agreement is legally binding and the consideration has been fully paid). The Subscriber is also directly owned as to approximately 5.79% by Mr. Wang Guanran.

As disclosed in the Whitewash Announcement and this circular, the Subscriber has entered into the Subscription Agreement with the Company on 11 November 2021. Therefore, by virtue of the SFO, on 11 November 2021, the Subscriber was interested in the additional 319,772,164 H Shares to be issued upon and subject to completion of the Subscription Agreement.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors, Supervisors and Chief Executive, no other person (other than the Directors, Supervisors or Chief Executive) had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under section 336 of the SFO.

## **5. ARRANGEMENTS IN CONNECTION WITH THE SUBSCRIPTION AND THE WHITEWASH WAIVER**

As at the Latest Practicable Date:

- (a) save for the Subscription Agreement with the Subscriber in which Wang Guanran is interested through his 5.79% shareholding in the Subscriber and his shareholding in Beijing Jiesi Weiye Co., Ltd (北京傑思偉業控股有限公司) as disclosed above, there was no agreement, arrangement or understanding (including any compensation arrangement) between the Subscriber or any person acting in concert with it and any of the Directors or Supervisor or proposed Director/Supervisor having any connection with or dependence upon the Subscription (including the grant of Specific Mandate and the approval of Subscription Agreement) and/or the Whitewash Waiver;
- (b) there was no benefit to be given to any Directors as compensation for loss of office or otherwise in connection with the Subscription (including the grant of Specific Mandate and the approval of Subscription Agreement) and/or the Whitewash Waiver;

- (c) there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Subscription (including the grant of Specific Mandate and the approval of Subscription Agreement) and/or the Whitewash Waiver; and
- (d) save for the Subscription Agreement with the Subscriber in which Wang Guanran is interested through his 5.79% shareholding in the Subscriber and his shareholding in Beijing Jiesi Weiye Co., Ltd (北京傑思偉業控股有限公司) as disclosed above, there was no material contract entered into by the Subscriber in which any Director has a material personal interest.

## 6. ADDITIONAL DISCLOSURES UNDER THE TAKEOVERS CODE

As at the Latest Practicable Date:

- (a) save as disclosed in the paragraph headed “Effect on Shareholding Structure of the Company” in the letter from the Board in this circular and in the paragraph headed “Disclosure of Interests” in this appendix, the Subscriber and parties acting in concert with it do not hold, own, have control or direction over any other voting rights, rights over Shares, any outstanding options, warrants, or any securities that are convertible into Shares or any derivatives in respect of the securities of the Company, or hold any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company;
- (b) save for the entering into of the Subscription Agreement, none of the Subscriber, the Subscriber’s director or any parties acting in concert with the Subscriber had acquired or entered into any agreement or arrangement to acquire any voting rights in the Company during the Relevant Period but subsequent to negotiations, discussion or the reaching of understandings or agreement with the Directors in relation to the Subscription Agreement (including the grant of the Specific Mandate and the approval of Subscription Agreement) and the Whitewash Waiver;
- (c) none of the Subscriber or parties acting in concert with it has received any irrevocable commitment to vote for or against the resolution(s) to be proposed at the EGM to approve the Subscription (including the grant of the Specific Mandate and the approval of Subscription Agreement) and/or the Whitewash Waiver and/or Subscription-related Amendments to the Articles;
- (d) there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code (whether by way of option, indemnity or otherwise) that had been entered into in relation to the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company between the Subscriber and/or parties acting in concert with it on the one hand and any person on the other hand and which might be material to the Subscription (including the grant of the Specific Mandate and the approval of the Subscription Agreement) and/or the Whitewash Waiver;



- (e) save for the Subscription Agreement, there was no agreement or arrangement to which the Subscriber or any parties acting in concert with it is a party which relates to circumstances in which it may or may not invoke or seek a pre-condition or a condition to the Subscription (including the grant of the Specific Mandate and the approval of Subscription Agreement) and/or the Whitewash Waiver;
- (f) none of the Subscriber or parties acting in concert with it had borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company;
- (g) apart from the consideration payable to the Company for the Subscription pursuant to the Subscription Agreement, there was no other consideration, compensation or benefit in whatever form that has been or will be paid by the Subscriber or parties acting in concert with it to the Company in connection with the Subscription (including the grant of the Specific Mandate and the approval of the Subscription Agreement) and/or the Whitewash Waiver;
- (h) apart from the Subscription Agreement, there was no understanding, arrangement, agreement or special deal (as defined under Rule 25 of the Takeovers Code) between the Subscriber or parties acting in concert with it on one hand, and the Company on the other hand;
- (i) there was no understanding, arrangement, agreement or special deal (as defined under Rule 25 of the Takeovers Code) between any Shareholders; and (a) the Subscriber or parties acting in concert with it; or (b) the Company, its subsidiaries or associated companies;
- (j) the Company did not have any interest in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Subscriber and had not dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Subscriber during the Relevant Period;
- (k) save for Mr. Wang Guanran, who is interested through his 5.79% shareholding in the Subscriber and his shareholding in Beijing Jiesi Weiye Co., Ltd (北京傑思偉業控股有限公司) as disclosed above, none of the Directors had any interest in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Subscriber and none of them had dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Subscriber during the Relevant Period;
- (l) save as disclosed in the paragraph headed “Effect on Shareholding Structure of the Company” in the letter from the Board in this circular and in the paragraph headed “Disclosure of Interests” in this appendix, no Director was interested in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company and none of the Directors had dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period;

