



山東黃金礦業股份有限公司
SHANDONG GOLD MINING CO., LTD.

(A joint stock company incorporated in the People's Republic of China with limited liability)
Stock Code : 1787

2018 INTERIM REPORT

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CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Wang Peiyue
Mr. Tang Qi

NON-EXECUTIVE DIRECTORS

Mr. Li Guohong
Mr. Chen Daojiang
Mr. Wang Lijun
Ms. Wang Xiaoling

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Gao Yongtao
Ms. Hui Wing
Mr. Lu Bin

SUPERVISORS

Mr. Li Xiaoping
Mr. Liu Rujun
Ms. Duan Huijie

AUDIT COMMITTEE

Mr. Lu Bin (*Chairman*)
Ms. Hui Wing
Mr. Gao Yongtao
Mr. Li Guohong
Ms. Wang Xiaoling

NOMINATION COMMITTEE

Mr. Gao Yongtao (*Chairman*)
Mr. Lu Bin
Ms. Hui Wing
Mr. Wang Lijun
Mr. Wang Peiyue

RENUMERATION AND APPRAISAL COMMITTEE

Ms. Hui Wing (*Chairman*)
Mr. Lu Bin
Mr. Gao Yongtao
Ms. Wang Xiaoling
Mr. Tang Qi

STRATEGY COMMITTEE

Mr. Li Guohong (*Chairman*)
Mr. Chen Daojiang
Mr. Wang Peiyue
Mr. Gao Yongtao
Mr. Lu Bin

JOINT COMPANY SECRETARIES

Mr. Tang Qi
Ms. Ng Sau Mei (*ACIS, ACS*)

AUDITOR

PricewaterhouseCoopers

COMPLIANCE ADVISOR

China Securities (International) Corporate
Finance Company Limited
18/F, Two Exchange Square
8 Connaught Place
Central
Hong Kong

H SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

CORPORATE INFORMATION

REGISTERED OFFICE AND HEADQUARTERS IN THE PRC

Building No. 3, Shuntai Plaza
Shunhua Road No. 2000
Jinan, Shandong Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 4009-4010
40th Floor
China Resources Building
No. 26 Harbour Road
Hong Kong

STOCK CODE

1787

WEBSITE

<http://www.sdhjgf.com.cn>

MANAGEMENT DISCUSSION AND ANALYSIS

The financial position and the management discussion and analysis (“**Discussion and Analysis**”) of the operating results prepared on 27 September 2018 are set out below. Discussion and Analysis must be read in conjunction with the condensed consolidated financial statements for the three and six months ended 30 June 2018 and the three and six months ended 30 June 2017, respectively, together with the relevant notes thereto, of Shandong Gold Mining Co., Ltd. (hereinafter “**Shandong Gold**”, the “**Company**” or “**we**”, as the context requires) for completeness. Unless the context otherwise requires, Shandong Gold or the Company mentioned in the Discussion and Analysis shall refer to Shandong Gold and its subsidiaries as a whole.

The following discussion contains certain forward-looking statements relating to the plans, objectives, expectations and intentions of the Company, which are made based on the current expectations of the Company and subject to the influence of risks, uncertainties and changing circumstances. Readers should read all the information contained in the Discussion and Analysis in detail. Please refer to “**Forward Looking Statements**” for further details on the risks and other factors that may affect the accuracy of the forward-looking statements and the operating results of the Company.

FORWARD LOOKING STATEMENTS

Some statements made in this report, except for statements relating to historical facts of the Company, are forward-looking information in nature. Under certain circumstances, such forward-looking information may be expressed through words such as “may”, “will”, “expect”, “forecast”, “would”, “aim”, “estimate”, “intend”, “plan”, “believe”, “potential”, “continue”, “possibly”, “should” or the negative of such words or other similar expressions to indicate the forward-looking information. Such forward-looking information comprises, among other things, production estimates, business strategies and capital expenditure plans of Shandong Gold; financial position of Shandong Gold; regulatory environment and overall prospects of the industry; overall economic trend of the PRC; statements about anticipated business activities, planned expenditure, corporate strategies, participation in projects and financing, as well as other statements which are non-historical facts.

With its given nature, forward-looking information often involves a number of general and special assumptions that could lead to significant discrepancies between the actual result, performance or achievement of Shandong Gold and/or its subsidiaries and any future result, performance or achievement explicitly mentioned in the forward-looking information. Some major assumptions include, among other things, no material change in the operation or exchange rate or prices of existing gold products of Shandong Gold; no other production problems caused by below expectation; other assumptions associated with the financial performance of Shandong Gold in respect of actual income and other exchange rates and regarding Veladero Mine as set out in the technical report of Shandong Gold; the ability of Shandong Gold to timely obtain regulatory confirmation and approval; on-going good labour relations; no material adverse effects are resulted from political instability, terrorism, natural disaster, litigation or arbitration nor adverse changes in government regulations; financing facility available and accessible to Shandong Gold; and counterparties perform terms and conditions of all contracts to which Shandong Gold and its subsidiaries are contractual parties. Forward-looking information is also prepared based on the assumption that risk factors which could lead to significant discrepancies between identified or actual result in the Discussion and Analysis or annual return and the forward-looking information have not actualized.

MANAGEMENT DISCUSSION AND ANALYSIS

The forward-looking information contained herein as at the date of the Discussion and Analysis is prepared on the basis of the management's opinions, estimates and assumptions. Plenty of material risks, uncertainties and other factors may lead to significant discrepancies between actual action, event or result and that expressed in the forward-looking information. Shandong Gold shall not undertake any responsibilities to update any forward-looking information, whether due to the appearance of new information, estimates, opinions or assumptions, future events or results, or due to other reasons of updating, save as provided by laws and regulations. No assurance may be provided that the forward-looking information will be proved to be accurate, the actual result and future event may turn out to be significantly different from the forecast in such statements. This warning statement expressly waives our responsibilities for the forward-looking information in the Discussion and Analysis. Readers are reminded not to unduly rely upon the forward-looking information.

COMPANY OVERVIEW

Shandong Gold is an integrated gold company mainly operating in Shandong Province. The principal business of the Company includes gold exploration, mining, processing, smelting and sales.

As at 30 June 2018, the Company controlled and operated 12 PRC Mines, nine of which are located in Shandong Province. The mining business of the Company is mainly conducted in four flagship PRC Mines, namely, Sanshandao Gold Mine, Jiaojia Gold Mine, Xincheng Gold Mine and Linglong Gold Mine, by concentrating on the Laizhou and Zhaoyuan regions located in the northwest Jiaodong peninsula of Shandong Province. As at 30 June 2018, the Company had three other gold mines located in the Inner Mongolia Autonomous Region, Gansu Province and Fujian Province. As the first step in our overseas expansion, we acquired 50% interest in the Veladero Mine on 30 June 2017. The Company jointly operates the Veladero Mine with Barrick Gold.

The Company is listed on the Shanghai Stock Exchange (the "SSE") trading with stock code 600547 and on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") trading with stock code 1787, respectively. For other information about the Company, including the annual return of the Company, please browse the SSE website at sse.com.cn and the Hong Kong Stock Exchange website at hkexnews.hk.

OUTLOOK

- The controlling shareholder of the Company, SDG Group Co., is a large, state-owned conglomerate controlled by the Shandong SASAC with over 40 years of operating experience in the gold mining industry. Moreover, the Company believes that our controlling shareholder's in-depth experience and technological expertise in the exploration of gold resources will provide synergy in discovery of more resources for the Company. The Company will continue to leverage on the technology and operation experience of the controlling shareholder to improve production and operation in the mining areas;
- To realize our growth strategy, the Company will continue collaborating with the controlling shareholder and other potential parties through domestic and overseas mergers and acquisitions to consolidate quality resources;

MANAGEMENT DISCUSSION AND ANALYSIS

- To deepen collaborative partnership, our controlling shareholder, SDG Group Co., and Barrick Gold are in advanced negotiations regarding a mutual strategic investment agreement (the “Mutual Agreement”). The execution of the Mutual Agreement remains subject to the required regulatory approval as well as approval by the board of directors of each of SDG Group Co. and Barrick Gold. Under the proposed Mutual Agreement, SDG Group Co. will purchase ordinary shares of Barrick Gold, and Barrick Gold will purchase the shares of the Company, in each case, the purchase will be conducted through the stock exchange on which such shares are listed, and with an aggregate purchase price of up to US\$300 million (or its equivalent). Unless otherwise agreed, such mutual investments are expected to be conducted within 12 months from the date of the Mutual Agreement. The Mutual Agreement is still pending for further negotiations, further announcements will be published in due course.
- To enhance the operational capabilities of Shandong Gold Group Finance Co., Ltd., the Company, in conjunction with Shandong Gold Group Co., Ltd., intends to increase the capital of Shandong Gold Group Finance Co., Ltd. in cash in the same proportion in accordance with their respective existing shareholdings in the finance company in the fourth quarter of 2018. Among them, the Company increased the capital by RMB600 million (including US\$1.5 million), and SDG Group increased the capital by RMB1.4 billion (including US\$3.5 million); after the capital increase, the registered capital of the finance company will increase to RMB3 billion.

OPERATING RESULTS

Selected Half-yearly Financial Information

For the six months ended on the dates stated (RMB million, except data per share)	2018	2017	2017	2016
	30 June	31 December	30 June	31 December
Revenue	26,018.565	51,041.303	25,124.733	49,072.691
Gross profit	2,003.610	3,642.643	1,791.689	3,505.562
Selling expenses	14.353	31.152	17.844	34.440
General and administrative expenses	575.030	1,214.344	603.209	1,225.662
Research and development costs	79.711	273.559	109.708	265.333
Operating profit	1,318.166	2,126.489	1,026.065	2,034.924
Finance income	17.575	37.445	10.172	10.988
Finance costs	433.585	593.513	235.865	375.598
Share of profit of an associate	19.633	34.024	17.210	27.662
Profit before income tax	921.789	1,604.445	817.582	1,697.976
Income tax expenses	308.870	431.452	171.645	385.194
Basic and diluted earnings per share attributable to the equity holders	0.00031	0.00060	0.00034	0.00085

MANAGEMENT DISCUSSION AND ANALYSIS

Selected Half-yearly Production Data and Analysis

	For the six months ended 30 June					
	Ore mined (Mt)	2018 Ore processed (Mt)	Gold production (koz)	Ore mined (Mt)	2017 Ore processed (Mt)	Gold production (koz)
China						
Shandong Province						
Sanshandao Gold Mine	1.5	1.6	91.4	1.9	2.0	126.4
Jiaojia Gold Mine	1.8	1.8	121.1	1.8	1.6	120.6
Xincheng Gold Mine	0.8	1.0	70.0	1.2	1.0	71.3
Linglong Gold Mine	1.0	0.9	72.0	0.9	1.1	72.3
Guilaizhuang Gold Mine	0.1	0.1	19.6	0.2	0.1	29.5
Penglai Gold Mine	0.2	0.2	13.1	0.2	0.1	13.6
Jinzhou Gold Mine	0.2	0.2	18.5	0.2	0.2	18.8
Qingdao Gold Mine	0.3	0.4	18.8	0.2	0.2	12.5
Yinan Gold Mine	0.2	0.2	6.3	0.2	0.2	6.1
Other Provinces						
Chifengchai Gold Mine	0.2	0.2	19.1	0.1	0.2	12.2
Fujian Yuanxin Gold Mine	0.2	0.2	12.7	0.1	0.1	8.8
Xihe Zhongbao Gold Mine	0.1	0.1	9.1	0.1	0.1	7.6
Argentina						
Veladero Mine ¹	7.8	6.9	151.7	—	—	—
Total	14.4	13.8	623.4	7.1	6.9	499.6

1. We completed the acquisition of 50% interest in Veladero Mine on 30 June 2017, thus only the production data of Veladero Mine attributable to us for the six months ended 30 June 2018 is presented herein.

For the six months ended 30 June 2018, the Company's gold mine production volume increased by 24.8% to 623.4 koz from 499.6 koz for the same period in 2017, the growth was mainly attributable to the completion of acquisition of 50% interest in Veladero Mine on 30 June 2017, hence the gold mine production volume in 2018 included gold mine production volume from the Veladero Mine for the six months ended 30 June 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 June 2018, we mainly conducted mining and exploration activities in the areas prescribed by the mining permits and exploration permits held by the Company. As of today, we have a total of 22 valid mining permits and six mining permits are in the process of renewal. Our valid mining permits have a permitted mine production volume of approximately 4.0 million tonnes per year and covered a total area of approximately 33.0 sq. km. We also have 17 valid exploration permits and nine exploration permits are in the process of renewal. Our valid exploration permits cover a total area of approximately 65.2 sq. km. In September 2017, we acquired two exploration permits relating to the acquisition of the Qingdao Gold Mine. In November 2017, we also acquired three exploration permits from the controlling shareholder relating to the acquisition of Xincheng Gold Mine, Linglong Gold Mine and Yinan Gold Mine. The Veladero Mine comprised two mining properties: (i) the Veladero mining group, which consisted of eight mining concessions covering a total land area of 119.3 sq. km.; and (ii) the Filo Norte mining group, which consisted of five mining concessions covering a total land area of 25.2 sq. km. The Veladero mining concessions are owned by IPEEM (a provincial mining entity) and operated by MAG according to the IPEEM Agreement and the applicable provincial laws. Filo Norte mining concessions are held by MAG. Pursuant to the IPEEM Agreement, MAG has the right to conduct mining activities in the regions covered under the Veladero mining concessions for 25 years from 2003 to 2028. Upon expiration, MAG has the sole discretion to renew the agreement. MAG is required to pay to IPEEM a royalty of 0.75% of the gross sales of doré.

As at 30 June 2018, we employed a total number of 16,270 employees, except seven employees were located in Argentina and 12 employees in Hong Kong, all the remaining employees were located in Mainland China. The remuneration package of our employees generally includes salaries and bonus. We determined staff remuneration according to various factors, such as qualifications and experience. Employees also received other benefits, including medical, retirement and work injury insurance. We made contributions to mandatory social insurance for employees, benefits such as pension, medical, work injury, maternity and unemployment protection were provided.

FINANCIAL REVIEW

For the six months ended 30 June 2018, the Company's:

- **revenue** increased by 3.6% to RMB26,018.6 million from RMB25,124.7 million for the same period in 2017; which was mainly due to the inclusion of sales revenue from gold bullions produced by gold mined in the Veladero Mine into the revenue for the six months ended 30 June 2018. The increase in revenue was partially offset by the decrease in sales of standard gold bullions produced by gold mined in the PRC Mines and the standard gold bullions produced by doré purchased from independent third-parties as well as by the decline in overall gold prices during the period;
- **cost of sales** increased by 2.9% to RMB24,015.0 million from RMB23,333.0 million for the same period in 2017, which was mainly due to the consolidation of the 50% cost of sales attributable to the Veladero Mine for the six months ended 30 June 2018 into the Company, the increase was partially offset by the reduction in cost of sales as a result of reduced production in the PRC business;
- **gross profit** increased by 11.8% to RMB 2,003.6 million from RMB1,791.7 million for the same period in 2017, which was mainly due to the inclusion of gross profit from sales of gold bullions produced by gold mined in the Veladero Mine into the gross profit for the six months ended 30 June 2018, such gross profit had a higher gross profit margin;

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 June 2018, the Company's:

- **Net current liabilities** increased to RMB7,049.2 million from RMB6,489.2 million as at 31 December 2017, which was mainly due to an increase in short-term borrowings to supplement working capital that caused an increase in borrowings by RMB1,847.8 million, this was partially offset by the following items: (i) a decrease of RMB519.4 million in financial liabilities at fair value through profit or loss to reflect the fair value of the gold leasing contract held at that time; (ii) a decrease of RMB263.2 million in trade and other payables; and (iii) an increase of RMB204.0 million in trade and other receivables, which was mainly attributable to the time difference between the Company's sales of gold bullions from the Veladero Mine and the receipt of sales proceeds by the bank account, such trade receivables were fully settled subsequently in July 2018.

LIQUIDITY AND CAPITAL RESOURCES

The industry in which the Company operates is a capital-intensive industry. The liquidity requirements of the Company mainly arise from the expansion of its mining and processing businesses, exploration activities and financial funds required for acquisition of exploration and mining permits. Major sources of capital of the Company are mainly, including but not limited to, cash generated from operating activities, bank financing, bonds issued or to be issued, and private placement of share capital. The liquidity of the Company depends, to a large extent, on the cash flows generated from its operating activities and its ability to repay debts by obtaining external financing as and when the debts fall due, and the requirements of the Company for future operating and capital expenditure.

To provide funds for the Veladero Acquisition, the Company utilized the following capital sources: (i) obtained a syndicated term loan of US\$740 million; and (ii) obtained a term loan of US\$300 million from the China Development Bank. The interest rate of the syndicated term loan was LIBOR plus 1.25%, and the interest rate of the term loan from China Development Bank was LIBOR plus 1.23%. As at 30 June 2018, the debt-to-equity ratio of the Company was 65.7% (or 94.7%, if short-term financing through gold leasing was taken into account), due to the material impact of financing for the Veladero Acquisition, the Company intended to utilize the net proceeds from the Global Offering to repay such indebtedness.

As at 30 June 2018, the general reserves of the Company amounted to RMB10,212.6 million and borrowings amounted to RMB4,730.9 million. The cash balance of the Company as at 30 June 2018 was RMB2,593.6 million. Based on the following considering factors, the directors of the Company were of the opinions that the Group will be able to have sufficient working capital to provide capital sources for future needs of financing and working capital: (a) the Group is expected to remain profitable, and thus will continue to generate operating cash flows from future business operations; (b) the Group has been maintaining long-term business relationship with major dealing banks. On August 13, 2018, our shareholders approved our proposal to issue green bonds in accordance with the relevant CSRC laws and regulations. The maximum amount of the green bond is RMB1 billion and the maximum term is five years. The interest rate of the green bond is expected to range from 4.8% to 5.3%. We expect to issue the green bond by the end of this year provided our proposal is approved by the CSRC.

