



Hengxing Gold Holding Company Limited
恒興黃金控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2303)

Executive directors:

Mr. Ke Xiping (*Chairman*)
Mr. Chen, David Yu
Mr. Ke Jiaqi

Non-executive director:

Mr. Albert Fook Lau Ho

Independent non-executive directors:

Ms. Wong, Yan Ki Angel
Dr. Tim Sun
Dr. Pan Guocheng

Registered office:

c/o Ocorian Trust (Cayman) Limited
Windward 3, Regatta Office Park
P.O. Box 1350
Grand Cayman, KY1-1108
Cayman Islands

Principal place of business in Hong Kong:

Suite 3203, Central Plaza
18 Harbor Road
Wanchai
Hong Kong

22 December 2020

To the Scheme Shareholders and the HXG Shareholders

Dear Sir or Madam,

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

1. INTRODUCTION

The Proposal

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

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

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

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

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

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

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

HXG Special Dividend

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

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

2. TERMS OF THE PROPOSAL

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

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

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

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

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

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

Dividend Payment by SDGM and HXG

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

Comparison of Value

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

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

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

Notes:

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

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

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

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

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

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

New SDGM H Shares to be issued pursuant to the Scheme

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

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

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

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

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

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

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

3. CONDITIONS OF THE PROPOSAL AND THE SCHEME

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

4. HXG INDEPENDENT BOARD COMMITTEE

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

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

5. HXG INDEPENDENT FINANCIAL ADVISER

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

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

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

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

7. INFORMATION ON HXG

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

8. INFORMATION ON SDGM

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

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

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

(a) If the Scheme becomes effective

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

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

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

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

10. OVERSEAS SCHEME SHAREHOLDERS

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

11. COURT MEETING AND HXG EGM

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

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

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

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

12. IRREVOCABLE UNDERTAKING

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

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

13. ACTIONS TO BE TAKEN

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

14. RECOMMENDATION

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

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

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

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

15. REGISTRATION AND DESPATCH OF NEW SDGM H SHARE CERTIFICATES

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

16. TAXATION AND INDEPENDENT ADVICE

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

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

17. FURTHER INFORMATION

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

Yours faithfully,
By order of the board of directors of
Hengxing Gold Holding Company Limited



Mr. Ke Xiping
Chairman