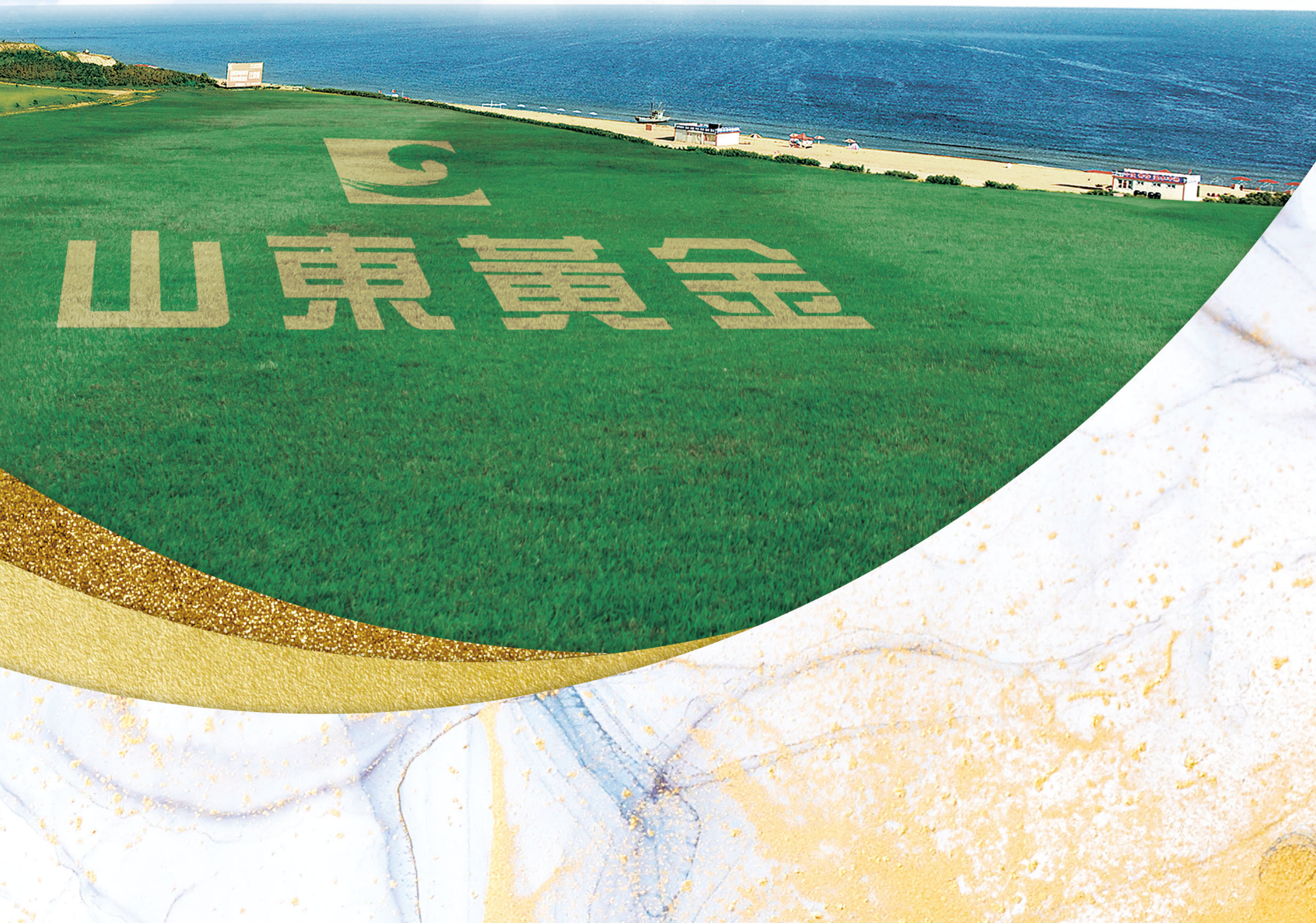
山東黃金礦業股份有限公司
SHANDONG GOLD MINING CO., LTD.