In the opinions of the management, the forecast operating cash flows will be sufficient for the operation of the Company for the next 12 months, including its planned capital expenditure and current debt repayment. The borrowings of the Company include 10 loans due to related parties in an aggregate amount of RMB112.6 million from SDG Finance, the borrowing time was between 29 September 2017 and 11 June 2018, each of the loan was

¹ Debt equity ratio: Total debt divided by total equity, multiplied by 100%.

MANAGEMENT DISCUSSION AND ANALYSIS

for a term of 12 months at an interest rate of 4.35%. Borrowings of the Company also include corporate bonds, the Company issued 13,000,000 units of corporate bonds at the par value of RMB100.0 each on 30 March 2015, generating total proceeds of RMB1,300 million. These corporate bonds carried an interest rate of 4.80% per annum, interest payments would be due on 30 March each year for the subsequent five years, the effective interest rate was 4.94% per annum, these bonds will be due for full repayment on 30 March 2020. Meanwhile, the Company had arrangements of short-term bank loans of RMB2,261.162 million through a number of banks in the PRC with interest rates ranging from 2.4% to 4.85% per annum. Moreover, the Company utilized the following sources of capital to finance the Veladero Acquisition: (i) obtaining a syndicated term loan of US\$740 million; and (ii) obtaining a term loan of US\$300 million from the China Development Bank. The interest rate of the syndicated term loan was LIBOR plus 1.25%, and the interest rate of the term loan from China Development Bank was LIBOR plus 1.23%.

Based on the credit record of the Company, our relationship with the Company's principal lenders and the prevailing creditworthiness of the Company, the management believes that the Company will not encounter any material difficulties to obtain additional bank and other borrowings in future.

CASH FLOWS

The table below sets out selected cash flow information extracted from the consolidated cash flow statement for the six months ended 30 June 2018 and 30 June 2017:

	For the six months ended 30 June 2018 (RMB million)	For the six months ended 30 June 2017 (RMB million)
Net cash generated from operating activities	1,824.083	1,327.339
Net cash (used) in investing activities	(1,417.199)	(9,676.711)
Net cash (used in)/generated from financing activities	(217.481)	9,640.147
Net increase in cash and cash equivalents	189.403	1,290.775
Exchange gains/(losses) on cash and cash equivalents	1.375	(0.344)
Cash and cash equivalents at the end of the period	2,593.592	2,450.226

Operating cash flows

For the six months ended 30 June 2018, the amount of net cash flow generated from operating activities was RMB1,824.083 million, reflecting a cash amount of RMB2,171.865 million was generated from operations, a tax amount of RMB365.357 million was paid and an interest amount of RMB17.575 million was received.

Investment cash flows

For the six months ended 30 June 2018, the amount of net cash used in investing activities by the Company was RMB1,417.199 million, which mainly referred to the purchase of properties, plant and equipment of RMB1,845.655 million, partially offset by a reduction of RMB539.146 million in restricted bank deposits, primarily due to the refund of security deposit upon repayment of some offshore bank loans by the Company relating to the Veladero Acquisition.

MANAGEMENT DISCUSSION AND ANALYSIS

Financing cash flows

For the six months ended 30 June 2018, the amount of net cash used in financing activities by the Company was RMB217.481 million, mainly referred to the proceeds of bank borrowings in the amount of RMB2,335.711 million, the proceeds of borrowings from related parties in the amount of RMB1,102.600 million, and the proceeds from arrangement of gold leasing contracts in the amount of RMB4,318.665 million. It was partially offset by the settlement of gold leasing arrangements in the amount of RMB4,905.496 million and repayment of bank borrowings in the amount of RMB1,122.976 million.

ASSETS AND LIABILITIES

The table below sets out selected information extracted from the Company's balance sheet for the six months ended 30 June 2018 and 30 June 2017:

	For the six months ended 30 June 2018 (RMB million)	For the six months ended 30 June 2017 (RMB million)
Non-current assets	36,954.449	36,868.727
Current assets	6,776.613	6,262.994
Equity attributable to owners of the Company	16,967.438	16,467.425
Non-controlling interest	1,052.637	1,026.341
Non-current liabilities	11,885.148	12,885.770
Current liabilities	13,825.839	12,752.185
Net current liabilities	7,049.226	6,489.191
Total assets less current liabilities	29,905.223	30,379.536

Net current liabilities of the Company increased from RMB6,489.2 million as at 30 June 2017 to RMB7,049.2 million as at 30 June 2018, mainly due to the increase in short-term borrowings to supplement working capital resulting in an increase in borrowings by RMB1,847.8 million, partially offset by the following items: (i) a reduction of RMB519.4 million in financial liabilities at fair value through profit or loss, reflecting the fair value of gold leasing contracts held at that time; (ii) a reduction of RMB263.2 million in trade and other payables; and (iii) an increase of RMB204.0 million in trade and other receivables, mainly due to the time difference between our sales of gold bullions from Veladero Mine and the receipt of the relevant sales proceeds by the bank account, such trade receivables were fully settled subsequently in July 2018.

CAPITAL EXPENDITURE

The capital expenditure of the Company mainly relates to the acquisition of mining and exploration permits, property, plant and equipment, land use right and intangible assets, and investment properties. For the six months ended 30 June 2018, in the contracted but not incurred capital expenditure of the Company, the total amount for the acquisition of mining and exploration permits, property, plant and equipment, was RMB1,064.739 million; the total amount of leasing expenses for land and buildings, machinery, etc. was RMB165.485 million.

MANAGEMENT DISCUSSION AND ANALYSIS

MAJOR INVESTMENT, ACQUISITION AND DISPOSAL OF SUBSIDIARIES

For the six months ended 30 June 2018, the Company had no major investments (including investments with an asset ratio of more than 8% in any entities) nor major acquisitions or disposals of subsidiaries, associates and joint ventures. As at the date when the “Management Discussion and Analysis” was prepared, the board of directors (the “Board”) had no other major investments or plans for addition of fixed assets.

Because of the acquisition of the Veladero Gold Mine, the Company has provided the following guarantees for SDG Hong Kong: (i) a bank deposit of approximately RMB1,071.4 million in our PRC bank account in China Merchants Bank Co., Ltd., Jinan Branch; (ii) a bank deposit of approximately RMB1,126.9 million in our PRC bank account in Bank of China Limited, Shandong Branch; (iii) a guarantee for up to approximately US\$347.3 million to the Bank of China Limited, Shandong Branch; (iv) a guarantee for US\$129.0 million to China Merchants Bank Co., Ltd., New York Branch; (v) a guarantee for US\$100.0 million to China Merchants Bank Co., Ltd., Hong Kong Branch; and (vi) a guarantee for US\$100.0 million to China Merchants Bank Offshore Banking Center. Other than that, during the period, the Company did not offer any financial assistance or guarantee with the total exceeding 8% of its assets for its subsidiaries.

PLEDGE OF ASSETS

Save as disclosed in other parts of Management Discussion and Analysis, the Company did not pledge any assets as at 30 June 2018.

COMMODITY PRICE RISK

The Group is engaged in gold mining and refinery business, and is subject to commodity price risk related to price fluctuations in gold products. The price fluctuations in gold products will affect the profitability of the Company’s operations and the cash flows generated from operations. The Company utilizes financial derivatives such as futures and swaps to manage some of the risks in this category.

EXCHANGE RATE VOLATILITY RISK

Most of the Group’s revenue, operating costs and expenses are denominated in Renminbi and are expected to continue in the future. Since the trend of gold prices in Renminbi is generally in line with that of international gold prices denominated in US dollar, the revenue of the Group may be materially affected if there is any significant changes in the exchange rate of Renminbi vs US dollar. Therefore, the consolidated financial results of the Group may be materially and adversely affected. The Company has not adopted any measures to hedge against foreign exchange risk at the moment, but the management has been monitoring foreign exchange risk and may hedge against foreign exchange risk if necessary.

MANAGEMENT DISCUSSION AND ANALYSIS

ENVIRONMENTAL RISK

The operation of gold mines is facing various types of environmental risks and hazards, the business of the Group is subject to restraints imposed by environmental laws and regulations of the regions where the Group operates. Such laws and regulations enact a series of standards regarding the discharge of wastes to the environment and the levies for discharge of such wastes. In future, the Group may undertake restoration responsibilities for the regions which had been cleared for mining and production purposes. The business of the Group may give rise to environmental hazards due to negligence, force majeure or other reasons. The Group will strive to upgrade and reform the key production processes, adapt to optimization of domestic economic structure, changes in the mode of development and the needs for higher national standards for safe production and environmental protection.

TAXATION RISK

The Group received government subsidies and enjoyed preferential taxation treatment during the track record period, if such subsidies or preferential taxation treatment provided to the Group decreased significantly, the financial position and operating results of the Group may be materially and adversely affected.

INTEREST RATE RISK

The interest rate risk of the Company's cash flows arises from the interest-bearing bank deposits, bank borrowings and long-term bonds of the Company, their interest rates may be adjusted by the PRC government. Borrowings at variable interest rates expose the Company to bear interest rate risk on cash flows, and long-term bonds at fixed interest rates expose the Company to bear interest rate risk on fair value. The Company did not use any financial instruments to hedge against interest rate volatility in the past.

COMMITMENTS AND CONTINGENT EVENTS

For the six months ended 30 June 2018, the Company did not have any outstanding loan capital, debt securities, debentures, bank overdrafts, acceptance liabilities or acceptance letter of credits or hire-purchase commitments in issue or to be issued. As of the same date, the Company did not provide any guarantee for the debts of any independent third parties, nor did the Company violate the loan contract terms that are more significant to its business.

MANAGEMENT DISCUSSION AND ANALYSIS

RELATIONSHIP WITH CONTROLLING SHAREHOLDER AND CONNECTED TRANSACTIONS

As at the date of preparation of this report, SDG Group directly and indirectly held 47.69% of the issued shares of the Company.

SDG Group (excluding our Group) engages in gold mining related operations, including geological exploration and mining of gold, gold processing, gold smelting and technical services, and production and sales of specialized equipment and supplies and construction materials for gold mines. The gold resources of SDG Group (excluding our Group) are mainly located in the PRC. As of the date of preparation of this report, it owned 33 gold mine exploration permits in the PRC with an aggregate of approximately 676.81 tonnes of gold resources initially measured with reference to PRC mining permit appraisal methods and filed with relevant authorities; and 16 gold mine mining permits in the PRC with an aggregate of approximately 60.93 tonnes of measured gold resources (excluding one mining permit already leased to us), representing approximately 69.6% of total gold resources held by our Group. Except a few exploration permits under which the gold mines are either with insignificant resources detected or subject to government approval for consolidation, all the exploration and mining permits held by SDG Group (excluding our Group) have been under entrustment arrangement pursuant to the Equity Entrustment Framework Agreement between our Company and SGD Group Co. The Company will continue to disclose the status of the transfer of the exploration and mining permits in its interim and annual reports after listing, including but not limited to, any change in the list of entrusted targets, whether the relevant permits granted to the Company under the non-competition undertaking have been exercised, the status of boundary and capacity expansion (if applicable). Transfer of the exploration and mining permits from SDG Group to our Group is generally expected to commence by the end of 2020, however, due to insignificant resources detected in certain gold mines, decision on whether to transfer the corresponding permits attached to such gold mines is expected to be made by the end of 2023 based on the then exploration results. For details of the relevant permits held by SDG Group, please refer to the paragraph headed “Exploration and Mining Permits Held by SDG Group (excluding our Group) in the PRC as of the date of preparation of this Discussion and Analysis” below. In addition, SDG Group holds a controlling interest in Focus Minerals Limited (an Australian listed company principally engaged in gold exploration and production, stock code: FML) through SDG International. Focus Minerals Limited is owned as to approximately 49.53% by SDG International, and SDG International is owned as to approximately 65% by SDG Group Co.

On January 23, 2017 and on September 25, 2017, SDG Group Co. pledged its 100,000,000 Shares and 160,000,000 Shares to the Industrial and Commercial Bank of China, Shandong Branch (中國工商銀行山東省分行). Such pledged Shares were used as the security for borrowing of SDG Group Co. for its own use, which accounted for approximately 14.00% of total number of our Shares. Industrial and Commercial Bank of China is an authorized institution under the meaning of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

The Company has not entered into any loan contract to establish the obligation terms of the SDG Group.

Exploration and Mining Permits Held by SDG Group (excluding our Group) in the PRC as at the date of preparation of this Discussion and Analysis:

Mining Permits

No.	Name of mining permit	Permit holder	Mineral resources (gold content) based on the latest assessment date	Location	Status of mine development	Whether under the Equity Entrustment Framework Agreement	Estimated time of transfer to the Group	Status of the boundary and capacity expansion
1.	SDG Group Co. Jiaojia gold mine (山東黃金集團有限公司焦家金礦)	SDG Group Co.	Please refer to Appendix III: Competent Person's Report – AAI Report Site 2 of the Prospectus	In commercial production stage. Please refer to Appendix III: Competent Person's Report – AAI Report Site 2 of the Prospectus for details	In commercial production stage. Please refer to Appendix III: Competent Person's Report – AAI Report Site 2 of the Prospectus for details	× (leased to the Group)	Note 1 (after completion of the boundary and capacity expansion and consolidation with the exploration permit in item 17)	Expected to obtain a new mining permit by end of 2018*
2.	Shandong Tiancheng Mining Co., Ltd. Hongbu mine area (山東天承礦業有限公司紅布礦區)	Shandong Tiancheng Mining Co., Ltd.	Total resources and reserves: 1.632 tonnes	Jincheng Town, Laizhou, Shandong Province	In commercial production stage. The annual resources reserves report has been submitted to the Land and Resources Bureau of Laizhou City in January 2018	√	Note 1	N/A

* Pursuant to the transfer agreement in respect of the mining permit of Jiaojia Gold Mine entered into between SDG Group Co. and our Company in May 2000, and a supplementary agreement in July 2004, SDG Group Co. agreed to transfer Jiaojia Gold Mine to us, including all of the assets, liabilities and personnel attached thereto at the time of transfer. The consideration of such transfer was set at RMB196,809,000, based on the appraised value of Jiaojia Gold Mine's net asset as of April 30, 2004. To ensure our ability to continue to operate Jiaojia Gold Mine before the conditions of transfer to be fulfilled, we entered into a lease agreement with SDG Group Co. to lease the mining permit from SDG Group Co. for a term of 15 years (being the remaining permit term at the time of the lease agreement) in July 2004. For details of the transfer and its background information, please see section headed "Business — Our operations in China — Our Mining and Exploration Permit — Leased Mining Permit" in the Prospectus. It is expected that such mining permit will be transferred to us in conjunction with material assets restructuring or private placement together with other assets of SDG Group Co. by the end of 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

No.	Name of mining permit	Permit holder	Mineral resources (gold content) based on the latest assessment date	Location	Status of mine development	Whether under the Equity Entrustment Framework Agreement	Estimated time of transfer to the Group	Status of the boundary and capacity expansion
3.	Shandong Tiancheng Mining Co., Ltd. Dongji mine area (山東天承礦業有限公司東季礦區)	Shandong Tiancheng Mining Co., Ltd.	Total reserves and resources: 1,495 tonnes	Jincheng Town, Laizhou, Shandong Province	In commercial production stage. The annual resources reserves report has been submitted to the Land and Resources Bureau of Laizhou City in January 2018	√	Note 1	N/A
4.	Shandong Shengda Mining Co., Ltd. Matang mine area (山東盛大礦業有限公司馬塘礦區)	Shandong Shengda Mining Co., Ltd.	Total reserves and resources: 0,885 tonnes	Jincheng Town, Laizhou, Shandong Province	In commercial production stage. The annual resources reserves report has been submitted to the Land and Resources Bureau of Laizhou City in January 2018	√	Note 1 (after the consolidation with the exploration permit in item 21)	N/A
5.	Shandong Shengda Mining Co., Ltd. Matang II mine area (山東盛大礦業有限公司馬塘二礦區)	Shandong Shengda Mining Co., Ltd.	Total reserves and resources: 1,039 tonnes	Jincheng Town, Laizhou, Shandong Province	In commercial production stage. The annual resources reserves report has been submitted to the Land and Resources Bureau of Laizhou City in January 2018	√	Note 1 (after the consolidation with the exploration permit in item 21)	N/A
6.	Shandong Jinchuang Group Co., Ltd. Yanshan mine area (山東黃金創集團有限公司燕山礦區)	Jinchuang Group	Total reserves and resources: 4,640 tonnes	Yanshan area, Dalujiang Town, Penglai, Shandong Province	In commercial production stage. The annual resources reserves report has been submitted to the Land and Resources Bureau of Penglai City in December 2017	√	Note 1*	In the reconstruction and expansion process, to apply for the safety production license upon acceptance check by authorities

* The gold mine under such mining permit is in construction process and has not commenced production. The transfer of such mining permit can only be made after at least one year from production commencement.

MANAGEMENT DISCUSSION AND ANALYSIS

No.	Name of mining permit	Permit holder	Mineral resources (gold content) based on the latest assessment date	Location	Status of mine development	Whether under the Equity Entrustment Framework Agreement	Estimated time of transfer to the Group	Status of the boundary and capacity expansion
7.	Shandong Gold Jinchuang Group Co., Ltd. Yankou mine area (山東黃金金創集團有限公司奄口礦區)	Jinchuang Group	Total resources and reserves: 6.315 tonnes	Yankou area, Daluhang Town, Pengjia, Shandong Province	In commercial production stage. The annual resources reserves report has been submitted to the Land and Resources Bureau of Yantai City in December, 2017	√	Note 1	In the reconstruction and expansion process, to apply for the safety production license upon acceptance check by authorities
8.	Shandong Jinchuang Co., Ltd. Shangkouwangji gold mine area (山東金創股份有限公司上口王李金礦區)	Jinchuang Group	Total resources and reserves: 3.339 tonnes	Daxindian Town, Pengjia, Shandong Province	In commercial production stage. The annual reserves report has been submitted to the Land and Resources Bureau of Pengjia City in December, 2017	√	附註1	In the reconstruction and expansion process, to apply for the safety production license upon acceptance check by authorities

* The gold mine under such mining permit is in construction process and has not commenced production. The transfer of such mining permit can only be made after at least one year from production commencement.