- (m) none of the subsidiaries of the Company, the pension fund of the Company or of its subsidiaries, a person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of “acting in concert” under the Takeovers Code or who is an associate of the Company 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 any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company, or had dealt for value in any such securities of the Company during the Relevant Period;
- (n) there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between any person and the Company or any person who is presumed to be acting in concert with the Company 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 the Company by virtue of classes (2), (3) and (4) of the definition of “associate” under the Takeovers Code, and no such person had owned, controlled or dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period;
- (o) no fund managed on a discretionary basis by any fund manager (other than exempt fund managers) connected with the Company had any interest in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company and no such persons had dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period;
- (p) save as disclosed in the paragraph headed “Disclosure of Interests” in this appendix, none of the Directors was interested in any Shares, or any convertible securities, warrants, options or derivatives in respect of the Shares. As disclosed in the letter from the Board in this circular, Mr. Zeng Xiangxin, Mr. Wu Liming and Mr. Wang Guanran will abstain from voting on the relevant resolutions to be proposed to the Independent Shareholders at the EGM in relation to the Subscription (including the grant of the Specific Mandate and the approval of the Subscription Agreement) and the Whitewash Waiver;
- (q) none of the Company or the Directors had borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company; and
- (r) neither the Subscriber nor any party acting in concert with it had intention to transfer, charge or pledge the Subscription Shares to any other persons upon completion of the Subscription.

## 7. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service contracts with the Company or any subsidiary or associated company of the Company which (a) (including continuous and fixed term contracts) had been entered into or amended within the Relevant Period; (b) are continuous contracts with a notice period of 12 months or more; (c) are fixed term contracts with more than 12 months to run irrespective of the notice period; or (d) is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## 8. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors, Supervisors, Chief Executive nor their respective associates had any interest in business which competes with or may compete, either directly or indirectly, with the business of the Group or had any other conflict of interests which any person has or may have with the Group.

## 9. MATERIAL LITIGATION

As at the Latest Practicable Date, there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

## 10. MATERIAL CONTRACTS

Save for the Subscription Agreement, there are no other material contracts (not being contracts entered into in the ordinary course of business) entered into by any members of the Group within the two years immediately preceding the Announcement Date and up to the Latest Practicable Date.

## 11. QUALIFICATION AND CONSENT OF EXPERT

The following is the qualification of the expert who has given opinion or advice, which are contained or referred to in this circular:

<b>Name</b>	<b>Qualification</b>
Octal Capital	A corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

Octal Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of their letter, report and/or reference (as the case may be) references to its name in the form and context in which they appear.

As at the Latest Practicable Date, Octal Capital had no shareholding interest in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of any member of the Group.

As at the Latest Practicable Date, Octal Capital had no interest, directly or indirectly, in any assets which had since 31 December 2020 (being the date to which the latest published audited financial statements of the Group were made up) been acquired or disposed of by or leased to any member of the Group or which were proposed to be acquired or disposed of by or leased to any member of the Group.

## 12. MISCELLANEOUS

- (a) The company secretary of the Company is Mr. Chui Man Lung Everett, who is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and a member of the Institute of Chartered Accountants in England and Wales.
- (b) The registered address of the Company is situated at Hangu Road and Jingshan Road Intersection, Lingbao, Henan Province, the PRC.
- (c) The principal place of business of the Company in Hong Kong is situated at Room 1104, 11/F Leighton Centre 77 Leighton Road Causeway Bay, Hong Kong.
- (d) The Company's H shares registrar is Computershare Hong Kong Investor Services Limited, which is situated at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- (e) The registered address of the Subscriber is situated at Rooms 2601, 2610 Times Square Excellence, No. 4068 Yitian Middle Road, Futian District, Shenzhen, the PRC.
- (f) The registered address of Beijing Jiesi Weiye Co., Ltd (北京傑思偉業控股有限公司) is situated at B2102, 21st Floor, No. 27 Financial Street, Xicheng District, Beijing, the PRC.
- (g) The English language text of this circular shall prevail over the Chinese language text in case of inconsistency.
- (h) The Independent Financial Adviser is Octal Capital whose address is at 801-805, 8/F, Nan Fung Tower, 88 Connaught Road Central, Hong Kong.
- (i) The Financial Adviser is Lego whose address is at Room 1601, 16/F, China Building, 29 Queen's Road Central, Hong Kong.

**13. DOCUMENTS ON DISPLAY**

A copy of each of the following documents will be available for display on: (i) the websites of the SFC at [www.sfc.hk](http://www.sfc.hk) and the Stock Exchange at <http://www.hkexnews.hk>; and (ii) the website of the Company at <http://www.lbgold.com/>, from the date of this circular up to and including the date of the EGM in accordance with Notes 1 and 2 to Rule 8 of the Takeovers Code:

- (a) the Articles;
- (b) the annual reports of the Company for the financial years ended 31 December 2019 and 2020;
- (c) the interim report of the Company for the six months ended 30 June 2021;
- (d) the letter from the Board, the text of which is set out on pages 6 to 28 of this circular;
- (e) the letter from the Connected Transaction IBC, the text of which is set out on pages 29 to 30 of this circular;
- (f) the letter from the Whitewash Waiver IBC, the text of which is set out on pages 31 to 32 of this circular;
- (g) the letter from Octal Capital, the text of which is set out on pages 33 to 53 of this circular;
- (h) the written consents referred to in the paragraph head “Qualification and consent of expert” in this appendix;
- (i) the articles of association of the Subscriber;
- (j) a copy of each contract set out in the paragraph headed “Material contracts” in this appendix; and
- (k) this circular.