Stock Code 股份代號：1787

(A joint stock company incorporated in the People's Republic of China with limited liability)
(於中華人民共和國註冊成立的股份有限公司)

2018 ANNUAL REPORT 年度報告



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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Wang Peiyue
Mr. Li Tao (appointed with effect from 14 January 2019)
Mr. Tang Qi

NON-EXECUTIVE DIRECTORS

Mr. Li Guohong
Mr. Wang Lijun
Ms. Wang Xiaoling
Mr. Chen Daojiang
(resigned with effect from 27 November 2018)

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

SUPERVISORS

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

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

RENUMERATION AND APPRAISAL COMMITTEE

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

STRATEGY COMMITTEE

Mr. Li Guohong *(Chairman)*
Mr. Li Tao (appointed with effect from 14 January 2019)
Mr. Wang Peiyue
Mr. Gao Yongtao
Mr. Lu Bin
Mr. Chen Daojiang
(resigned with effect from 27 November 2018)

JOINT COMPANY SECRETARIES

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FINANCIAL HIGHLIGHTS

2015-2018 FINANCIAL INFORMATION AS EXTRACTED FROM CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS:

	For the year ended 31 December			
	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**54,787,877**	51,041,303	49,072,691	38,774,481
Cost of sales	**(50,856,661)**	(47,398,660)	(45,567,129)	(36,175,053)
Gross profit	**3,931,216**	3,642,643	3,505,562	2,599,428
Selling expenses	**(37,227)**	(31,152)	(34,440)	(34,768)
General and administrative expenses	**(1,383,702)**	(1,214,344)	(1,225,662)	(1,090,491)
Research and development costs	**(321,041)**	(273,559)	(265,333)	(153,795)
Other income	**12,275**	15,979	14,845	8,536
Other gains/(losses), net	**(218,258)**	(30,625)	39,952	68,550
Operating Profit	**1,983,263**	2,108,942	2,034,924	1,397,460
Finance income	**36,796**	37,445	10,988	12,429
Finance costs	**(697,855)**	(575,966)	(375,598)	(451,033)
Finance costs, net	**(661,059)**	(538,521)	(364,610)	(438,604)
Share of profit of an associate	**37,985**	34,024	27,662	22,881
Profit before income tax	**1,360,189**	1,604,445	1,697,976	981,737
Income tax expenses	**(487,946)**	(431,452)	(385,194)	(268,480)
Profit for the year	**872,243**	1,172,993	1,312,782	713,257
Profit attributable to:				
Equity shareholders of the Company	**816,048**	1,118,920	1,286,642	647,930
Non-controlling interests	**56,195**	54,073	26,140	65,327
	872,243	1,172,993	1,312,782	713,257
Basic and diluted earnings per share for the profit attributable to the equity holders of the Company (RMB)	**0.42**	0.60	0.85	0.46

	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Assets and liabilities				
Total assets	**45,611,689**	43,131,721	29,366,421	26,096,421
Total liabilities	**21,975,011**	25,637,955	12,676,700	13,674,631
Non-controlling interests	**1,923,793**	1,026,341	1,008,906	1,216,195
Total equity attributable to owners of the Company	**21,712,885**	16,467,425	15,680,815	11,205,595

CHAIRMAN'S STATEMENT

To all shareholders,

I wish to take this opportunity to express my sincere gratitude for your trust and support to Shandong Gold Mining Co., Ltd.

On behalf of the Board, I am delighted to present the 2018 annual report of Shandong Gold and to report on the Company's performance for the period to all shareholders.

OVERVIEW OF THE COMPANY'S OPERATION

The Company's main business, operating model and conditions of the industry during the Reporting Period

The core business operations of the Company during the Reporting Period

During the Reporting Period, the Company's approved business scope was mainly (i) mining and beneficiation of gold and (ii) production and sales of specialised equipment for gold mines and construction and decoration materials (excluding products restricted by national laws and regulations).

The business scope covers (i) geological prospecting, mining and beneficiation of gold, (ii) refining, processing, production and sales of precious metals, non-ferrous metal products, (iii) gold and jewelry accessories, production and sales of specialised equipment and materials for gold mines and construction materials. The Company mainly produces standard gold bullions and investment gold bars and silver ingots and other products of various specifications.

Operating Model

During the Reporting Period, the Company has set forth the aim to "clear strategy, proper management, sustainable development, and social recognition". Shandong Gold comprehensively exerted efforts to achieve steady growth of the Company's benefits and continuously consolidated the good development situation of the Company, to ensure the Company's smooth development of high quality. We strictly adhere to the development philosophy of "resources are the unshakable fundamental interests of enterprise" and fully rely on the advantages of existing mines, to overall improve the comprehensive utilisation rate of resources, vigorously promote the integration of mineral resources, and intensify our efforts for increasing gold reserves through exploration activities and acquisition of resources. As a result, the strategic value, social value, investment value and brand value are highly recognised by investors in the market.