MANAGEMENT DISCUSSION AND ANALYSIS

No.	Name of mining permit	Permit holder	Mineral resources (gold content) based on the latest assessment date	Location	Status of mine development	Whether under the Equity Entrustment Framework Agreement	Estimated time of transfer to the Group	Status of the boundary and capacity expansion
9.	Shandong Jinchuang Co., Ltd. Heijinding mine area (山東金創股份有限公司黑金頂礦區)	Jinchuang Group	Total resources and reserves: 1,712 tonnes	Daxindian Town, Penglai, Shandong Province	In commercial production stage. The annual resources reserves report has been submitted to the Land and Resources Bureau of Penglai City in December, 2017	√	Note 1	In the reconstruction and expansion process, to apply for the safety production license upon acceptance check by authorities
10.	Shandong Jinchuang Co., Ltd. Heilangou mine area (山東金創股份有限公司黑曠溝礦區)	Jinchuang Group	Total resources and reserves: 8,300 tonnes	Daxindian Town, Penglai, Shandong Province	In commercial production stage. The annual resources reserves report has been submitted to the Land and Resources Bureau of Yantai City in December, 2017	√	Note 1	N/A
11.	Shandong Jinchuang Co., Ltd. Qigouyifen mine area (山東金創股份有限公司齊溝一分礦區)	Jinchuang Group	Total resources and reserves: 2,500 tonnes	Dailiuhang Town, Penglai, Shandong Province	In commercial production stage. The resources reserves report has been submitted to the Land and Resources Bureau of Penglai City in December, 2017	√	Note 1	Expected to obtain a new mining permit in 2019

MANAGEMENT DISCUSSION AND ANALYSIS

No.	Name of mining permit	Permit holder	Mineral resources (gold content) based on the latest assessment date	Location	Status of mine development	Whether under the Equity Entrustment Framework Agreement	Estimated time of transfer to the Group	Status of the boundary and capacity expansion
12.	Qingdao Jinxing Mining Co., Ltd. (青島金星礦業股份有限公司)	Qingdao Jinxing Mining Co., Ltd.	Total resources and reserves: 5,718 tonnes	Jiudian Town, Pingdu, Shandong Province	In commercial production stage.	√	Note 1	In application for a new safety production license in relation to capacity expansion
13.	Hainan Shaqijin Mining Co., Ltd. (海南寶輪金礦有限公司)	Hainan Shaqijin Mining Co., Ltd.	Total resources and reserves: 7,330 tonnes	Ledong County, Hainan province	In commercial production stage. The annual reserves report has been submitted to the Land and Resources Bureau of Ledong County, Hainan Province in January 2018	√	Note 1	In the process of boundary and capacity expansion
14.	Songxian Shaqijin Mining Co., Ltd. (嵩山金礦業有限公司)	Songxian Shaqijin Mining Co., Ltd.	Total resources and reserves: 11,239 tonnes	Shuigou Village, Dazhang Town, Song County, Luoyang, Henan Province	In commercial production stage. The dynamic reserves monitoring report has been approved by the Land and Resources Bureau of Luoyang City, Henan Province in March 2017	√	Note 1	In application for a new safety production license in relation to capacity expansion

MANAGEMENT DISCUSSION AND ANALYSIS

No.	Name of mining permit	Permit holder	Mineral resources (gold content) based on the latest assessment date	Location	Status of mine development	Whether under the Equity Entrustment Framework Agreement	Estimated time of transfer to the Group	Status of the boundary and capacity expansion
15.	Fujian Province Zhenghe Hongkun Mining Co., Ltd. Dayaokeng gold mine (福建省政和縣宏坤礦業有限公司大寮坑金礦)	Fujian Province Zhenghe Hongkun Mining Co., Ltd.	Total resources and reserves: 1,740 tonnes	Dayaokeng Village, Xingxi Town, Zhenghe County, Fujian Province	In commercial production stage. The reserves report has been submitted to the Land and Resources Bureau of Zhenghe County, Fujian Province in January 2018	√	Note 1	N/A
16.	Qinghai Shanjin Mining Co., Ltd. Guoluolongwa gold mine in Dulan County (青海省山金礦業有限公司都蘭縣洛龍窪金礦)	Qinghai Shanjin Mining Co., Ltd.	Total resources and reserves: 2,445 tonnes	Gouli Town, Dulan County, Qinghai Province	In commercial production stage. The reserves report has been submitted to the Land and Resources Bureau of Haixi State, Qinghai Province, in December 2017	√	Note 2	N/A

Note 1: Expected to commence the transfer process in 2020.

Note 2: Due to insignificant resources detected based on the latest assessment, decision on whether to transfer such permits is expected to be made by the end of 2023 based on the then exploration results.

Exploration Permits

No.	Name of mining permit	Permit holder	Mineral resources (gold content) based on the latest assessment date	Location	Status of mine development	Whether under the Equity Entrustment Framework Agreement	Estimated time of transfer to the Group	Status of the boundary and capacity expansion
17.	The gold mine at outer rim and deep level of Jiaojia mine area in Laizhou, Shandong Province (exploration) (山東省萊州市集家嶺區深部及外圍金礦勘探)	SDG Group Co.	Resources: 15.19 tonnes	Laizhou, Shandong Province	The exploration permit has been applied for reservation. Relevant materials for boundary and capacity expansion have been submitted to the authorities	× (under consolidation with the mining permit in item 1)	Note 1 (after completion of the boundary and capacity expansion and consolidation with the mining permit in item 1.)	Expected to complete by end of 2018*
18.	The outer rim of western Sanshandao gold mine area in Laizhou, Shandong Province (general exploration) (山東省萊州市三山島金礦區西部外圍勘探)	SDG Group Co.	Not detected yet	Sanshandao, Laizhou, Shandong Province	The general exploration report has been submitted in January 2015	× (lack of resources)	Note 2	N/A
19.	The gold mine at Dongji - Nanlv District in Laizhou, Shandong Province (general prospecting) (山東省萊州市東季-南呂地區金礦普查)	Laizhou Ludi Mining Investment and Development Co., Ltd.	Resources: 85.54 tonnes	Jincheng Town, Laizhou, Shandong Province	Relevant environment reports have been completed and are pending review	(included in 2018 before the Listing)	To decide on whether to transfer by the end of 2023 after receipt of the mining permit and other licenses	N/A

* It is expected that, after completion of consolidation with the mining permit of Jiaojia Gold Mine, such exploration permit will be transferred to us in conjunction with material assets restructuring or private placement together with other assets of SDG Group Co. by the end of 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

No.	Name of mining permit	Permit holder	Mineral resources (gold content) based on the latest assessment date	Location	Status of mine development	Whether under the Equity Entrustment Framework Agreement	Estimated time of transfer to the Group	Status of the boundary and capacity expansion
20.	The gold mine at the deep level and outer rim of Hongbu mine area in Laizhou, Shandong Province (exploration) (山東省萊州市紅布礦區深部及外圍金礦勘探)	Shandong Tiancheng Mining Co., Ltd.	Resources: 19.37 tonnes	East of Hongbu Village in Jincheng Town, Laizhou, Shandong Province	In the process of exploration	√	Note 1	N/A
21.	The gold mine at the deep level and outer rim of the Matang II mine area in Laizhou, Shandong Province (exploration) (山東省萊州市馬塘二礦區深部及外圍金礦勘探)	Shandong Tiancheng Mining Co., Ltd.	Not detected yet	East of Matang Village in Jincheng Town, Laizhou, Shandong Province	The general prospecting report has been submitted in April 2013	√	Note 1	N/A
22.	The gold mine at Gangshang-Panjiawuzi District in Laizhou, Shandong Province (exploration) (山東省萊州市倉上-潘家屋子地區金礦勘探)	Shandong Gold Geographical Mine Exploration Co., Ltd.	Resources: 1.01 tonnes	Sanshandao, Laizhou, Shandong Province	The geological exploration summary reports have been submitted in September 2004 and October 2017 respectively	√	Note 2	N/A

MANAGEMENT DISCUSSION AND ANALYSIS

No.	Name of mining permit	Permit holder	Mineral resources (gold content) based on the latest assessment date	Location	Status of mine development	Whether under the Equity Entrustment Framework Agreement	Estimated time of transfer to the Group	Status of the boundary and capacity expansion
23.	The middle and deep level of Licun gold mine at Laizhou, Shandong Province (general exploration) (山東省萊州市留村金礦中深部詳查)	Shandong Gold Geological Mine Exploration Co., Ltd.	Resources: 2.00 tonnes	Hutouya Town, Laizhou, Shandong Province	The resources reserves report has been submitted in April 2016	√	Note 2	N/A
24.	Zhaojia gold mine in Laizhou, Shandong Province (general exploration) (山東省萊州市趙家金礦詳查)	Shandong Gold Geological Mine Exploration Co., Ltd.	<i>Not detected yet</i>	Pingdian Town, Laizhou, Shandong Province	The exploration summary report has been submitted in October 2016	√	Note 2	N/A
25.	Shangmajia gold mine in Laizhou, Shandong Province (general exploration) (山東省萊州市上馬家金礦詳查)	Shandong Gold Geological Mine Exploration Co., Ltd.	Note 3	Zhaacun Town, Laizhou, Shandong Province	The general prospecting report has been submitted in November 2017	√	Note 2	N/A
26.	Xiling Village gold mine in Laizhou City, Shandong Province (exploration) (山東省萊州市西嶺村金礦勘探)	Shandong Gold Geological Mine Exploration Co., Ltd.	Resources: 382.58 tonnes	Sanshandao, Laizhou, Shandong Province	The general exploration report has been submitted in December 2016	√	Note 1	N/A

MANAGEMENT DISCUSSION AND ANALYSIS

No.	Name of mining permit	Permit holder	Mineral resources (gold content) based on the latest assessment date	Location	Status of mine development	Whether under the Equity Entrustment Framework Agreement	Estimated time of transfer to the Group	Status of the boundary and capacity expansion
27.	The gold mine at Nanlv — Xinmu District in Laizhou City, Shandong Province (exploration) (山東省萊州市南呂—欣木地區金礦勘探)	Shandong Gold Laizhou Ludi Gold Mine Co., Ltd.	Resources: 133.14 tonnes	Jincheng Town, Zhuqiao Town, Laizhou, Shandong Province	The exploration report has been submitted in October, 2017	√	Note 1	N/A
28.	The gold mine at Dayinjia mine area in Laizhou City, Shandong Province (general exploration) (山東省萊州市大尹家礦區金礦詳查)	Shandong Jinci Mining Co., Ltd.	Not detected yet	Pingjidian Town, Zhuqiao Town, Laizhou, Shandong Province	The exploration summary report has been submitted in November 2016	√	Note 2	N/A
29.	The gold mine at Cishan mine area in Penglai, Shandong Province (exploration) (山東省蓬萊市磁山礦區金礦詳查)	Jinchuang Group	Not detected yet	East Tuwu Village, Dailuhang Town, Penglai, Shandong province	The general exploration report has been submitted in July 2017	√	Note 1	N/A

MANAGEMENT DISCUSSION AND ANALYSIS

No.	Name of mining permit	Permit holder	Mineral resources (gold content) based on the latest assessment date	Location	Status of mine development	Whether under the Equity Entrustment Framework Agreement	Estimated time of transfer to the Group	Status of the boundary and capacity expansion
30.	The gold mine at Shangjiazzi mine area in Pengjiai, Shandong Province (general exploration) (山東省蓬萊市上賈子礦區金礦詳查)	Jinchuang Group	Resources: 5.25 tonnes	Yanzikuang Village, Daluhang Town, Pengjiai, Shandong Province	The general exploration report has been submitted in January 2015	√	Note 1	N/A
31.	The gold mine at the deep level of Tuwu gold mine area in Pengjiai, Shandong Province (general exploration) (山東省蓬萊市土屋金礦區深部金礦詳查)	Jinchuang Group	Note 3	West Tuwu Village, Pengjiai, Shandong Province	The general exploration report has been submitted in April 2013	√	Note 1	N/A
32.	Damingjia gold mine in Pengjiai City, Shandong Province (general exploration) (山東省蓬萊市大鳴家金礦詳查)	Jinchuang	Not detected yet	Xiaomeijia Town, Pengjiai, Shandong Province	The exploration summary report has been submitted in July 2018	√	Note 2	N/A
33.	The gold mine at Xingyijia District in Pengjiai City, Shandong Province (general exploration) (山東省蓬萊市杏呂家地區金礦詳查)	Jinchuang	Not detected yet	Nanwang Street, Pengjiai, Shandong Province	The exploration summary report has been submitted in July 2018	√	Note 2	N/A

MANAGEMENT DISCUSSION AND ANALYSIS

No.	Name of mining permit	Permit holder	Mineral resources (gold content) based on the latest assessment date	Location	Status of mine development	Whether under the Equity Entrustment Framework Agreement	Estimated time of transfer to the Group	Status of the boundary and capacity expansion
34.	The gold mine at Sujijiao District in Penglai City, Shandong Province (general exploration) (山東省蓬萊市賸家堡地區金礦詳查)	Jinchuang	Not detected yet	Xiaomenjia Town, Penglai, Shandong Province	The exploration summary report has been submitted in July 2018	√	Note 2	N/A
35.	The Sunjiagou gold mine in Penglai City, Shandong Province (general exploration) (山東省蓬萊市孫家溝金礦詳查)	Jinchuang	Not detected yet	Daxindian Town, Penglai, Shandong Province	The exploration summary report has been submitted in July 2018	√	Note 2	N/A
36.	The gold mine at the outer rim and deep level of Qigouyifen mine area in Penglai City, Shandong Province (exploration) (山東省蓬萊市齊溝一分礦區深部及外圍金礦詳查)	Jinchuang	Note 3	Xiaomenjia Town, Penglai, Shandong Province	The resources reserves report has been submitted in May 2016	√	Note 2	In the process of consolidation with the mining permit in item 11. The new mining permit is expected to be issued in 2019.
37.	The outer rim and deep level of Heilangou gold mine in Penglai City, Shandong Province (general exploration) (山東省蓬萊市黑風溝金礦深部及外圍詳查)	Jinchuang	Not detected yet	Daxindian Town, Penglai, Shandong Province	In preparation of the general exploration report	√	Note 1	N/A

MANAGEMENT DISCUSSION AND ANALYSIS

No.	Name of mining permit	Permit holder	Mineral resources (gold content) based on the latest assessment date	Location	Status of mine development	Whether under the Equity Entrustment Framework Agreement	Estimated time of transfer to the Group	Status of the boundary and capacity expansion
38.	Baolun gold mine in Ledong County, Hainan Province (general exploration) (reserved) (海南省樂東縣抱倫金礦詳查(保留))	Hainan Shanjijin Mining Co., Ltd.	Resources: 10,04 tonnes	Haogangting, Baoyou Town, Ledong County, Hainan Province	The general exploration report has been submitted in March 2017	√	Note 1	In the process of consolidation with the mining permit in item 13. The new mining permit has been issued by the end of 2018
39.	Yishan Forest Farm gold mine in Oroqen Autonomous Banner, Hulunbuir, Inner Mongolia (general exploration) (內蒙古呼倫貝爾鄂倫春自治旗伊山林場金礦詳查)	Hulunbuir Shaanjin Mining Co., Ltd.	Not detected yet	Alite Town, Oroqen Autonomous Banner, Hulunbuir, Inner Mongolia	The general prospecting report has been submitted in December 2013	√	Note 2*	N/A

* The gold mine under such exploration permit has not been in operation for more than four years. Application for new exploration permit has been made as the old permit has already expired. The conditions for transfer of such exploration permit is subject to (1) obtaining renewed exploration permit, (2) submission of the latest exploration report to the authorities, (3) payment for relevant exploration and mining permits fees and completion of minimum exploration expenditure with supporting materials, and (4) submission of evaluation report relating to the exploration permit and confirmation from authorities on the evaluation results.

