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Risks and Opportunities of Cross-Border Mergers and Acquisitions in Resource-Based Enterprises—A Case Study of Shanjin International's Acquisition of Osino

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Abstract: *Gold has an inherent scarcity, which makes mergers and acquisitions (M&A) one of the most effective ways for mining enterprises to overcome limitations in reserves and production. In recent years, domestic exploration investments have been declining, with a lack of incremental resources, and most of the high-quality mines are controlled by leading enterprises. As a result, seeking mining projects globally has become a common strategy for domestic gold companies. This paper takes the case of Shanjin International's acquisition of Osino as an example to explore the risks and opportunities involved in cross-border mergers and acquisitions for resource-based enterprises. Through M&A, enterprises can achieve capacity expansion, enhance technological innovation, and strengthen financial capabilities. However, they also face a series of potential risks, including political, legal, financial, market, and integration risks. Enterprises need to take proactive measures to mitigate these risks. The analysis provides valuable experience and recommendations for Chinese companies in their cross-border M&A processes.*

Keywords: *Cross-Border Mergers and Acquisitions, M&A Risks, M&A Opportunities, Shanjin International, Osino*

1. Introduction

With the continuous deepening of global economic integration, an increasing number of Chinese enterprises have begun to venture beyond national borders, engaging in the global development and competition for resources. For mining enterprises, given the insufficient domestic resources[3] and the ongoing rise in industry concentration, seeking high-quality mineral resources abroad has become one of the key pathways for achieving sustainable growth. The gold industry, as one of the strategically significant sectors in the global economy, occupies a critical position within the global financial system.To overcome the bottlenecks faced by the domestic gold industry, many Chinese gold companies have adopted mergers and acquisitions (M&A) strategies, relying on reserves of overseas high-quality resources and technological advantages to enhance their global competitiveness. Shanjin International, a publicly listed company with significant influence in the exploration, extraction, and sales of non-ferrous metals and precious metals, has drawn considerable attention for its cross-border M&A activities. This paper will provide a detailed analysis of the M&A process of Shanjin International's acquisition of Osino, the potential risks it may encounter, and the development opportunities, offering valuable insights and references for Chinese resource-based enterprises pursuing cross-border M&A, and assisting them in advancing their internationalization strategies.

2. Overview of the Merging Parties

The acquiring party is Shanjin International Gold Co.Ltd, abbreviated as " Shanjin International." This company primarily engages in the exploration, extraction, and sales of non-ferrous metals and precious metals, as well as investments in the mineral resources industry. It is a publicly listed company. Among the Chinese gold-listed enterprises, it ranks relatively high in terms of gold production. The company owns polymetallic mines, with the characteristic of having the largest national reserves and the highest individual silver grade. It also possesses high-quality gold mines, with solid assets and strong technological capabilities. In 2024, the company’s gold production reached 8.04 tons,

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representing a year-on-year increase of 14.69%, while silver production totaled 196.05 tons, reflecting a growth of 1.57%. As of the end of 2024, the company held a gold metal reserve of 277.23 tons and a silver metal reserve of 7,933.72 tons. Its subsidiaries, including Heihe Yintai, have achieved resource expansion, the Qinghai Dachaidan New Mine has transitioned from exploration to extraction, Huasheng Gold Mine has resumed production, and the Yulong Mining New Mine Area is under construction. These developments will drive the company's future growth in production capacity. In recent years,Shanjin International has consistently advanced its internationalization strategy, actively seeking high-quality overseas resources to expand its scale and enhance its competitiveness.

The acquired party is Osino Resources Corp., a mining company listed in Canada, which primarily focuses on mineral exploration, development, and the acquisition of other mining assets. Its core asset is the Twin Hills gold project located in Namibia, Africa. This project has a substantial mineral resource base, with an estimated gold resource of approximately 99.2 tons and a grade of 1.09g/t. The company also holds exploration rights for the Ondundu project, which is estimated to contain 28 tons of gold resources at a grade of 1.13g/t, with significant potential for resource expansion in the future.

3. Mergers and Acquisitions Motives

3.1 Increase Mineral Resource Reserves

By acquiring Osino, Shanjin International rapidly gains access to its Twin Hills Gold Project in Namibia, a project rich in reserves with significant profit potential. Following the acquisition, Shanjin International's overall resource volume, reserves, production capacity, and business profitability will be enhanced.[4] The gold grade at the Twin Hills Gold Project is relatively high, and its future potential for resource expansion is considerable. This acquisition will have a positive impact on improving the quality of resources, optimizing product structure, and increasing the company's profitability and market competitiveness.