MANAGEMENT DISCUSSION AND ANALYSIS

No.	Name of mining permit	Permit holder	Mineral resources (gold content) based on the latest assessment date	Location	Status of mine development	Whether under the Equity Entrustment Framework Agreement	Estimated time of transfer to the Group	Status of the boundary and capacity expansion
40.	The silver (gold) mine in Xiangluping mine area, Zhenghe, Fujian Province (general exploration) (福建省政和縣香爐坪礦區銀(金)礦詳查)	Fujian Zhenghe Xiangluping Mining Co., Ltd.	<i>Note 3</i>	Chengyuan Village, Chengyuan Town, Zhenghe County, Fujian Province	The general exploration report has been submitted in July 2013	√	<i>Note 2</i>	N/A
41.	The gold mine at the outer rim of Dayaokeng mine area in Zhenghe County, Fujian Province (general exploration) (福建省政和縣大藥坑礦區金礦外圍地質詳查)	Fujian Province Zhenghe Hongkun Mining Co., Ltd.	Not detected yet	Dayaokeng Village, Xingxi Town, Zhenghe County, Fujian Province	N/A	√	<i>Note 1</i>	N/A
42.	The gold mine at the deep level of Dayaokeng mine area in Zhenghe County, Fujian Province (general exploration) (福建省政和縣大藥坑礦區金礦深部詳查)	Fujian Province Zhenghe Hongkun Mining Co., Ltd.	Not detected yet	Dayaokeng Village, Xingxi Town, Zhenghe County, Fujian Province	N/A	√	<i>Note 1</i>	N/A
43.	The gold mine at Asifa (Kere) District in Dulan County, Qinghai Province (general prospecting) (青海省都蘭縣阿斯哈(可熱)地區金礦普查)	Qinghai Shaijin Mining Co., Ltd.	Resources: 2.27 tonnes	Gouli Town, Dulan County, Qinghai Province	The general prospecting report has been submitted in December 2017	√	<i>Note 2</i>	N/A

MANAGEMENT DISCUSSION AND ANALYSIS

No.	Name of mining permit	Permit holder	Mineral resources (gold content) based on the latest assessment date	Location	Status of mine development	Whether under the Equity Entrustment Framework Agreement	Estimated time of transfer to the Group	Status of the boundary and capacity expansion
44.	Walega gold mine in Dulan County, Qinghai Province (general prospecting) (青海省都蘭縣瓦勒加金礦普查)	Qinghai Shanjin Mining Co., Ltd.	Resources: 2.78 tonnes	Gouli Town, Dulan County, Qinghai Province	The general prospecting report has been submitted in December 2017	√	Note 2	N/A
45.	The gold mine at Daloggetang District in Dulan County, Qinghai Province (general prospecting) (青海省都蘭縣達里古格塘地區金礦普查)	Qinghai Shanjin Mining Co., Ltd.	Not detected yet	Gouli Town, Dulan County, Qinghai Province	The general prospecting report has been submitted in August 2017	√	Note 2	N/A
46.	Gululoungwa gold mine in Dulan County, Qinghai Province (general exploration) (青海省都蘭縣綠哇格魯地區金礦詳查)	Qinghai Shanjin Mining Co., Ltd.	Resources: 12.94 tonnes	Gouli Town, Dulan County, Qinghai Province	The general exploration report has been submitted in March 2010	√	Note 2	N/A
47.	Arnagge gold mine in Dulan County, Qinghai Province (general prospecting) (青海省都蘭縣安納格金礦普查)	Qinghai Shanjin Mining Co., Ltd.	Resources: 1.67 tonnes	Gouli Town, Dulan County, Qinghai Province	The general prospecting report has been submitted in December 2017	√	Note 2	N/A
48.	Dachaidan Hangwei Shengligou gold mine in Qinghai Province (general exploration) (青海省大柴旦行委勝和溝金礦詳查)	Shanjin Western Geological and Minerals Exploration Co., Ltd.	Note 3	Dachaidan Hangwei, Haxi Prefecture, Qinghai Province	The general prospecting report has been submitted in December 2012	√	Note 2	N/A

MANAGEMENT DISCUSSION AND ANALYSIS

No.	Name of mining permit	Permit holder	Mineral resources (gold content) based on the latest assessment date	Location	Status of mine development	Whether under the Equity Entrustment Framework Agreement	Estimated time of transfer to the Group	Status of the boundary and capacity expansion
49.	Dachaidan Hangwei Hongdenggou west gold mine in Qinghai Province (general prospecting) (青海省大柴旦行委紅燈溝西金礦普查)	Shanjin Western Geological and Minerals Exploration Co., Ltd.	Not detected yet	Dachaidan Hangwei, Haixi Prefecture, Qinghai Province	The general prospecting report has been submitted in September 2017	√	Note 2	N/A

Note 1: Expected to commence the transfer process in 2020.

Note 2: Due to insignificant resources detected based on the latest assessment, decision on whether to transfer such permits is expected to be made by the end of 2023 based on the then exploration results.

Note 3: The resources detected or reported based on the latest practicable assessment is equal to or less than 1 tonne.

MANAGEMENT DISCUSSION AND ANALYSIS

A. ONE-OFF CONNECTED TRANSACTION – EXPLORATION PERMIT TRANSFER AGREEMENT

On 1 November 2017, each of the Company, Linglong Mining and Yinan Mining entered into an exploration permit transfer agreement with SDG Group Co., respectively, pursuant to which SDG Group Co. agreed to transfer three exploration permits, namely “Gold mine exploration in peripheral and deep level areas of Xincheng Mining Area, Laizhou City, Shandong Province (Exploration)” (山東省萊州市新城礦區外圍及深部金礦勘探), “Gold mine exploration in deep level areas of Linglong Mining Area, Zhaoyuan City, Shandong Province (Exploration)” (山東省招遠市玲瓏礦區深部金礦勘探) and “Gold mine detail inspection at Tongjing – Jinchang Mining Area, Yinan County, Shandong Province (General Exploration)” (山東省沂南縣銅井-金場礦區金礦詳查) to the Company, Lingling Gold Mine and Yinan Gold Mine, for a consideration of RMB569,848,000, RMB79,637,200 and RMB5,397,700, respectively (the “Consideration”). Both Linglong Mining and Yinan Mining are wholly-owned subsidiaries of the Company.

As at the date of this Discussion and Analysis, the Company, Linglong Mining and Yinan Mining have paid RMB398,893,600, RMB56,000,000 and RMB3,778,390, respectively, representing approximately 70% of the Consideration. It is anticipated that, by the end of the first half of 2019, the remaining 30% of the Consideration will be paid by internal funding and the transfer will be completed. As the transfer of the exploration permits, being the last milestone for the Company to pay the Consideration pursuant to the abovementioned transfer agreement, has not yet been completed, the remaining 30% of the Consideration is not treated as amount payable by the Company to related parties during the Track Record Period.

B. CONTINUING CONNECTED TRANSACTIONS

Nature of transaction	Parties	Applicable		Historical transaction amount	Annual cap
		Hong Kong Listing Rules	Waiver sought		
Exempt Continuing Connected Transactions					
Trademark License Agreement	SDG Group Co. and the Company	14A.76(1) (a)	N/A	For the years 2015, 2016, 2017 and for the three months ended 31 March 2018, the transaction amounts were nil, nil, nil and RMB0.18 million, respectively.	For the years ending 31 December 2018, 2019 and 2020, the total amount of licensing fees payable under the PRC trademark license agreement and the Hong Kong Trademark License Agreement is expected to be RMB700,000, RMB700,000 and RMB700,000, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Nature of transaction	Parties	Applicable Hong Kong Listing Rules	Waiver sought	Historical transaction amount	Annual cap
Equity Entrustment Framework Agreement	SDG Group Co. and the Company	14A.76(1) (a)	N/A	<p>For the years 2015, 2016, 2017 and for the three months ended 31 March 2018, the transaction amounts were approximately RMB1.6 million, RMB0.8 million, RMB3.8 million and RMB0.9 million, respectively. The decrease in 2016 was mainly due to our acquisition of Penglai Gold Mine and Guilaizhuang Gold Mine from SDG Group in October 2016. The increase in 2017 was mainly due to the expanded scope under the entrusted arrangement.</p>	<p>For the years ending 31 December 2018, 2019 and 2020, the proposed annual caps for transactions contemplated under the Equity Entrustment Framework Agreement are RMB5 million, RMB5 million and RMB5 million, respectively.</p>

MANAGEMENT DISCUSSION AND ANALYSIS

Nature of transaction	Parties	Applicable Hong Kong Listing Rules	Waiver sought	Historical transaction amount	Annual cap
Property Leasing Framework Agreement	SDG Group Co. and the Company	14A.76(1) (a)	N/A	For the years 2015, 2016, 2017 and for the three months ended 31 March 2018, the amounts of property leasing expenses incurred were approximately RMB4.3 million, RMB4.1 million, RMB4.2 million and RMB3.3 million, respectively; for the years 2015, 2016, 2017 and for the three months ended 31 March 2018, the amounts of property leasing income generated were approximately RMB7.8 million, RMB7.0 million, RMB7.2 million and RMB1.8 million, respectively.	For the years ending 31 December 2018, 2019 and 2020, the proposed annual caps for transactions contemplated under the Property Leasing Framework Agreement are RMB25.5 million, RMB30.4 million and RMB36.7 million, respectively.
Processing Contracting Agreement	Guizhou Southwest Gold and SDG Smelting	14A.76(1) (a)	N/A	For the years 2015, 2016, 2017 and for the three months ended 31 March 2018, the transaction amounts were RMB5,400.00, RMB25,349.65, RMB126,996.90 and RMB36,544.60, respectively.	For the year ending 31 December 2018, the proposed cap for transactions contemplated under the Processing Contracting Agreement is RMB150,000.

MANAGEMENT DISCUSSION AND ANALYSIS

Nature of transaction	Parties	Applicable Hong Kong Listing Rules	Waiver sought	Historical transaction amount	Annual cap
Mining Right Leasing Agreement		14A.76(1) (a)	N/A	We entered into a Mining Right Leasing Agreement with SDG Group Co. on 27 July 2004, pursuant to which SDG Group Co. would lease the mining permit of Jiaojia Gold Mine to us for a consideration of approximately RMB5.4 million per annum (“Mining Right Leasing Agreement”).	Approximately RMB5.4 million per annum.
Guarantee from SDG Group Co.	SDG Group Co.	14A.90	N/A	The Company issued 5-year corporate bonds in total amount of approximately RMB1,300 million on 30 March 2015. The coupon rate of the corporate bonds was 4.8%.	N/A
Partially-exempt Continuing Connected Transactions					
Gold External Purchase Agreement	Chen Kaiyuan and SDG Smelting	14A.101	Announcement requirement	For the years 2015, 2016, 2017 and for the three months ended 31 March 2018, the transaction amounts were RMB5,936.22 million, RMB110.89 million, RMB106.64 million and nil, respectively.	For the year ending 31 December 2018, the proposed cap for transactions contemplated under the Gold External Purchase Agreement is RMB150 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Nature of transaction	Parties	Applicable Hong Kong Listing Rules	Waiver sought	Historical transaction amount	Annual cap
Non-exempt Continuing Connected Transactions					
Procurement and Sale Framework Agreement	SDG Group Co. and the Company	N/A	Announcement and independent shareholders' approval requirements	For the years 2015, 2016, 2017 and for the three months ended 31 March 2018, the procurement transaction amounts were RMB1,250.28 million, RMB796.50 million, RMB553.21 million and RMB81.60 million, respectively; for the years 2015, 2016, 2017 and for the three months ended 31 March 2018, the sales transaction amounts were RMB555.32 million, RMB753.95 million, RMB164.37 million and RMB22.90 million, respectively.	For the years ending 31 December 2018, 2019 and 2020, the proposed annual caps for procurement transactions are RMB1,250.0 million, RMB1,300.0 million and RMB1,350.0 million; for the years ending 31 December 2018, 2019 and 2020, the proposed annual caps for sales transactions are RMB750.0 million, RMB800.0 million and RMB850.0 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Nature of transaction	Parties	Applicable Hong Kong Listing Rules	Waiver sought	Historical transaction amount	Annual cap
Financial Services Framework Agreement	SDG Group Finance and the Company	N/A	Announcement and independent shareholders' approval requirements	For the years 2015, 2016, 2017 and for the three months ended 31 March 2018 (Unit: RMB million): (1) the maximum daily balance of deposit services was 507.87, 510.86, 1,265.45 and 1,008.48, respectively; (2) the interest income of deposit services on effective basis was 1.21, 2.33, 6.62 and 1.74, respectively; (3) the maximum daily balance of loans and other financing services was 190.00, 283.42, 374.09 and 334.20, respectively; (4) the interest expenses of loans and other financing services on effective basis were 6.64, 2.02, 5.39 and 2.33, respectively; (5) the maximum daily balance of overdraft services was 200.00, 230.00, 300.00 and 420.00, respectively; (6) the handling fees and other financial services were 0.45, 0.22, 0.44 and 0.04, respectively.	For the period from the Listing Date to the date of the Company's 2018 Annual General Meeting, the cap on daily balance of deposit services is RMB1,300 million; the cap on interest income of deposit services is RMB8.5 million; the cap on daily balance of loans and other financing services is RMB420 million; the cap on interest expenses of loans and other financing services is RMB11 million; the cap on balance of overdraft services is RMB600 million; the cap on handling fees and other financial services is RMB50 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Proposed Transactions

The Board has granted approval to the Company to review the projects which may become acquisition targets through joint venture, merger and acquisition and/or direct acquisition. For the six months ended 30 June 2018, the Company did not have any major acquisition and disposal of subsidiaries and associates. The Company will continue to review potential acquisition targets.

Material Accounting Estimates

In applying the Company's accounting estimates, the directors of the Company have considered the major sources of uncertainties in the accounting judgments and estimates which may have material effects on the confirmed information in the audited annual consolidated financial statements.

Other major sources of uncertainties concerning major assumptions in future and estimates as at the end of reporting periods (which may have material risk of causing significant adjustments to the book value of assets and liabilities within the next 12 months) are set out in Note 4 to the audited annual consolidated financial statements for the year ended 31 December 2017.

Changes in Accounting Policies

Save as disclosed below, the accounting policies and method of calculation adopted in the unaudited condensed consolidated financial statements for the six months ended 30 June 2018 are consistent with those adopted in preparing the annual consolidated financial statements of the Company for the year ended 31 December 2017.

During the interim period, the Company applied new and revised International Financial Reporting Standards ("IFRS") which became mandatorily effective during the interim period:

The impact of IFRS 9 "Financial Instruments" ("IFRS 9") and IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15") on the financial information of the Company, and new accounting policies adopted since 1 January 2018 are also disclosed, such accounting policies are different from those applied in historical years/periods.

Some accounting policies of the Company have been changed to comply with the adoption of IFRS 9 and IFRS 15. IFRS 9 replaces the provisions of IFRS 39 Financial Instruments ("IFRS 39") that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 "Financial Instruments - Disclosure". IFRS 15 replaces the provisions of IFRS 18 "Revenue" (IFRS 18) and IAS 11 "Construction Contracts" ("IAS 11") that relate to the recognition, classification and measurement of revenue and costs.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Instruments

Accounting policy implemented since 1 January 2018 – IFRS 9.

Recognition of Investments and Other Financial Assets

Financial assets are classified in the following manner since 1 January 2018:

- financial assets which are measured at fair value and their changes are accounted under other comprehensive income or profit and loss of the current period;
- financial assets which are measured by amortized cost.

This classification depends on the Company's business model of managing financial assets and the features of contractual cash flows of the financial assets. For assets measured at fair value, profit and loss will be recorded in the form of profit and loss or other comprehensive income; for investment in non-trading equity instruments, it depends on whether the Company has opted irrevocably at the time of initial recognition to confirm the measurement of equity investment at fair value and its changes to be accounted under other comprehensive income or profit and loss of the current period.

The Company will only reclassify debt investments when there are changes in the business model for managing financial assets.

Measurement

At the time of initial recognition, the Company will charge transaction costs directly to the amount of initial recognition for financial assets not measured at fair value through profit and loss of the current period; for financial assets measured at fair value through profit and loss of the current period, the transaction costs will be charged to profit and loss of the current period.

On recognition of embedded derivatives, whether their cash flows are only payments for principal and interest must be considered in a comprehensive manner.

Debt Instruments

Subsequent measurement of debt instruments depends on the enterprise's business model for managing assets and the cash flow characteristics of the assets. There are three measurement methods for classification of financial liabilities:

Amortized cost: Assets held for collection of contractual cash flows are measured at amortized cost, their cash flows only represent the payment of principal and interest. The interest income of these financial assets will adopt the effective interest rate method and will be accounted under interest income. Any gains or losses arising from derecognition will be directly recognized as profit or loss, and presented under other gains/(losses) and foreign exchange gains or losses. Impairment losses will be separately presented in the income statement.

MANAGEMENT DISCUSSION AND ANALYSIS

Accounting treatment for assets measured at fair value with changes through other comprehensive income: Assets held for collection of contractual cash flows and for sale as financial assets are measured at fair value with changes accounted through other comprehensive income, the cash flows of such assets only represent the payment of principal and interest. Changes in book value are accounted through other comprehensive income, except for impairment losses or gains, interest income and exchange gains or losses, all changes should be accounted under other comprehensive income. Upon derecognition of this type of financial assets, the cumulated profits or losses previously accounted under other comprehensive income should be transferred out from other comprehensive income, charged to profit and loss of the current period and presented as other gains/(losses). The interest income of this type of financial assets adopts the effective interest rate method for recognition as interest income. Foreign exchange gains and losses will be presented as other gains/(losses), and impairment expenses will be separately presented in the income statement.

Accounting treatment for assets measured at fair value with changes through profit and loss of current period: Assets which do not meet the criteria for measurement at amortized cost or at fair value with changes through other comprehensive income in accounting treatment will be measured at fair value with changes through profit and loss of current period. The profit or loss of debt investment will be subsequently measured at fair value with changes through profit and loss of current period, recognized as profit or loss of current period and presented in net amount under other gains/(losses) of current period.

Equity Instruments

The Company subsequently measures all equity investments at fair value. If the Company's management has elected to present fair value gains and losses of equity investments under other comprehensive income, there will be no reclassification of fair value gains and losses to profit and loss of current period after derecognition of such investments by the Company. When the Company has the right to receive payments, the dividends of such investments will continue to be recognized as other income under profit and loss of current period.

Impairment

Since 1 January 2018, the Company evaluates its debt instruments on forward-looking basis and they are measured at amortized cost, and their expected credit losses are measured at fair value with changes through other comprehensive income. The adoption of impairment method depends on whether credit risk has increased significantly.

For trade receivables, the Company adopts the simple method permitted under IFRS 9, such method requires the recognition of lifetime expected losses at the time of initial recognition of the receivables.

Revenue Recognition

Accounting policy implemented since 1 January 2018 – IFRS 15.

IFRS 15 requires recognition of revenue arising from the contract signed with customer when the control of goods or services is transferred to the customer. Therefore, in adopting IFRS 15, since the timing of revenue recognition will not change the timing of our product sales, our financial statements are not affected by this requirement.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue from Sale of Goods

Revenue is recognized when the control of goods is transferred to the customer, as it is satisfied in general that legal ownership has been passed to the customer at this point in time.

Rental Income

Rental income from investment properties will be recognized in the income statement by straight line method over the leasing period.

Entrusted Processing Income

Entrusted processing income is recognized in the income statement over the service performance period.

Financial Instruments and Other Instruments

The Company has various financial instruments, substantially all of them are equity securities investments, account receivables, account payables, cash and loans, financial instruments at fair value or amortized cost recorded in the balance sheet. The Company will also use mature financial derivatives in the market such as AU (T+D) contracts and gold forward contracts.

As at 30 June 2018, the Company did not have any financial derivatives or unperformed hedging contracts.

Off-Balance-Sheet Arrangements

As at 30 June 2018, the Company had not entered into any off-balance-sheet arrangements.

Dividends and Dividend Policy

The Company may distribute dividends in cash, shares or a combination of both. Any proposed distribution of dividends shall be decided by the Board and approved by the shareholders. Decisions to declare or distribute dividends and the amount of any dividends are subject to various factors, including the Company's operating results, cash flows, financial position, cash dividends distributed to the Company by its subsidiaries, future prospects and other factors considered to be appropriate by the directors. All shareholders of the Company shall have equal rights to receive dividends according to the percentage of their shareholdings.

Pursuant to the laws of the PRC and the Articles of Association of the Company, the Company may distribute dividends out of after-tax profits after the following allocations have been made: making up accumulated losses (if any) of previous years, transferring 10% of after-tax profit (as determined by the generally accepted accounting principles of the PRC or PRC GAAP) into the statutory reserves until the total accumulated amount of the Company's statutory reserves has reached above 50% of the registered capital of the Company, and allocating amounts to any reserves (if any) as approved by shareholders at general meetings.

MANAGEMENT DISCUSSION AND ANALYSIS

The Company will distribute dividends out of its distributable profit in general, the distributable profit is equal to net profit as determined under the PRC GAAP or the IFRS (whichever is lower) less allocations to statutory and discretionary reserves. Pursuant to the Articles of Association, the Company shall distribute cash dividends at least once in any period of three consecutive years. The total amount of cash dividends distributed during the latest three years shall be at least 30% of the average annual distributable profit of the Company during the same period. The distribution of cash bonus by the Company shall meet the requirement that no occurrence of significant event, such as significant investment plan or significant cash payment, is anticipated within the next 12 months (except for capital raising projects). If the criteria for distribution of cash dividends are met, with rapid growth in revenue and net profit of the Company, and directors consider the size of share capital and the equity structure of the Company are reasonable, the Company may distribute scrip dividends. Moreover, the Company may distribute interim dividends based on the Company's financial performance and working capital requirements. If the Company has distributable profits and the management has not proposed any cash dividend distribution plan to the Board, the management is required to provide the Board with the reasons for non-distribution of dividends and the purpose of retaining funds, and independent non-executive directors shall provide advice on the proposed profit distribution plan with public disclosure. The Company will continue to evaluate and adjust its dividend policy according to its operating conditions and financial position.

For the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2018, the Company had distributed dividends to shareholders in the amounts of RMB142.1 million, RMB142.1 million, RMB184.2 million and RMB103.6 million, respectively. During the same period, the Company distributed dividends to minority interest in the amounts of RMB81.1 million, RMB33.7 million, RMB16.4 million and 3.1 million, respectively. The dividends distributed in previous periods may not represent future dividend payments. No assurance can be provided by the Company on when, whether or in what form or size that dividends will be distributed in future. The Board of the Company shall be responsible for submitting dividend distribution plans (if any) to the general meeting of shareholders of the Company to seek approval. The decision on whether dividends will be distributed and the dividend amount are dependent on the Company's operating results, cash flows, financial position, cash requirements, future business prospects and other factors considered to be relevant by the Board.

Shares Issued

As at the date of this document, the number of shares issued by the Company was 2,184,848,809 shares, comprising 1,857,118,809 A Shares and 327,730,000 H Shares, representing 85% and 15%, respectively.

FURTHER INFORMATION

The further information required to be disclosed in half-yearly interim report according to the rules of the Hong Kong Stock Exchange but has not presented in other parts of this report is set out below:

A1. Purchase, Sale or Redemption of Listed Securities of the Company

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company.

A2. Substantial Shareholders

Save as disclosed below, as at 30 June 2018, the directors of the Company are not aware of any other persons (except directors or chief executives of the Company) who have an interest and/or short position in the shares or underlying shares of the Company which were required to be recorded in the register required to be kept by the Company pursuant to section 336 of the Securities and Futures Ordinance (the “SFO”), Chapter 571 of the Laws of Hong Kong:

Shareholder	Nature of interest	Class	Number of shares held directly or indirectly	Approximate percentage of shareholding in the relevant class of shares (%)	Approximate percentage of shareholding in the total issued share capital (%)
SDG Group Co.	Beneficial owner ⁽¹⁾	A Shares	831,933,836	44.80	38.08
	Interest held by controlled corporation ⁽²⁾	A Shares	210,052,107	11.31	9.61
SDG Exploration	Beneficial owner	A Shares	99,424,515	5.35	4.55
SDG Resources Development	Interest held by controlled corporation ⁽³⁾	A Shares	99,424,515	5.35	4.55

FURTHER INFORMATION

Shareholder	Nature of interest	Class	Number of shares held directly or indirectly	Approximate percentage of shareholding in the relevant class of shares (%)	Approximate percentage of shareholding in the total issued share capital (%)
China Structural Reform Fund Corporation (中國國有企業結構調整基金股份有限公司)	Beneficial owner ⁽⁴⁾	H Shares	71,178,250*	21.72	3.26
CCT China Merchant Buyout Fund (深圳國調招商併購股權投資基金合夥企業(有限合夥))	Beneficial owner ⁽⁶⁾	H Shares	33,366,750*	10.18	1.53
ICBC Asset Management Scheme Nominee (中國工商銀行股份有限公司-理財計劃代理人)	Investment manager ⁽⁶⁾	H Shares	46,200,000*	14.10	2.11

FURTHER INFORMATION

Notes:

- * Calculated based on the mid-point of the indicative Offer Price range.
- (1) On 23 January 2017 and 25 September 2017, SDG Group Co. pledged its 100,000,000 shares and 160,000,000 shares, respectively, to the Industrial and Commercial Bank of China, Shandong Branch (中國工商銀行山東省分行). Such pledged shares were used as the security for borrowings of SDG Group Co. for its own use, which accounted for approximately 11.90% of total number of the shares of the Company. Industrial and Commercial Bank of China is an authorized institution under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).
- (2) These 210,052,107 A Shares comprise 99,424,515 A Shares held by SDG Exploration, 71,932,142 A Shares held by SDG Non-ferrous Metal, 20,979,020 A Shares held by SDG Capital Management, 16,054,672 A Shares held by Qingdao Gold and 1,661,758 A Shares held by SDG Beijing. SDG Exploration is wholly-owned by SDG Resources Development. Each of SDG Resources Development, SDG Non-ferrous, SDG Capital Management, Qingdao Gold and SDG Beijing is wholly-owned by SDG Group Co. As such, SDG Group Co. is deemed to be interested in all the shares held by SDG Exploration, SDG Non-ferrous, SDG Capital Management, Qingdao Gold and SDG Beijing for the purpose of the SFO.
- (3) SDG Exploration is wholly-owned by SDG Resources Development, and therefore SDG Resources Development is deemed to be interested in all the shares held by SDG Exploration for the purpose of the SFO.
- (4) Each of Jianxin (Beijing) Investment Fund Management Co., Ltd. (建信(北京)投資基金管理有限責任公司, the largest shareholder of China Structural Reform Fund Corporation Limited held as to 38.2% as at the date of preparation of Discussion and Analysis), Jianxin Trust Co., Ltd. (建信信託有限責任公司, sole shareholder of Jianxin (Beijing) Investment Fund Management Co., Ltd. as at the date of preparation of Discussion and Analysis), China Construction Bank Co., Ltd. (中國建設銀行股份有限公司, held as to 67% of Jianxin Trust Co., Ltd. as at the date of preparation of Discussion and Analysis), Central Huijin Investment Ltd. (中央滙金投資有限責任公司, held as to 57.1% of China Construction Bank Co., Ltd. as at the date of preparation of Discussion and Analysis) and China Investment Corporation (中國投資有限責任公司, sole shareholder of Central Huijin Investment Ltd.) is deemed to be interested in the shares held by China Structural Reform Fund Corporation Limited for the purpose of the SFO. The remaining approximately 58.0% of shares of China Structural Reform Fund Corporation Limited were ultimately controlled by SASAC as at the date of preparation of Discussion and Analysis.
- (5) Each of Shenzhen China Merchant Huihe Equity Investment Fund Management Co., Ltd. (深圳市招商慧合股權投資基金管理有限公司), as general partner of CCT China Merchant Buyout Fund (深圳國調招商併購股權投資基金合夥企業(有限合夥)) and China Structural Reform Fund Corporation Limited (as a limited partnership held as to 75.8% as at the date of preparation of Discussion and Analysis) is deemed to be interested in the shares held by CCT China Merchant Buyout Fund for the purpose of the SFO.
- (6) ICBC Asset Management Scheme Nominee is the asset management arm of Industrial and Commercial Bank of China Limited, which is a Chinese multinational banking company listed on both the Shanghai Stock Exchange (stock code: 601398) and the Hong Kong Stock Exchange (stock code: 1398).

FURTHER INFORMATION

A3. Interest in shares held by directors and chief executives

As at 30 June 2018, the interests and short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) owned by directors and chief executives of the Company which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken, or were deemed to have taken, under such provisions of the SFO; or were required to be recorded in the register kept by the Company pursuant to section 352 of the SFO; or were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Hong Kong Listing Rules”) are set out below:

Name	Title	Nature of interest	Class of shares	Number of shares	Approximate percentage of shareholding in the relevant class	Approximate percentage of shareholding in the total issued share capital
Mr. Tang Qi	Executive Director	Beneficial interest ^(Note)	A Shares	152,098	0.0082%	0.0070%

Note: Mr. Tang Qi is interested in the 152,098 shares as a participant under the Employee Shareholding Scheme. These shares are kept and managed by a professional asset manager of the Employee Shareholding Scheme, and are currently subject to lock-up.

Save as disclosed above, none of the directors, chief executives or their associates has any interest or short position in any shares, underlying shares or debentures of the Company or its associated corporations which were required to be recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or which were required to be notified to the Company and the Hong Kong Stock Exchange as at 30 June 2018.

FURTHER INFORMATION

A4. Remuneration Policy

The Remuneration and Appraisal Committee of the Company is composed of five directors, including Ms. Hui Wing, Mr. Lu Bin, Mr. Gao Yongtao, Ms. Wang Xiaoling and Mr. Tang Qi, and Ms. Hui Wing has been appointed as the chairman of the Remuneration and Appraisal Committee. The primary duties of the Remuneration and Appraisal Committee are to formulate appraisal standards and conduct appraisals for directors and managers of the Company, and to formulate and review the remuneration policies and proposals for directors and senior management of the Company. The details are as follows: (1) to make proposals and recommendations to the Board on remuneration plans or proposals and establishment of formal and transparent procedures for the formulation of the above remuneration plans or proposals according to the primary scope, responsibilities, importance of the management positions of directors and senior management members and the remuneration standards of relevant positions in other relevant enterprises; (2) to formulate the specific remuneration packages for all executive directors and senior management members, and to make recommendation to the Board on remuneration of non-executive directors; (3) to review the performance of duties of directors (non-independent directors) and senior management members of the Company and to conduct annual performance appraisals on them; and (4) to perform other responsibilities required by laws, regulations, rules, regulatory documents, articles of association and assigned by the Board.

The remuneration policy and emolument packages for executives of the Company are managed by the Remuneration and Appraisal Committee. The Remuneration and Appraisal Committee will review the cash emolument level at least once a year depending on needs, and will make recommendation to the Board for adjusting the cash emolument level according to performance, experience and abilities. The Remuneration and Appraisal Committee will also review the corporate objectives and goals related to emoluments of the senior management according to recommendations from the management members at least once a year depending on needs. The Remuneration and Appraisal Committee will determine the overall remuneration standards based on the data from third parties on comparable remuneration of companies with similar size, their industry experience and the criteria of appointment and retention by the Company. Decisions relating to remuneration of executives will be reported to the Board by the Remuneration and Appraisal Committee for approval.

The remuneration policy for directors of the Company will be managed by the Remuneration and Appraisal Committee with reference to comparable market statistical data. Decisions relating to remuneration of directors will be reported to the Board by the Remuneration and Appraisal Committee for approval.

As at 30 June 2018, the Company had 16,270 employees operating in different regions. The remuneration policy for employees of the Company is determined according to departmental standards, and the remuneration of employees and managers will be determined by the Chief Executive Officer of the Company according to the performance, experience, appointment and retention needs of the Company.

FURTHER INFORMATION

A5. Compliance with Corporate Governance Code

During the six months ended 30 June 2018, the Company has been following the principles of corporate governance practice, complying with the requirements of corporate governance practice as defined by the Board and all applicable statutory standards, regulatory standards and listing standards of stock exchanges, particularly the code provisions as set out in the Corporate Governance Code in Appendix 14 to the Hong Kong Listing Rules.

A6. Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted the policy on securities transactions conducted by directors as set out in the “Policies for Corporate Disclosure, Confidentiality and Securities Transactions”, the provisions of such policy are no less than those as set out in the Model Code.

After specific enquiries have been made on all members of the Board, the Board has confirmed that all our directors have been conforming to the policy prescribed under the “Policies for Corporate Disclosure, Confidentiality and Securities Transactions” of the Company during the six months ended 30 June 2018.

A7. Interim Dividend

The Board did not recommend the distribution of any interim dividend for the six months ended 30 June 2018.

A8. Audit Committee

Pursuant to the requirements of the Hong Kong Listing Rules, the Company has established the Audit Committee (the “**Audit Committee**”) that comprises all existing independent non-executive directors, including Mr. Lu Bin (chairman), Ms. Hui Wing, Mr. Gao Yongtao, Mr. Li Guohong and Ms. Wang Xiaoling. The Audit Committee has reviewed, and discussed with the auditor of the Company, the Group’s unaudited interim results for the three and six months ended 30 June 2018 and the interim report for the six months ended 30 June 2018.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to extend our sincere thanks to our customers, suppliers and shareholders for their continuous support to the Group. I would also extend my gratitude and appreciation to all management and staff for their hard work and dedication throughout the period.

By order of the Board
Shandong Gold Mining Co., Ltd.
Li Guohong
Chairman

Hong Kong, 28 September 2018

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



羅兵咸永道

THE DIRECTORS
SHANDONG GOLD MINING CO., LTD.

INTRODUCTION

We have reviewed the interim financial information set out on pages 50 to 100, which comprises the interim condensed consolidated balance sheet of Shandong Gold Mining Co., Ltd. (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2018 and the related interim condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting”. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 14 September 2018

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Note	Unaudited	
		Six months ended 30 June	
		2018	2017
		RMB'000	RMB'000
Revenue	5	26,018,565	25,124,733
Cost of sales	7	<u>(24,014,955)</u>	<u>(23,333,044)</u>
Gross profit		2,003,610	1,791,689
Selling expenses	7	(14,353)	(17,844)
General and administrative expenses	7	(575,030)	(603,209)
Research and development costs	7	(79,711)	(109,708)
Net impairment gains/(losses) on financial assets		1,808	(810)
Other income		1,065	622
Other losses, net	6	<u>(19,223)</u>	<u>(34,675)</u>
Profit from operations		1,318,166	1,026,065
Finance income	9	17,575	10,172
Finance costs	9	<u>(433,585)</u>	<u>(235,865)</u>
Finance costs, net	9	(416,010)	(225,693)
Share of profit of an associate	10	<u>19,633</u>	<u>17,210</u>
Profit before income tax		921,789	817,582
Income tax expenses	11	<u>(308,870)</u>	<u>(171,645)</u>
Profit for the period		<u>612,919</u>	<u>645,937</u>
Profit attributable to:			
Equity holders of the Company		575,290	615,432
Non-controlling interests		<u>37,629</u>	<u>30,505</u>
		<u>612,919</u>	<u>645,937</u>
Basic and diluted earnings per share for the profit attributable to the equity holders of the Company (RMB)	12	<u>0.31</u>	<u>0.34</u>

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Unaudited	
	Six months ended 30 June	
Note	2018	2017
	RMB'000	RMB'000
Profit for the period	612,919	645,937
Other comprehensive income:		
<i>Items that may be reclassified to profit or loss</i>		
Share of other comprehensive losses of the associate	(49)	—
Currency translation differences	330	(55)
Other comprehensive income/(losses) for the period, net of tax	281	(55)
Total comprehensive income for the period	613,200	645,882
Total comprehensive income attributable to:		
— Equity holders of the Company	575,571	615,377
— Non-controlling interests	37,629	30,505
	613,200	645,882

INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

AS AT 30 JUNE 2018

	Note	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Assets			
Non-current assets			
Property, plant and equipment	13	21,830,475	21,110,946
Investment properties		226,538	226,684
Land use rights		342,469	339,824
Intangible assets	14	11,774,709	12,014,845
Goodwill	15	1,139,359	1,126,673
Investment in an associate	10	418,792	399,208
Financial assets at fair value through other comprehensive income		2,015	—
Available-for-sale financial assets		—	2,015
Inventories		185,538	143,896
Deferred income tax assets	20	176,286	152,421
Restricted bank deposits		—	520,198
Other non-current assets		858,268	832,017
		<u>36,954,449</u>	<u>36,868,727</u>
Current assets			
Inventories		3,104,891	2,958,398
Trade and other receivables	16	924,890	720,841
Prepaid income tax		22,444	31,197
Restricted bank deposits		130,796	149,744
Cash and cash equivalents		2,593,592	2,402,814
		<u>6,776,613</u>	<u>6,262,994</u>
Total assets		<u><u>43,731,062</u></u>	<u><u>43,131,721</u></u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

AS AT 30 JUNE 2018

		As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Equity and liabilities			
Equity attributable to owners of the company			
Share capital		1,857,119	1,857,119
Treasury shares		(6,385)	(6,385)
Reserves		4,904,068	4,905,879
Retained earnings		<u>10,212,636</u>	<u>9,710,812</u>
		16,967,438	16,467,425
Non-controlling interests		<u>1,052,637</u>	<u>1,026,341</u>
Total equity		<u><u>18,020,075</u></u>	<u><u>17,493,766</u></u>
Liabilities			
Non-current liabilities			
Borrowings	19	7,117,190	8,091,819
Deferred income tax liabilities	20	4,115,905	4,135,396
Deferred revenue		16,920	17,526
Provision for asset retirement obligations	21	570,202	570,586
Other non-current liabilities		<u>64,931</u>	<u>70,443</u>
		11,885,148	12,885,770
Current liabilities			
Trade and other payables	17	3,664,265	3,927,444
Current income tax liabilities		182,692	177,231
Borrowings	19	4,730,884	2,883,107
Current portion of other non-current liabilities		15,992	12,992
Financial liabilities at fair value through profit or loss	18	<u>5,232,006</u>	<u>5,751,411</u>
		13,825,839	12,752,185
Total liabilities		<u><u>25,710,987</u></u>	<u><u>25,637,955</u></u>
Total equity and liabilities		<u><u>43,731,062</u></u>	<u><u>43,131,721</u></u>
Net current liabilities		<u><u>(7,049,226)</u></u>	<u><u>(6,489,191)</u></u>
Total assets less current liabilities		<u><u>29,905,223</u></u>	<u><u>30,379,536</u></u>