3.2 Advance Strategic Development Plan

In November 2023, Shanjin International released its "Development Strategic Plan Outline," which targets achieving a gold production output of 15 tons and a resource and reserve base of 300 tons by the end of 2026. Relying solely on existing resources to achieve this target poses significant challenges. Consequently, pursuing acquisitions becomes a critical approach. The acquisition of Osino aligns with the company's strategic plan and supports the implementation of its development objectives, enhancing its asset strength and competitiveness.

3.3 Leverage Synergistic Effects

Shanjin International has extensive experience and technical advantages in the fields of mineral exploration, development, and sales. Through the acquisition of Osino, the company can apply these advantages to the exploration, development, and operation stages of the Twin Hills Gold Project, thereby enhancing the project's economic and social benefits. The acquisition of Osino by Shanjin International can also generate synergies [1], enabling the integration and optimization of the industrial chain, improving resource utilization efficiency, reducing operational costs, and enhancing the company's overall competitiveness.

4. M&A Process

In February 2024, China's mining company, Shanjin International, announced a merger and acquisition plan to acquire Osino for CAD 1.90 per share in cash, with the total transaction amounting to approximately CAD 368 million, equivalent to approximately USD 273 million or RMB 1.96 billion. The transaction was successfully completed on August 29, 2024, with the share transfer finalized, and Shanjin International acquired 100% of Osino's shares. Additionally, Shanjin International intends to apply for the delisting of Osino's stock in order to complete the privatization of the company. The specific timeline of the acquisition is shown in Fig.1:

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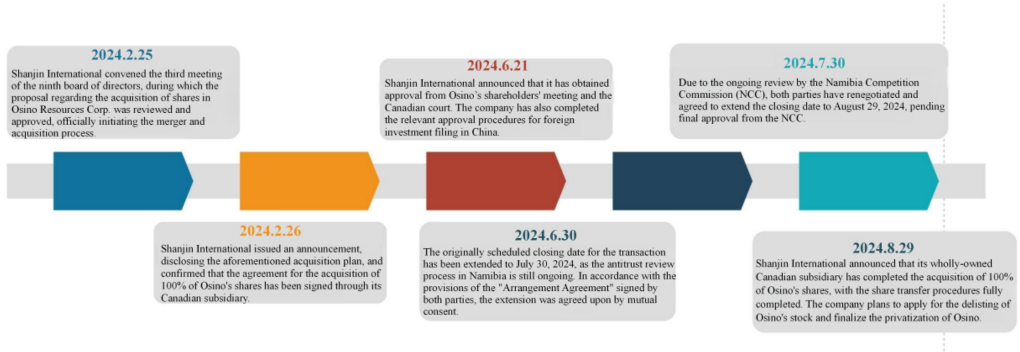

Fig.1. Mergers and Acquisitions Timeline

5. M&A Risks

5.1 Political Risks

5.1.1 Regime Risk

If Namibia experiences political instability, such as political unrest or a change in government, this may lead to a lack of continuity in local policies, potentially affecting the normal operation of the Twin Hills Gold Mine project. A new government may adjust mining policies, such as raising taxes or increasing regulatory oversight.Some of these regulatory measures are legitimate actions taken by the host country for economic security reasons, while others involve discriminatory and unjust treatment [2]. As a result,these could lead to higher operational costs and greater management challenges.

5.1.2 International Relations Risk

The dynamic of Namibia's relationships with major trading partners and sources of investment, including China, exerts a significant impact on Shanjin International’s multinational investment operations. Escalating bilateral tensions may trigger a series of cascading effects, such as sudden adjustments in trade policies and the introduction of restrictive measures in the investment sector. In the context of resource development, this could manifest in the form of heightened customs barriers for cross-border procurement of spare parts and consumables, delays in the approval of permits for the introduction of critical equipment, restricted market access for gold exports, and strengthened controls on foreign exchange settlements and cross-border capital flows. These factors not only disrupt the stability of project supply chains but may also increase costs within the production process.

5.1.3 Social Instability Risk

Social instability factors in the local context, such as ethnic tensions, religious conflicts, and rising crime rates, could interfere with the construction and operation of the gold mine project, potentially leading to project suspension or asset loss. These factors also pose threats to employee safety and the normal production and operations of the company. Furthermore, social unrest may disrupt the local supply of key inputs, such as a decline in the stability of the labor market and a weakening of community support, thereby delaying project progress.