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2018

Section II Note	Attributable to owners of the Company						Non- controlling interests	Total equity
	Share capital	Treasury shares	Reserves	Retained earnings	Sub-total	RMB'000		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
(Unaudited)								
Balance at 1 January 2018	1,857,119	(6,385)	4,905,879	9,710,812	16,467,425	1,026,341	17,493,766	
Profit for the period	—	—	—	575,290	575,290	37,629	612,919	
Other comprehensive income								
Share of other comprehensive losses of an associate	—	—	(49)	—	(49)	—	(49)	
Currency translation differences	—	—	330	—	330	—	330	
Total other comprehensive income, net of tax	—	—	281	—	281	—	281	
Total comprehensive income	—	—	281	575,290	575,571	37,629	613,200	
Transactions with owners in their capacity as owners								
Dividends to shareholders of the Company	—	—	—	(73,466)	(73,466)	—	(73,466)	
Dividends paid by subsidiaries to non-controlling interests	—	—	—	—	—	(9,798)	(9,798)	
Change in ownership interests in subsidiaries without change of control	—	—	(2,265)	—	(2,265)	(1,483)	(3,748)	
Others	—	—	173	—	173	(52)	121	
Total transactions with owners in their capacity as owners	—	—	(2,092)	(73,466)	(75,558)	(11,333)	(86,891)	
Balance at 30 June 2018	<u>1,857,119</u>	<u>(6,385)</u>	<u>4,904,068</u>	<u>10,212,636</u>	<u>16,967,438</u>	<u>1,052,637</u>	<u>18,020,075</u>	

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Attributable to owners of the Company							
	Section II Note	Share capital	Treasury shares	Reserves	Retained earnings	Sub-total	Non- controlling interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Unaudited)								
Balance at 1 January 2017		1,857,119	(6,385)	4,825,012	9,005,069	15,680,815	1,008,906	16,689,721
Profit for the period		—	—	—	615,432	615,432	30,505	645,937
Other comprehensive losses								
Currency translation differences		—	—	(55)	—	(55)	—	(55)
Total other comprehensive losses, net of tax		—	—	(55)	—	(55)	—	(55)
Total comprehensive (losses)/income		—	—	(55)	615,432	615,377	30,505	645,882
Transactions with owners in their capacity as owners								
Dividends to shareholders of the Company		—	—	—	(184,161)	(184,161)	—	(184,161)
Dividends paid by subsidiaries to non-controlling interests		—	—	—	—	—	(8,838)	(8,838)
Others		—	—	798	—	798	(424)	374
Total transactions with owners in their capacity as owners		—	—	798	(184,161)	(183,363)	(9,262)	(192,625)
Balance at 30 June 2017		1,857,119	(6,385)	4,825,755	9,436,340	16,112,829	1,030,149	17,142,978

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 June 2018

	Note	Unaudited	
		Six months ended 30 June	
		2018	2017
		RMB'000	RMB'000
Cash flows from operating activities			
Cash generated from operations		2,171,865	1,527,432
Interest received		17,575	10,172
Income tax paid		(365,357)	(210,265)
Net cash generated from operating activities		1,824,083	1,327,339
Cash flows from investing activities			
Payment for acquisition of a joint operation, net of cash acquired		—	(6,349,852)
Purchases of intangible assets		(54,879)	(372,687)
Purchases of property, plant and equipment		(1,845,655)	(724,916)
Purchases of land use rights		(8,202)	(23,669)
Proceeds from disposal of property, plant and equipment, land use rights and intangible assets		11,281	5,283
Payments of deposits for gold future contracts		(40,186)	—
Payment for settlement of gold future/forward contracts		(24,925)	(17,225)
Dividends received from the associate		6,221	—
Decrease/(increase) in restricted bank deposits		539,146	(2,193,645)
Net cash used in investing activities		(1,417,199)	(9,676,711)
Cash flows from financing activities			
Payments for acquisition of additional interests in subsidiary		(3,748)	—
Proceeds from bank borrowings		2,335,711	7,827,327
Repayments of bank borrowings		(1,122,976)	(430,000)
Interest paid		(207,008)	(71,111)
Proceeds from borrowings from related parties		1,102,600	579,300
Repayments of borrowings from related parties		(919,300)	(580,000)
Proceeds derived from gold leasing arrangements		4,318,665	5,388,574
Settlement of gold leasing arrangements		(4,905,496)	(2,508,889)
Repayments of corporate bonds		(611,004)	(400,000)
Dividends paid to shareholders		(103,609)	(81,430)
Dividends paid to non-controlling interests		(3,133)	(8,838)
Payments for finance cost associated with gold leasing contracts		(79,496)	(55,035)
Payments of guarantee and arrangement fee for a borrowing		(18,687)	(19,751)
Net cash (used in)/generated from financing activities		(217,481)	9,640,147

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 June 2018

	Unaudited	
	Six months ended 30 June	
Note	2018	2017
	RMB'000	RMB'000
Net increase in cash and cash equivalents	189,403	1,290,775
Cash and cash equivalents at beginning of the period	2,402,814	1,159,795
Exchange gains/(losses) on cash and cash equivalents	1,375	(344)
Cash and cash equivalents at end of the period	<u>2,593,592</u>	<u>2,450,226</u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 GENERAL INFORMATION

Shandong Gold Mining Co., Ltd. (the “Company”) was established in the People’s Republic of China (“PRC” or “China”) on 31 January 2000 as a joint stock company with limited liability under the Company Law of the PRC by Shandong Gold Group Co., Ltd. (“SDG Group Co” or the “Parent Company”), Shandong Zhaojin Group Co., Ltd., Shandong Laizhou Gold (Group) Co., Ltd., Jinan Yuquan Development Center (subsequently renamed as Jinan Yuquan Development Co., Ltd.) and Rushan Gold Mine (subsequently renamed as Shandong Jinzhou Mining Group Co., Ltd.).

The A shares of the Company have been listed on the Shanghai Stock Exchange since August 2003.

The Company and its subsidiaries, hereinafter collectively referred to as the “Group”, is principally engaged in mining and processing of gold, sale of gold products, manufacturing and sale of building decoration materials. The address of the Company’s registered office is Building No. 3, Shuntai Square, No. 2000 Shunhua Road, Jinan, Shandong Province, the PRC.

The condensed consolidated financial information is presented in Renminbi (“RMB”), which is also the functional currency of the Company.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information of the Company for the six months ended 30 June 2018 has been prepared in accordance with IAS 34 “Interim financial reporting” issued by the International Accounting Standards Board (“IASB”). The condensed consolidated interim financial information should be read in conjunction with the Group’s Historical Financial Information for the three years ended 31 December 2015, 2016 and 2017 and three months ended 31 March 2018 (the “Historical Financial Information”), which have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) issued by IASB.

The condensed consolidated interim financial information have been prepared under the historical cost convention except for certain financial instruments, which are measured at fair value. Except as described below, the accounting policies applied are consistent with those as adopted for the preparation of the Historical Financial Information of the Company for the years ended 31 December 2015, 2016 and 2017 and three months ended 31 March 2018.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

2 BASIS OF PREPARATION *(Continued)*

Going concern

As at 30 June 2018, the Group's current liabilities exceeded its current assets by approximately RMB7,049,226,000. The Company's directors are of the opinion that the Group will be able to finance its future financing requirements and working capital based on the following considerations:

- (a) The Group is expected to remain profitable and hence continue to generate significant operating cash inflows from its future business operations; and
- (b) The Group has maintained its long business relationship with its principal bankers and the principal bankers have indicated their willingness to further provide banking facilities of RMB9,809,870,000 (the "Facilities") to the Group whenever it has any financing needs in the next twelve months from 30 June 2018.

In view of the above, the Company's directors are confident that there will be sufficient financial resources available to the Group to enable it to meet its liabilities as and when they fall due and to continue to operate for at least the next twelve months from 30 June 2018. Accordingly, the Company's directors have prepared the condensed consolidated interim financial information on a going concern basis.

(a) New or amended standards and interpretations adopted by the Group

A number of new or amended standards and interpretation ("IFRIC") which became effective for the current reporting period are summarised as below:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
Amendments to IFRS 2	Share Based Payments, on clarifying how to account for certain types of share-based payment transactions
IFRIC 22	Foreign Currency Transactions and Advance Consideration

The adoption of IFRS 2 (amendments) and IFRIC 22 did not have any impact on the Group's accounting policies and presentation of the condensed consolidated interim financial information. The impact of the adoption of IFRS 9 and IFRS 15 and any applicable changes in accounting policies have been disclosed in Note (c) below.

Except for the impact of the new or amended standards and interpretation as mentioned above, the significant accounting policies and methods of computation used in the condensed consolidated interim financial information for the six months ended 30 June 2018 are the same as those followed in the preparation of the Historical Financial Information.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

2 BASIS OF PREPARATION *(Continued)*

Going concern *(Continued)*

(b) Impact of standards and interpretations issued but not yet applied by the Group

Certain new or revised standards and interpretation to existing standards have been issued which may be applicable to the Group but are not effective for the financial year beginning on 1 January 2018 and not being early adopted by the Group are summarised as below:

	New standards, amendments and interpretations	Published date	Effective date
IFRS 16	Leases	January 2016	Annual periods beginning on or after 1 January 2019
IFRS 17	Insurance contracts	February 2018	Annual periods beginning on or after 1 January 2021
IFRIC 23	Uncertainty over income tax treatments	June 2017	Annual periods beginning on or after 1 January 2019
IAS 19	'Employee benefits' on plan amendment, curtailment or settlement	February 2018	Annual periods beginning on or after 1 January 2019
Amendments to IFRS 10 and IAS 28	Sale or contribution assets between an investor and its associate or joint venture	September 2014	To be determined
Amendments to IFRS	Annual Improvements to IFRSs 2015-2017 Cycle	December 2017	Annual periods beginning on or after 1 January 2019
Amendment to IAS 28	Long term interests in associates and joint ventures	October 2017	Annual periods beginning on or after 1 January 2019
Amendment to IFRS 9	Prepayment features with negative compensation	October 2017	Annual periods beginning on or after 1 January 2019

The Group has already commenced an assessment of the impact of these new or amended standards and interpretations. According to the preliminary assessment made by the Company's directors, except for the below discussed, no significant impact on the financial performance and positions of the Group is expected when they become effective.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

2 BASIS OF PREPARATION *(Continued)*

Going concern *(Continued)*

(b) Impact of standards and interpretations issued but not yet applied by the Group (Continued)

IFRS 16 ‘Leases’

IFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group’s operating leases. As at 30 June 2018, the Group has non-cancellable operating lease commitments of RMB165,485,000 (Note 24(b)). The Group anticipates that the net impact (as a result of the combination of the interest expense arising from the lease liabilities and the amortisation of the right-of-use assets as compared to the rental expenses under existing standard) on the Group’s financial performance will not be material.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

(c) Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 “Financial Instruments” (“IFRS 9”) and IFRS 15 “Revenue from Contracts with Customers” (“IFRS 15”) on the Group’s financial information and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior years/periods.

Certain of the Group’s accounting policies have been changed to comply with the adoption of IFRS 9 and IFRS 15. IFRS 9 replaces the provisions of IAS 39 Financial Instruments (“IAS 39”) that relate to the recognition, classification and measurement of financial assets and financial liabilities; derecognition of financial instruments; impairment of financial assets and hedge accounting. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 “Financial Instruments — Disclosures”. IFRS 15 replaces the provisions of IAS 18 “Revenue” (“IAS 18”) and IAS “11 Construction Contracts” (“IAS 11”) that relate to the recognition, classification and measurement of revenue and costs.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

2 BASIS OF PREPARATION (Continued)

Going concern (Continued)

(c) Changes in accounting policies (Continued)

(i) IFRS 9 - Impact on the financial information of the Group

As a result of the changes in the Group's accounting policies, as explained below, IFRS 9 was adopted without restating any comparative information.

The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

	1 January 2018		1 January 2018
	As originally presented	IFRS 9	Restated
Balance sheet (extract) (unaudited)	RMB'000	RMB'000	RMB'000
Non-current assets			
Financial assets at fair value through other comprehensive income	—	2,015	2,015
Available-for-sale financial assets	2,015	(2,015)	—
Total	2,015	—	2,015

Management has assessed the business models and the contractual terms of the cash flows apply to the financial assets held by the Group at the date of initial application of IFRS 9 (1 January 2018) and has classified its financial instruments into the appropriate IFRS 9 categories, which are those to be measured subsequently at fair value (either through other comprehensive income ("FVOCI"), or through profit or loss ("FVPL")), and those to be measured at amortised cost.

(a) Classification and measurement

The main effects resulting from this reclassification are as follows:

As at 1 January 2018	Available- for-sale financial assets RMB'000	FVOCI RMB'000
Opening balance - IAS 39	2,015	—
Reclassify non-trading unlisted equity securities from AFS to FVOCI	(2,015)	2,015
Opening balance - IFRS 9	—	2,015

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

2 BASIS OF PREPARATION *(Continued)*

Going concern *(Continued)*

(c) Changes in accounting policies (Continued)

(i) IFRS 9 - Impact on the financial information of the Group (Continued)

(a) Classification and measurement (Continued)

There is no effect resulting from this reclassification on the Group's equity as both IAS 39 and IFRS 9 require any changes in the fair value of the non-trading unlisted equity securities to be recognised as other comprehensive income/loss in equity.

There is no impact on the Group's accounting for financial liabilities. The Group accounts for the gold leasing contracts as financial liabilities that are designated at fair value through profit or loss. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed. The Group's financial liabilities previously carried at amortised costs remained to be measured at amortised costs under IFRS 9.

(b) Impairment of financial assets

The Group has two types of financial assets at amortised cost subject to IFRS 9's new expected credit loss model:

- trade receivables
- other receivables (excluding non-financial assets)

The Group revised its impairment methodology under IFRS 9 for each of these classes of assets. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

For trade and other receivables (excluding non-financial assets), the Group applies the simplified approach to providing for expected credit losses as prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all trade and other receivables (excluding non-financial assets). No further provision has been recognised in retained earnings as at 1 January 2018 for those trade and other receivables (excluding non-financial assets) whose credit risk has been assessed as other than low because the balance is not significant and the adoption of the new impairment methodology as described in note 4.2 only results in an insignificant incremental amount of provision to be made.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

2 BASIS OF PREPARATION *(Continued)*

Going concern *(Continued)*

(c) Changes in accounting policies (Continued)

(i) IFRS 9 - Impact on the financial information of the Group (Continued)

(c) Accounting policies applied from 1 January 2018 onwards due to the adoption of IFRS 9

Investments and other financial assets

Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

2 BASIS OF PREPARATION *(Continued)*

Going concern *(Continued)*

(c) *Changes in accounting policies (Continued)*

(i) IFRS 9 - Impact on the financial information of the Group *(Continued)*

(c) *Accounting policies applied from 1 January 2018 onwards due to the adoption of IFRS 9 (Continued)*

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.
- **FVPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

2 BASIS OF PREPARATION *(Continued)*

Going concern *(Continued)*

(c) *Changes in accounting policies (Continued)*

(i) **IFRS 9 - Impact on the financial information of the Group *(Continued)***

(c) *Accounting policies applied from 1 January 2018 onwards due to the adoption of IFRS 9 (Continued)*

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses), net in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(ii) **IFRS 15 - Impact on the financial information of the Group**

As a result of the changes in the Group's accounting policies, as explained below, IFRS 15 was generally adopted without restating any comparative information. The adoption of IFRS 15 in the current period does not result in any impact on the amounts reported in the condensed consolidated interim financial information and/or disclosures set out in the condensed consolidated interim financial information except that, the Group has adopted the following accounting policies on revenues with effect from 1 January 2018:

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

2 BASIS OF PREPARATION *(Continued)*

Going concern *(Continued)*

(c) Changes in accounting policies (Continued)

(ii) IFRS 15 - Impact on the financial information of the Group (Continued)

Accounting policies applied from 1 January 2018 onwards due to the adoption of IFRS 15

IFRS 15 requires that revenue from contracts with customers be recognised upon the transfer of control over goods or services to the customer. As such, upon adoption, this requirement under IFRS 15 resulted in no impact to our financial statements as the timing of revenue recognition on our sale of goods is unchanged.

(a) Sale of goods

Revenue is recognised when control over the goods has been transferred to the customer. It is generally satisfied at a point in time when the legal title has passed to the customer.

(b) Rental income

Rental income from investment property is recognised in the statement of profit or loss on a straight-line basis over the term of the lease.

(c) Processing income

Processing income is recognised in the statement of profit or loss upon performance of the services.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Historical Financial Information.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

4 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The condensed consolidated interim financial information do not include all financial risk management information and disclosures required in the annual financial information, and should be read in conjunction with the Historical Financial Information.

There have been no changes in the risk management policies since 31 March 2018.

4.2 Credit risk

The Group is exposed to credit risk if counterparties fail to make payments as they fall due. For financial assets originated from 1 January 2018, the following credit risk modelling applies:

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition.

It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating;
- external credit rating;
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer's ability to meet its obligations;
- actual or expected significant changes in the operating results of the debtor/customer;
- significant increases in credit risk on other financial instruments of the same customer;
- significant changes in the expected performance and behaviour of the customer, including changes in the payment status of customer in the Group and changes in the operating results of the customer.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

4 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

4.2 Credit risk *(Continued)*

(i) *Other receivables from related parties*

The Group uses four categories for those receivables which reflect their credit risk and how the loss provision is determined for each of those categories. These internal credit risk ratings are aligned to external credit ratings.

A summary of the assumptions underpinning the Group's expected credit loss model is as follows:

Category	Group's definition of categories	Basis for recognition of expected credit loss provision
Performing	Customers have a low risk of default and a strong capacity to meet contractual cash flows	12 months expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime
Underperforming	Receivables for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are 30 days past due	Lifetime expected losses
Non-performing	Interest and/or principal repayments are 60 days past due	Lifetime expected losses
Write-off	Interest and/or principal repayments are 120 days past due and there is no reasonable expectation of recovery	Asset is written off

The Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Group considers historical loss rates for each category of receivables and adjusts for forward looking macroeconomic data.

As at 1 January 2018, majority of the internal credit rating of other receivables from related parties were performing. As at 1 January 2018, the carrying amount of other receivables from related parties amounted to RMB65,430,000 and the related loss allowance provision amounted to RMB8,302,000. No further provision was deemed required to restate the impairment provision at 1 January 2018.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

4 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

4.2 Credit risk *(Continued)*

(ii) *Trade and other receivables (excluding prepayments and other receivables from related parties)*

The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade and other receivables (excluding prepayments and other receivables from related parties).

As at 1 January 2018, the loss allowance provision for the remaining balances was determined and the expected credit losses below has already incorporated the consideration of forward looking information. No further provision was deemed required to restate the impairment provision at 1 January 2018.

	Up to 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Unaudited					
Trade receivables					
As at 1 January 2018					
Expected loss rate	0.3%	10%	20%	75%	
Gross carrying amount (RMB'000)	<u>114,775</u>	<u>77</u>	<u>82</u>	<u>7,198</u>	<u>122,132</u>
Loss allowance provision (RMB'000)	<u>(316)</u>	<u>(8)</u>	<u>(16)</u>	<u>(5,405)</u>	<u>(5,745)</u>
Other receivables (excluding prepayments and other receivables from related parties)					
As at 1 January 2018					
Expected loss rate	0.2%	17%	64%	90%	
Gross carrying amount (RMB'000)	<u>92,383</u>	<u>22,523</u>	<u>2,880</u>	<u>81,535</u>	<u>199,321</u>
Loss allowance provision (RMB'000)	<u>(1,797)</u>	<u>(3,764)</u>	<u>(1,831)</u>	<u>(73,699)</u>	<u>(81,091)</u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

4 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

4.3 Liquidity risk

The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity grouping based on the remaining period at the date of statement of consolidated balance sheets to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Unaudited					
As at 30 June 2018					
Borrowings	5,048,749	7,407,164	90,027	—	12,545,940
Trade and other payables	3,380,418	—	—	—	3,380,418
Other non-current liabilities	15,992	58,861	6,040	30	80,923
Financial liabilities at fair value through profit or loss	<u>5,232,006</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,232,006</u>
	<u>13,677,165</u>	<u>7,466,025</u>	<u>96,067</u>	<u>30</u>	<u>21,239,287</u>
Audited					
As at 31 December 2017					
Borrowings	3,144,245	270,279	8,274,831	—	11,689,355
Trade and other payables	3,515,273	—	—	—	3,515,273
Other non-current liabilities	12,992	23,027	19,426	27,990	83,435
Financial liabilities at fair value through profit or loss	<u>5,751,411</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,751,411</u>
	<u>12,423,921</u>	<u>293,306</u>	<u>8,294,257</u>	<u>27,990</u>	<u>21,039,474</u>

4.4 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

4 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

4.4 Fair value estimation *(Continued)*

The following table presents the Group's assets and liabilities that are measured at fair value at 30 June 2018.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Unaudited				
Liabilities				
Financial liabilities at fair value through profit or loss				
– Gold leasing contracts	<u>5,232,006</u>	<u>—</u>	<u>—</u>	<u>5,232,006</u>

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2017.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Audited				
Liabilities				
Financial liabilities at fair value through profit or loss				
– Gold leasing contracts	<u>5,751,411</u>	<u>—</u>	<u>—</u>	<u>5,751,411</u>

There were no transfers among level 1, 2 and 3 during the period.

There were no changes in valuation techniques during the period.

5 SEGMENT INFORMATION

The President Office (總裁辦公會) of the Company is the Group's chief operating decision-maker ("CODM"). Management has determined the operating segments based on the information reviewed by the CODM for the purposes of allocating resources and assessing performance. Financial information of the following reportable segments has been separately presented as discrete segment information for CODM's review:

- Gold mining — Mining of gold ore; and
- Gold refining — Production and sales of gold.

The financial information of the reportable segments as set out below are presented in a manner consistent with the way in which the information is reported to the CODM for the purpose of allocating resources and assessing performance.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

5 SEGMENT INFORMATION *(Continued)*

The Group evaluates performance based on profit or loss before income tax expense. The Group accounts for inter-segment sales and transfers as if the sales or transfers were to third parties.

	For the six months ended 30 June 2018 (Unaudited)			
	Gold Mining	Gold Refining	Inter-segment elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from customers and recognised at a point in time				
Revenue from customers (other than rental income)	5,289,594	24,543,905	(3,822,709)	26,010,790
Rental income	7,775	—	—	7,775
Inter-segment revenue	<u>(3,822,709)</u>	<u>—</u>	<u>3,822,709</u>	<u>—</u>
Revenue from external customers	<u>1,474,660</u>	<u>24,543,905</u>	<u>—</u>	<u>26,018,565</u>
Profit from operations	<u>1,261,708</u>	<u>56,458</u>	<u>—</u>	<u>1,318,166</u>
Finance income	16,353	1,222	—	17,575
Finance costs	(430,607)	(2,978)	—	(433,585)
Share of profit of an associate	<u>19,633</u>	<u>—</u>	<u>—</u>	<u>19,633</u>
Profit before income tax	867,087	54,702	—	921,789
Income tax expenses	<u>(295,194)</u>	<u>(13,676)</u>	<u>—</u>	<u>(308,870)</u>
Profit for the period	<u>571,893</u>	<u>41,026</u>	<u>—</u>	<u>612,919</u>
Other material non-cash items				
Depreciation and amortisation	1,279,832	21,245	—	1,301,077
Reversal of impairment of trade and other receivables, net	(380)	(1,428)	—	(1,808)
Other segment information				
Addition to non-current assets	<u>1,821,369</u>	<u>19,576</u>	<u>—</u>	<u>1,840,945</u>
	As at 30 June 2018 (Unaudited)			
	Gold Mining	Gold Refining	Inter-segment elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets and liabilities				
Total assets	42,724,179	2,707,245	(1,700,362)	43,731,062
Include: investment in an associate	418,792	—	—	418,792
Total liabilities	<u>25,330,105</u>	<u>2,081,244</u>	<u>(1,700,362)</u>	<u>25,710,987</u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

5 SEGMENT INFORMATION (Continued)

For the six months ended 30 June 2017 (Unaudited)				
	Gold Mining	Gold Refining	Inter-segment	Total
	RMB'000	RMB'000	elimination	RMB'000
			RMB'000	
Revenue from customers and recognised at a point in time				
Revenue from customers (other than rental income)	4,227,905	24,987,488	(4,098,898)	25,116,495
Rental revenue	8,238	—	—	8,238
Inter-segment revenue	<u>(4,098,898)</u>	<u>—</u>	<u>4,098,898</u>	<u>—</u>
Revenue from external customers	<u>137,245</u>	<u>24,987,488</u>	<u>—</u>	<u>25,124,733</u>
Profit from operations	<u>956,983</u>	<u>69,082</u>	<u>—</u>	<u>1,026,065</u>
Finance income	9,524	648	—	10,172
Finance costs	(233,298)	(2,567)	—	(235,865)
Share of profit of an associate	<u>17,210</u>	<u>—</u>	<u>—</u>	<u>17,210</u>
Profit before income tax	750,419	67,163	—	817,582
Income tax expenses	<u>(154,854)</u>	<u>(16,791)</u>	<u>—</u>	<u>(171,645)</u>
Profit for the period	<u>595,565</u>	<u>50,372</u>	<u>—</u>	<u>645,937</u>
Other material non-cash items				
Depreciation and amortisation	825,348	25,694	—	851,042
Provision for/(reversal of) impairment of trade and other receivables, net	1,828	(1,018)	—	810
Other segment information				
Addition to non-current assets	<u>6,551,373</u>	<u>5,341</u>	<u>—</u>	<u>6,556,714</u>

As at 31 December 2017 (Audited)

	Gold Mining	Gold Refining	Inter-segment	Total
	RMB'000	RMB'000	elimination	RMB'000
			RMB'000	
Segment assets and liabilities				
Total assets	42,380,200	2,297,777	(1,546,256)	43,131,721
Include: investment in an associate	399,208	—	—	399,208
Total liabilities	<u>25,470,360</u>	<u>1,713,851</u>	<u>(1,546,256)</u>	<u>25,637,955</u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

5 SEGMENT INFORMATION *(Continued)*

Analysis of revenue

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
The PRC	24,717,222	25,124,733
Outside the PRC	1,301,343	—
	<u>26,018,565</u>	<u>25,124,733</u>

Revenue is attributed to countries based on the customers' locations.

Gold sold through the Shanghai Gold Exchange were as follows:

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Gold refining segment	<u>18,886,820</u>	<u>20,025,406</u>

Analysis of non-current assets

	As at	As at
	30 June	31 December
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Audited)
The PRC	28,905,644	28,960,854
Outside the PRC	7,870,504	7,753,437
	<u>36,776,148</u>	<u>36,714,291</u>

Note: The non-current assets above exclude available-for-sale financial assets, financial assets at fair value through other comprehensive income and deferred income tax assets.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

6 OTHER LOSSES, NET

	Unaudited Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Fair value losses on gold future/forward contracts	(24,925)	(17,225)
Net losses on disposal/write-off of property, plant and equipment	(8,496)	(9,312)
Others	14,198	(8,138)
	<u>(19,223)</u>	<u>(34,675)</u>

7 EXPENSES BY NATURE

Expenses included in cost of sales, selling expenses, general and administrative expenses and research and development costs are analysed as follows:

	Unaudited Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Changes in inventories of finished goods and work in progress	(61,684)	182,217
Raw materials and consumables used	21,450,082	21,151,228
Employee benefit expenses (including directors' emoluments) (Note 8)	1,004,934	840,083
Depreciation (Note a)	986,668	508,143
Amortisation (Note b)	314,409	342,899
Labor outsourcing expenses	338,435	492,116
Outsourcing stripping costs	66,303	—
Mining resource compensation fees	29,174	—
Mining resource tax	98,335	92,921
Repairs and maintenance costs	40,187	37,184
Transportation costs and port expenses	39,426	34,060
Operating lease rental expenses	20,443	9,834
Auditor's remuneration	1,800	1,500
Others	355,537	371,620
	<u>355,537</u>	<u>371,620</u>
Total cost of sales, selling expenses, general and administrative expenses and research and development costs	<u>24,684,049</u>	<u>24,063,805</u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

7 EXPENSES BY NATURE *(Continued)*

(a) Depreciation charged to profit or loss is analysed as follows:

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Depreciation for the period		
– Property, plant and equipment (Note 13)	1,002,084	526,037
– Investment properties	5,591	5,503
	<u>1,007,675</u>	<u>531,540</u>
Less: capitalised in construction in progress	<u>(21,007)</u>	<u>(23,397)</u>
Amount charged to profit or loss	<u><u>986,668</u></u>	<u><u>508,143</u></u>
Charged to:		
– Cost of sales	920,710	450,153
– General and administrative expenses	65,958	57,990
	<u>986,668</u>	<u>508,143</u>

(b) Amortisation charged to profit or loss is analysed as follows:

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Amortisation for the period		
– Land use rights	5,556	4,734
– Intangible assets (Note 14)	303,773	325,105
– Long-term prepayments	5,181	13,160
	<u>314,510</u>	<u>342,999</u>
Less: capitalised in construction in progress	<u>(101)</u>	<u>(100)</u>
Amount charged to profit or loss	<u><u>314,409</u></u>	<u><u>342,899</u></u>
Charged to:		
– Cost of sales	301,696	322,296
– General and administrative expenses	12,713	20,603
	<u>314,409</u>	<u>342,899</u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

8 EMPLOYEE BENEFIT EXPENSES

	Unaudited	
	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Wages, salaries, bonuses and allowances	689,571	563,465
Housing subsidies	48,864	44,430
Contributions to pension plans	110,718	84,163
Welfare and other expenses	155,781	148,025
	<u>1,004,934</u>	<u>840,083</u>

9 FINANCE COSTS, NET

	Unaudited	
	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Interest expense:		
– bank borrowings	134,729	10,180
– borrowings from related parties	3,979	2,493
– corporate bonds	78,251	87,731
– provisions: unwinding of discount from asset retirement obligations (Note 21)	4,771	411
Finance costs for arranging gold leasing contracts	79,496	55,035
Realised and unrealised fair value losses on gold leasing contracts	67,426	62,617
Guarantee and arrangement fee for a borrowing	18,687	19,751
Net foreign exchange losses	48,359	289
	<u>435,698</u>	<u>238,507</u>
Finance costs	435,698	238,507
Less: amounts capitalised on qualifying assets	(2,113)	(2,642)
	<u>433,585</u>	<u>235,865</u>
Total finance costs	<u>433,585</u>	<u>235,865</u>
Interest income:		
– bank deposits	14,770	8,424
– deposits within a related party	2,805	1,748
	<u>17,575</u>	<u>10,172</u>
Total finance income	<u>17,575</u>	<u>10,172</u>
Finance costs, net	<u>416,010</u>	<u>225,693</u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

10 INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD

	Unaudited	
	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Beginning of the period	399,208	371,461
Share of profit	19,633	17,210
Share of other comprehensive losses	(49)	—
End of the period	<u>418,792</u>	<u>388,671</u>

Details of the associate of the Group is set out below. The associate has share capital consisting solely of ordinary shares, which are held directly by the Company.

Name of entity	Place of business/country of incorporation	% of ownership interest	Measurement method
Shandong Gold Group Finance Co., Ltd. ("Group Finance")	The PRC	30%	Equity

There are no contingent liabilities relating to the Group's interests in the associate.

Summarised financial information for associate

Set out below is a summary of the unaudited financial information for the associate.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

10 INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

Summarised balance sheet

	Shandong Gold Group Finance Co., Ltd.	
	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Current		
Cash and cash equivalents	1,365,584	1,107,864
Other current assets (excluding cash)	<u>1,518,324</u>	<u>1,308,008</u>
Total current assets	<u>2,883,908</u>	<u>2,415,872</u>
Financial liabilities (excluding trade payables)	5,155,400	4,436,235
Other current liabilities (including trade payables)	<u>26,895</u>	<u>57,779</u>
Total current liabilities	<u>5,182,295</u>	<u>4,494,014</u>
Non-current		
Assets	<u>3,694,361</u>	<u>3,408,835</u>
Net assets	<u><u>1,395,974</u></u>	<u><u>1,330,693</u></u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

10 INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

Summarised statements of comprehensive income

		Shandong Gold Group Finance Co., Ltd.	
		Six months ended 30 June	
		2018	2017
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue		89,200	90,848
Profit before income tax		87,257	77,994
Profit for the period		65,443	57,367
Other comprehensive losses		(164)	—
Total comprehensive income for the period		65,279	57,367

Reconciliation of summarised financial information

		Shandong Gold Group Finance Co., Ltd.	
		Six months ended 30 June	
		2018	2017
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Opening net assets attributable to equity holder of the associate at beginning of period		1,330,694	1,238,204
Profit for the period		65,443	57,367
Other comprehensive losses		(164)	—
Closing net assets attributable to equity holder of the associate at end of period		1,395,973	1,295,571
Interest in associate (30%)		418,792	388,671
Carrying value		418,792	388,671

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

11 INCOME TAX EXPENSES

	Unaudited	
	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Current income tax:		
– The PRC (note (a))	236,006	219,384
– Outside the PRC (note (b))	143,565	—
	<u>379,571</u>	<u>219,384</u>
Deferred income tax credit	(70,701)	(47,739)
	<u>308,870</u>	<u>171,645</u>

(a) The provision for PRC enterprise income tax (“EIT”) is calculated based on the statutory income tax rate of 25% on the estimated tax assessable profit of each of the companies comprising the Group, determined in accordance with the relevant PRC income tax rules and regulations, except for the Company and certain subsidiaries which are taxed at preferential tax rate of 15% based on the relevant PRC tax laws and regulations.

(b) The estimated tax assessable profit of the Group’s overseas joint operation (as acquired on 30 June 2017) is taxed at the statutory income tax rate in Argentina of 30% in accordance with the Argentina income tax law with effect from 1 January 2018. In February 2017, the Company set up Shandong Gold Mining (Hong Kong) Co., Limited (山東黃金礦業(香港)有限公司 or “SDHK”), a wholly-owned subsidiary, that is incorporated in Hong Kong. No provision for income tax has been made by SDHK as it has no estimated taxable profits in any financial period since the date of its incorporation.

12 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the number of ordinary shares in issue.