5.2 Legal Risks

5.2.1 Regulatory Risk

Namibia's mining regulations are complex and may be subject to future changes. If more stringent requirements are introduced regarding mining conditions, environmental protection, safety production, and mining rights transfer, Shanjin International may need to invest additional resources and efforts to comply with the updated standards. Failure to do so could lead to penalties, mandated rectifications, or even the risk of mining rights being revoked.

5.2.2 Contractual and Agreement Risk

The acquisition process involves numerous contracts and agreements, such as the acquisition agreement signed with Osino and collaboration agreements established with local partners and suppliers. If these contracts contain legal loopholes, ambiguities, or conflicts between the terms of rights and obligations and local mandatory laws, or if the contracting parties' qualifications have not been legally certified, the contracts may not be recognized by local law. This could lead to the company becoming embroiled in protracted judicial procedures, facing claims for damages or administrative penalties, and consequently incurring direct financial losses and reputational risks.

5.2.3 Intellectual Property and Technology Transfer Risk

In the actual operational process of the project, the ownership of intellectual property rights related to core technologies, patent outcomes, proprietary technological secrets, and other aspects of gold mining may be ambiguous or not properly legalized. Furthermore, if the technology transfer process is not conducted in compliance with local legal regulations, it may trigger legal disputes. Such legal conflicts could not only hinder the normal application and iterative upgrading of technologies, affecting improvements in production efficiency, but may also result in restrictions on technology usage rights, infringement claims, and other consequences, thereby constraining the technological competitiveness of the project.

5.3 Financial Risks

5.3.1 Financing Risk

The cash consideration required for this acquisition amounts to approximately CAD 368 million, which undoubtedly sets a high standard for Shanjin International’s fundraising capabilities. To meet the cash payment requirements for the acquisition, the company may need to utilize a combination of diversified financing channels to allocate funds, including but not limited to internal fund transfers, bank loans, equity financing, or bond issuance. If the proportion of self-owned funds is excessively high, it may lead to a contraction in the operational capital pool, thereby affecting the flexibility of daily financial management and fund allocation.

5.3.2 Debt Repayment Risk

In order to support the normal operations of Osino and ensure the smooth progress of the Twin Hills gold mine project, Shanjin International has signed a convertible bond agreement valued at USD 17.4 million. The repayment obligations of the convertible bonds are closely linked to the company’s operating performance, with both principal and interest payments dependent on a stable cash flow generation capacity. If the company’s core business profits fall short of expectations or if financing channels are tightened due to market conditions, it will directly strain the debt repayment cash flow, thereby affecting the stability of debt servicing and potentially triggering a series of consequences, such as credit rating adjustments.

5.3.3 Investment Return Risk

While the Twin Hills Gold Mine project has potential resource reserves and profitability, several factors, including the future price of gold, production cost control, and market demand fluctuations, introduce uncertainties. A decline in gold prices, higher-than-expected production costs, or insufficient market demand may lead to lower-than-expected investment returns, negatively affecting the company's overall profitability.

5.4 Market Risks

5.4.1 Gold Price Volatility Risk

Gold, being a crucial precious metal, is highly sensitive to various factors, including global economic conditions, geopolitical situations, inflation expectations, and the USD exchange rate. Should there be significant fluctuations in gold prices, especially if prices fall, this could negatively impact Shanjin International's profitability. For instance, if gold prices continue to fall after the acquisition is completed, the revenue from gold produced at the Twin Hills Gold Mine may be lower than expected, resulting in reduced profits for the company.

5.4.2 Competitive Risk

The global gold industry is highly competitive. Despite potential improvements in reserves and production capacity following the acquisition of Osino, Shanjin International will still face competition from other gold producers. Competitors may have advantages in resource acquisition, technological innovation, cost control, and marketing, potentially capturing market share and driving down gold prices, which could adversely affect Shanjin International’s profitability and market position.

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5.5 Integration Risks

5.5.1 Cultural Differences Risk

Shanjin International and Osino operate in different countries, with distinct cultural backgrounds, which may lead to differences in corporate culture, management philosophy, and work practices. If these differences are not effectively reconciled, they are likely to result in cognitive biases during daily operations: the management may have divergent interpretations of strategic goals, and the execution teams may experience friction due to misalignment in behavioral norms during collaboration. This, in turn, could weaken organizational responsiveness and team cohesion, hindering the realization of the expected synergies post-acquisition.