	Unaudited	
	Six months ended 30 June	
	2018	2017
Profit attributable to equity holders of the Company (RMB'000)	575,290	615,432
Weighted number of ordinary shares in issue (thousands)	1,850,734	1,850,734
Basic earnings per share (RMB per share)	<u>0.31</u>	<u>0.34</u>

As the Company had no dilutive instruments for the six months ended 30 June 2017 and 2018, the Group’s diluted earnings per share equals to its basic earnings per share.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

13 PROPERTY, PLANT AND EQUIPMENT

	Plant				Total RMB'000
	Buildings RMB'000	Mining structures RMB'000	machinery and equipment RMB'000	Construction in progress RMB'000	
As at 1 January 2018					
Cost	6,259,115	13,216,013	6,819,353	2,665,860	28,960,341
Accumulated depreciation	(1,746,449)	(2,783,565)	(3,017,929)	—	(7,547,943)
Impairment provision	(22,150)	(32,110)	(7,634)	—	(61,894)
Currency translation differences	(41,196)	(124,689)	(64,575)	(9,098)	(239,558)
Net book amount	<u>4,449,320</u>	<u>10,275,649</u>	<u>3,729,215</u>	<u>2,656,762</u>	<u>21,110,946</u>
Six months ended 30					
June 2018 (Unaudited)					
Opening net book amount	4,449,320	10,275,649	3,729,215	2,656,762	21,110,946
Additions	7,015	297,068	74,375	1,303,988	1,682,446
Transfer to construction in progress	—	—	(17,221)	17,221	—
Transfers upon completion					
of construction	182,197	241,200	123,650	(547,047)	—
Transfer to investment properties	(4,927)	—	—	—	(4,927)
Disposals/write-off (Note a)	(2,581)	—	(27,683)	(8,157)	(38,421)
Depreciation charges	(230,496)	(340,134)	(431,454)	—	(1,002,084)
Currency translation differences	17,899	50,081	14,009	526	82,515
Closing net book amount	<u>4,418,427</u>	<u>10,523,864</u>	<u>3,464,891</u>	<u>3,423,293</u>	<u>21,830,475</u>
As at 30 June 2018 (Unaudited)					
Cost	6,440,085	13,754,281	6,867,423	3,431,865	30,493,654
Accumulated depreciation	(1,976,211)	(3,123,699)	(3,344,332)	—	(8,444,242)
Impairment provision	(22,150)	(32,110)	(7,634)	—	(61,894)
Currency translation differences	(23,297)	(74,608)	(50,566)	(8,572)	(157,043)
Net book amount	<u>4,418,427</u>	<u>10,523,864</u>	<u>3,464,891</u>	<u>3,423,293</u>	<u>21,830,475</u>

- (a) The disposals/write-off for the period included an amount of approximately RMB11,785,000 which has arisen from the change in the discount rate used for the asset retirement obligations as disclosed in Note 21.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

14 INTANGIBLE ASSETS

	Mining and exploration rights RMB'000	Patent rights RMB'000	Software licenses RMB'000	Trademark and others RMB'000	Total RMB'000
As at 1 January 2018					
Cost	16,011,676	13,361	47,786	3,347	16,076,170
Accumulated amortisation	(4,021,725)	(11,247)	(27,469)	(884)	(4,061,325)
Net book amount	<u>11,989,951</u>	<u>2,114</u>	<u>20,317</u>	<u>2,463</u>	<u>12,014,845</u>
Six months ended 30 June 2018 (Unaudited)					
Opening net book amount	11,989,951	2,114	20,317	2,463	12,014,845
Additions	37,349	—	539	25,749	63,637
Amortisation charges	(300,906)	(668)	(2,198)	(1)	(303,773)
Closing net book amount	<u>11,726,394</u>	<u>1,446</u>	<u>18,658</u>	<u>28,211</u>	<u>11,774,709</u>
As at 30 June 2018 (Unaudited)					
Cost	16,049,025	13,361	48,325	29,096	16,139,807
Accumulated amortisation	(4,322,631)	(11,915)	(29,667)	(885)	(4,365,098)
Net book amount	<u>11,726,394</u>	<u>1,446</u>	<u>18,658</u>	<u>28,211</u>	<u>11,774,709</u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

15 GOODWILL

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Goodwill on business combinations in the PRC (note a)	120,694	120,694
Goodwill on acquisition of the joint operation (note b)	1,042,959	1,042,959
Currency translation differences	<u>(24,294)</u>	<u>(36,980)</u>
	<u>1,139,359</u>	<u>1,126,673</u>

- (a) This balance comprised of the goodwill arose from the Group's acquisition of a non-wholly owned subsidiary, Chifeng Chaihulanzi Gold Mining Co., Ltd. of approximately RMB65,340,000 and the goodwill as taken up upon the acquisition of Shandong Gold Guilaizhuang Mining Co., Ltd. (an acquisition which has been accounted for as a business combination under common control) of approximately RMB55,354,000.
- (b) The goodwill of US\$153,956,000 (approximately RMB1,042,959,000 on the acquisition date) was resulted from the acquisition of 50% interest in Argentina Gold (Bermuda) II Ltd. ("AGBII") and its subsidiary Minera Argentina Gold S.R.L. ("MAG") (together the "AGBII Group") as completed on 30 June 2017. The AGBII Group principally engages in the production and sale of gold globally. The goodwill was allocated to the Veladero mine as owned by MAG, the subsidiary of AGBII. The Directors have determined the goodwill on the acquisition based on a purchase price allocation ("PPA") as performed by an independent valuer.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

16 TRADE AND OTHER RECEIVABLES

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Trade receivables (Note a)		
– related parties	36,161	5,722
– third parties	303,939	116,410
	<u>340,100</u>	<u>122,132</u>
Less: provision for impairment of trade receivables	(5,942)	(5,745)
Trade receivables — net	334,158	116,387
Notes receivable	2,650	19,066
	<u>336,808</u>	<u>135,453</u>
Prepayments		
– related parties	2,854	2,171
– third parties	195,876	173,133
	<u>198,730</u>	<u>175,304</u>
Amounts due from related parties	19,202	65,430
Deposits	127,989	78,257
Payments on behalf of third parties	41,415	37,078
Advances to staff	6,179	9,065
Others	67,664	74,921
	<u>262,449</u>	<u>264,751</u>
Less: provision for impairment of other receivables	(87,370)	(89,393)
Other receivables — net	175,079	175,358
Value-added tax recoverable	214,273	228,505
Dividends receivable from the associate	—	6,221
	<u>924,890</u>	<u>720,841</u>
Total	<u>924,890</u>	<u>720,841</u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

16 TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Aging analysis of trade receivables at each balance date based on invoice dates were as follows:

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Within 1 year	328,617	114,775
1 - 2 years	4,489	77
2 - 3 years	52	82
Over 3 years	6,942	7,198
	340,100	122,132

(b) Movement of provision for impairment of trade and other receivables is as follows:

	Unaudited Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
At beginning of the period	95,138	103,452
Provision	1,994	2,610
Reversal	(3,802)	(1,800)
Written-off	(18)	—
At end of the period	93,312	104,262

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

17 TRADE AND OTHER PAYABLES

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Trade payables (Note a)		
– third parties	987,622	949,419
– related parties	34,085	12,662
	<u>1,021,707</u>	<u>962,081</u>
Notes payable (Note b)	437,445	388,878
Payable for purchases of property, plant and equipment and mining rights	605,290	800,143
Deposits received from contractors	251,846	267,631
Purchase consideration payable	191,827	191,827
Customer deposits and receipts in advance	—	127,219
Contract liabilities	88,449	—
Other taxes payable	63,310	135,563
Dividends payable	165,385	188,863
Amounts due to related parties	509,209	517,147
Salaries and staff welfare payable	132,088	149,389
Interest payable	118,605	110,576
Others	79,104	88,127
	<u>3,664,265</u>	<u>3,927,444</u>
Total	3,664,265	3,927,444

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

17 TRADE AND OTHER PAYABLES *(Continued)*

- (a) Aging analysis of trade payables of the Group on each balance sheet date based on invoice dates were as follows:

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Less than 1 year	994,246	942,330
1 - 2 years	14,088	8,365
2 - 3 years	3,471	1,714
Over 3 years	9,902	9,672
	1,021,707	962,081

- (b) Aging analysis of notes payable of the Group on each balance sheet date based on issue dates of the notes were as follows:

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Less than 1 year	437,445	388,878

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

18 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Unaudited	
	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
At beginning of the period	5,751,411	3,169,789
Proceeds received during the period	4,318,665	5,388,574
Changes in fair value of the obligations associated with outstanding gold leasing contracts	40,714	26,122
Settlement during the period	<u>(4,878,784)</u>	<u>(2,472,394)</u>
At end of the period	<u>5,232,006</u>	<u>6,112,091</u>

Financial liabilities at fair value through profit or loss primarily represent the fair value of gold leasing contracts, gold forward contracts and futures contracts. As at 30 June 2018, the fair value of these financial liabilities was RMB5,232 million (30 June 2017: RMB6,112 million).

The Group financed through entering into gold leasing contracts with banks to lease gold from banks and subsequently sold the gold through the Shanghai Gold Exchange to obtain financing. Upon maturity of those lease contracts, the Group has to return to such banks with gold of the same quantity and specification, which would be usually purchased through the Shanghai Gold Exchange. The maturity periods of gold leasing contracts are generally less than 1 year (1 year inclusive). The Group has designated the liabilities associated with such gold leasing arrangements as financial liabilities at fair value through profit or loss. Realised or unrealised fair value gain/loss on gold leasing contracts are recognised and presented in the consolidated statement of profit or loss as 'finance costs' (Note 9). The fair value of all gold leasing contracts are determined based on current ask prices in an active market.

The Group had also entered into certain gold forward/future contracts for managing part of the risk associated with the fluctuation in the purchase prices of gold for its operations or managing the price risk associated with the aforesaid gold leasing contracts. These gold forward/future contracts have also been designated as financial liabilities at fair value through profit or loss. Realised and unrealised fair values gain/loss on the gold forward/future contracts are recognised in the consolidated statement of profit or loss as 'other gains/(losses), net' (Note 6).

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

19 BORROWINGS

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Non-current		
Long-term bank borrowings		
– secured	4,446,355	4,835,308
– unsecured	1,984,980	1,960,259
Corporate bonds	2,685,398	3,294,480
	9,116,733	10,090,047
Less: borrowings due within one year	(1,999,543)	(1,998,228)
	7,117,190	8,091,819
Current		
Short-term bank borrowings - unsecured	2,261,162	598,000
Borrowings from related parties	470,179	286,879
Corporate bonds	1,999,543	1,998,228
	4,730,884	2,883,107
Total	11,848,074	10,974,926

20 DEFERRED INCOME TAX

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Deferred income tax assets	176,286	152,421
Deferred income tax liabilities	(4,115,905)	(4,135,396)
Deferred income tax liabilities (net)	(3,939,619)	(3,982,975)

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

20 DEFERRED INCOME TAX *(Continued)*

The gross movement on the deferred income tax account is as follows:

	Unaudited	
	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Beginning of the period	(3,982,975)	(1,831,028)
Credited to profit or loss	70,701	47,739
Acquisition of a joint operation	—	(2,504,103)
Currency translation differences	(27,345)	—
	<u>(3,939,619)</u>	<u>(4,287,392)</u>
End of the period	<u>(3,939,619)</u>	<u>(4,287,392)</u>

21 PROVISION FOR ASSET RETIREMENT OBLIGATIONS

	Unaudited Six months ended 30	
	June	
	2018	2017
	RMB'000	RMB'000
Beginning of the period	570,586	29,965
Interest charge on unwinding of discounts	4,771	411
Additional provision	2,229	168,867
Change in discount rate (Note 13(a))	(11,785)	—
Acquisition of a joint operation	—	205,701
Currency translation differences	4,401	—
	<u>570,202</u>	<u>404,944</u>
End of the period	<u>570,202</u>	<u>404,944</u>

Provision for asset retirement obligations represented the estimated amount and timing of future closure and restoration projects.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

22 DIVIDENDS

	Six months ended 30 June 2018 RMB'000 (Unaudited)	Year ended 31 December 2017 RMB'000 (Audited)
2017 final dividend of RMB0.04 per ordinary share	73,764	—
2017 interim dividend of RMB0.08 per ordinary share	—	147,528
2016 final dividend of RMB0.1 per ordinary share	—	184,410
	<u>73,764</u>	<u>331,938</u>

23 CONTINGENCIES

The Veladero Mine held by the AGBII Group, a joint operation of the Group, experienced several environmental incidents as set out below:

- Release of cyanide-bearing process solution incident in 2015 — the failure of a valve on a leach pad pipeline at the Veladero Mine resulted in the release of cyanide-bearing process solution into a nearby waterway through a diversion channel gate that was open at the time of the incident;
- Release of crushed-ore saturated with process solution incident in 2016 - ice rolled down the slope of the leach pad damaged a pipe carrying process solution, and caused some material to leave the leach pad; and
- Release of gold-bearing process solution incident in 2017 - the monitoring system at the Veladero Mine detected a rupture of a pipe carrying gold-bearing process solution on the leach pad.

As of 30 June 2018, MAG, the subsidiary of AGBII, was involved in several ongoing administrative and civil proceedings with respect to the abovementioned environmental incidents.

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

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

23 CONTINGENCIES *(Continued)*

The Group has evaluated the legal proceedings with the assistance from its external legal counsel. Additionally, the Group will be indemnified by Barrick Gold Corporation (but only until 30 June 2019) for any losses suffered in relation to any final decision against MAG in respect of legal proceedings commenced by the third parties (including government authorities) in relation to these incidents as occurred prior to the Group's acquisition of its interest in the AGBII Group. As a result, no provision has been made for any potential liabilities or asset impairment relating to the aforesaid legal proceedings.

Other than those as disclosed above, the Group does not have any other pending litigations which may result in a significant loss to the Group.

24 COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for by the Group at the balance sheet date but not yet incurred is as follows:

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Property, plant and equipment	698,274	355,692
Mining and exploration rights	366,465	366,465
	<u>1,064,739</u>	<u>722,157</u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

24 COMMITMENTS *(Continued)*

(b) Operating lease commitments — where the Group is the lessee

The Group leases various plant and machinery under cancellable operating lease agreements. The lease expenditures charged to profit or loss during the six months ended 30 June 2017 and 2018 were disclosed in Note 7.

The Group has commitments to make the following future minimum lease payments under non-cancelable operating leases are as follows:

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Land and buildings:		
– Within 1 year	21,972	14,640
– From 1 year to 5 years	35,142	31,294
– Over 5 years	89,539	90,981
	146,653	136,915
Machinery:		
– Within 1 year	4,848	14,445
– From 1 year to 5 years	11,898	18,989
	16,746	33,434
Others:		
– Within 1 year	1,362	2,663
– From 1 year to 5 years	724	575
	2,086	3,238
Total	165,485	173,587

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

25 RELATED PARTY TRANSACTIONS

The directors of the Company consider that Shandong Gold Group, a company registered in the PRC, as the Company's parent company. The State-owned Assets Supervision and Administration Commission of Shandong Provincial People's Government is the ultimate controlling party. The Group has extensive transactions with the Parent Company. For the purpose of disclosures of related party transactions, to the extent possible, the Group has procedures in place to assist the identification of the immediate ownership structure of its customers and suppliers as to whether they are related parties.

Management believes that all material related party transactions and balances, of which they are aware of, have been adequately disclosed. Sales of goods and provision of services to related parties are at state-prescribed prices or prices that are also available to other customers. The Group considers that these sales are activities in the ordinary course of business. In addition to the transactions detailed elsewhere in these condensed consolidated interim financial information, the Group had the following material transactions with related parties.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

25 RELATED PARTY TRANSACTIONS *(Continued)*

(a) Transaction with Shandong Gold Group and fellow subsidiaries

	Unaudited	
	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Purchases of electricity	190,257	183,932
Purchases of construction services	42,339	34,939
Purchases of processing services	1,622	1,575
Purchases of gold	110,038	24,816
Purchases of other services	26,173	5,719
	<u>370,429</u>	<u>250,981</u>
Total purchases		
Sales of gold	56,871	49,674
Sales of other metals	3,755	16,946
Sales of other materials and services	3,116	1,296
	<u>63,742</u>	<u>67,916</u>
Total sales		

(b) Property leasing

	Unaudited	
	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Rental fees paid to Shandong Gold Group and fellow subsidiaries	7,779	2,869
	<u>7,779</u>	<u>2,869</u>
Rental fees received from Shandong Gold Group and fellow subsidiaries	2,850	3,469
	<u>2,850</u>	<u>3,469</u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

25 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Loans obtained from related parties

	Unaudited	
	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Loans obtained from Shandong Gold Group and fellow subsidiaries:		
At beginning of the period	7,579	76,697
Drawdown during the period	—	20,000
Repayments paid during the period	—	(70,000)
Interest charged	—	881
Interest paid	—	(508)
At end of the period	7,579	27,070
Loans obtained from the associate:		
At beginning of the period	279,300	40,000
Drawdown during the period	1,102,600	559,300
Repayments during the period	(919,300)	(510,000)
Interest charged	3,979	1,612
Interest paid	(3,979)	(1,612)
At end of the period	462,600	89,300
Total loans obtained from related parties:		
At beginning of the period	286,879	116,697
Drawdown during the period	1,102,600	579,300
Repayments during the period	(919,300)	(580,000)
Interest charged	3,979	2,493
Interest paid	(3,979)	(2,120)
At end of the period	470,179	116,370

The loans obtained from related parties are denominated in RMB and due within one year.

	Unaudited	
	Six months ended 30 June	
	2018	2017
Average interest rates	4.35%	4.60%

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

25 RELATED PARTY TRANSACTIONS *(Continued)*

(d) Year-end balances arising from sales/purchases of goods/services

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Receivables from related parties		
Trade receivables		
– Shandong Gold Group and fellow subsidiaries	<u>36,161</u>	<u>5,722</u>
Other receivables		
– Shandong Gold Group and fellow subsidiaries	<u>19,202</u>	<u>65,430</u>
Dividends receivable		
– Associate	<u>—</u>	<u>6,221</u>
Prepayments		
– Shandong Gold Group and fellow subsidiaries	<u>2,854</u>	<u>2,171</u>
Deposits with a financial institution		
– Associate	<u>332,828</u>	<u>598,532</u>
Other non-current assets (prepayment for long-term assets)		
– Shandong Gold Group and fellow subsidiaries	<u>479,341</u>	<u>476,155</u>
	<u>870,386</u>	<u>1,154,231</u>
Payables to related parties		
Trade payables		
– Shandong Gold Group and fellow subsidiaries	<u>34,085</u>	<u>12,662</u>
Other payables		
– Shandong Gold Group and fellow subsidiaries	<u>509,209</u>	<u>517,147</u>
Dividends payable		
– Shandong Gold Group	<u>145,783</u>	<u>110,582</u>
Advances		
– Shandong Gold Group and fellow subsidiaries	<u>32,051</u>	<u>37,849</u>
Other non-current liabilities (payables for long-term assets)		
– Shandong Gold Group	<u>10,094</u>	<u>10,094</u>
	<u>731,222</u>	<u>688,334</u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

25 RELATED PARTY TRANSACTIONS *(Continued)*

(e) Key management compensation

Key management includes directors (executive and non-executive), members of the Executive Committee and respective department heads. The compensation paid or payable to key management for employee services is shown below:

	Unaudited	
	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Salaries and other short-term employee benefits		
– Directors and supervisors	3,010	2,658
– Other key management	1,995	1,998
	<u>5,005</u>	<u>4,656</u>