5.5.2 Management Integration Risk

After a corporate merger or acquisition, how to integrate internal and external entities into a cohesive whole and realize the envisioned synergistic effect of 1+1>2 has always been a challenging issue [5]. Shanjin International must effectively integrate Osino’s management, which includes organizational restructuring, personnel allocation, and merging management systems. If the integration process is not smooth, issues such as management disorder, unclear responsibilities, and talent loss may arise, negatively affecting the company’s normal operations and the implementation of its development strategy.

5.5.3 Operational Synergy Risk

The operational synergy between the Twin Hills gold mine project and Shanjin International’s existing business is one of the key factors for the success of the acquisition, relying on the deep integration of production processes, supply chain networks, and technical standards. However, in practice, integration is often hindered by system heterogeneity. For example, the technical procedures for gold mining may differ from Shanjin International’s existing standards, leading to insufficient equipment compatibility or gaps in process integration. During supply chain integration, the local supplier network may face challenges in aligning with the existing global procurement system, resulting in issues such as increased logistics costs and fluctuating delivery cycles. Additionally, if the collaborative scheduling of production plans lacks a data-sharing mechanism, it could lead to imbalances in inventory structure or idle production capacity.

5.5.4 Resource Integration Risk

In addition to the Twin Hills gold mine project, Osino may also possess other mining assets and resources. The integration of these resources with Shanjin International’s existing assets requires multiple considerations, including value identification, complementarity assessment, and prioritization of allocation. If the integration strategy lacks a systematic approach, it may lead to resource misallocation. Moreover, investing redundantly in similar capacities or overlooking the interrelationships between assets could result in resource idleness and value dissipation, thereby diminishing the overall competitiveness of the enterprise.

6. M&A Opportunities

6.1 Increase in Capacity and Resource Reserves

Upon the completion of the acquisition, Shanjin International will acquire the Twin Hills gold mine project in Namibia from Osino. This project has an estimated total resource of approximately 91.3 million tons, containing about 99.21 tons of gold. As a result, Shanjin International’s reserves will be enhanced. Once the Twin Hills project is brought into production, it is expected to provide an annual gold production capacity of 5 tons, which will contribute to the company’s increased production capacity. Additionally, this acquisition presents an opportunity for Shanjin International to diversify its mining assets and cultivate new growth drivers. In addition to its core gold mining projects, Osino may also hold potential exploration rights in surrounding areas, as well as relevant mining technology patents and other assets. After undergoing value assessment and integration, these assets could become reserve projects for future resource development, fostering new profit growth points for long-term development and enhancing the company's strategic flexibility in global mining competition.

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6.2 Enhancement of Technological and Innovation Capabilities

Osino holds certain technological advantages in the exploration, mining, and processing stages of the gold mine. Upon completion of the acquisition, Shanjin International can adopt Osino's technologies and learn from its management practices, thus improving its own technical capabilities and operational efficiency. With the construction and production of the Twin Hills gold mine project, Shanjin International will have the opportunity to conduct more technological innovations and research and development activities in mining and processing, driving the company's technological progress and industry upgrading. This will facilitate the effective integration of domestic and international resources, achieving complementary advantages and successfully meeting the company's strategic objectives.

6.3 Strengthening Financial Position

Although Osino was in a loss-making position before the acquisition, its Twin Hills gold mine project holds a post-tax net present value of 480 million USD, with an internal rate of return of 28%, indicating a high potential for profitability. After the acquisition, this project will help Shanjin International diversify its operational risks and reduce dependence on any single market or project. This is crucial for maintaining stable business performance, especially in the face of fluctuations in the global economic environment and the gold market.Furthermore, Shanjin International can achieve centralized management of procurement of raw materials, equipment leasing, and other aspects by integrating the supply chain systems of both parties, thereby reducing unit procurement costs. At the same time, sharing management teams, technical research and development resources, and market channels can help dilute fixed cost expenditures, thus contributing to the enhancement of profitability.

7. Conclusion

The acquisition of Osino by Shanjin International is expected to contribute to increasing resource reserves, enhancing technological innovation capabilities, and improving profitability. However, potential risks and challenges should also be considered, such as geopolitical risks, legal disputes, market volatility, and integration management risks. After the acquisition, measures need to be taken to address these risks and challenges in order to ensure the stable development of the company.

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