The Company implemented the operating model driven by large-scale operation and technological innovation. The level of production equipment and mechanisation of mining enterprises firmly occupy the leading position in the domestic mining industry, and the underground trackless mining equipment is always at the advanced level in the world. The Company's mines ranked the first in various aspects: enterprise with accumulated production of over 100 tonnes of gold in China – Jiaojia Gold Mine and Linglong Gold Mine; the first enterprise launching "World-class Exemplary Mine" in China – Sanshandao Gold Mine; the first digitalised mine in China – Jiaojia Gold Mine; the first mining company rated as the "National Environment Friendly Enterprise" in China – Xincheng Gold Mine; a leading company in China in terms of mine gold trading volume – Shandong Gold Smelting Co., Ltd. The Company's deep underground mining laboratory, filling laboratory and beneficiation laboratory were successfully awarded the title of Shandong Provincial Engineering Laboratory in 2018, and gradually played a key supporting role for the Company's technological innovation.

At present, the Company is discussing and reviewing plans such as the Mineral Resources Development and Utilisation Project of Sanshandao Gold Mine, the Resources Development Plan for Jiaojia Gold Mining Belt, and will strive to build a 10,000-tonne gold production base to become a domestic gold production giant, consolidating project support for the Company's long-term development. The "World-class Exemplary Mine" construction project launched in 2018 is advancing rapidly, and various sub-projects are implemented at a fast pace with high standards. Meanwhile, we firmly grasp the favorable opportunities arising from "Belt and Road" construction to accelerate the acquisition of overseas resources; the operation and management of overseas mines were further enhanced through strengthening exchanges and cooperation with world-renowned mining companies including Barrick Gold and international investment banks to reduce the operating costs of the Veladero Mine and improve the Company's international operation; the Company consciously practices the green development concept and proactively promotes the construction of mines in a green way and is striving to meet the national green mine standards for all the mines of the Company by the end of the "13th Five-Year" period and continuously enhance the international influence of "Shandong Gold, Ecological Mining".

Industry Development and the position of the Company in the Industry

At present, we are facing severe challenges of economic downturn and contradictions, as well as development opportunities arising from vitality and enhanced power.

The international and domestic environmental situation is still complicated and severe, and the global economic and trade expansion has slowed down. In particular, the Sino-US economic and trade frictions have increased the uncertainty of future economic development. China's economy faces a steep uphill climb, and the structural contradictions are still prominent. Certain risks and deep-seated contradictions that hinder the smooth operation of economy are gradually exposed. The overall downward pressure on the mining market is greater than the upward support. The recovery of the global gold industry is slow under increasing pressure in terms of safety, environmental protection and cost. However, we should also note that the world economy and trade are currently growing and the global mining market is recovering. With the further optimisation of China's economic structure, the positive fiscal policy and prudent monetary policy orientation remain unchanged and the implementation of the "Belt and Road" initiative being accelerated, giving rise to continuous improvement of the business environment of enterprises and a hard-won space for development for the gold industry.

In 2018, the domestic production of gold was 401.12 tonnes, representing a decrease of 25.02 tones or 5.87% year-on-year. In particular, the gold mine production volume was 345.97 tonnes, representing a decrease of 6.28% year-on-year. Despite the year-on-year decrease in domestic production, Shandong Gold was still the leader in China with a gold mine production volume of 39.32 tonnes during the year, representing an increase of 9.57% year-on-year.

In 2019, Shandong Gold will, on the one hand, tap into its potentials to fully exploit its existing production capacity and, on the other hand, continue to increase its efforts to deepen international operation. Through mergers and acquisitions of mines in production, it is expected that the Company's gold production will reach above 50 tonnes by the end of the "13th Five-Year" period.

CHAIRMAN'S STATEMENT

ANALYSIS ON THE CORE COMPETITIVENESS DURING THE REPORTING PERIOD

Strategic Advantage

The Company adheres to strategy-led development and continues to enhance strategic practice and maintain focus on its strategy. All work has always been centered on the strategic goal of "Optimising and expanding to become the top ten gold mining enterprises in the world in respect of comprehensive strength". The Company shall continue to optimise its reserves and increase its resources, endeavouring to increase output capacity and output scale, and cultivate differentiated competitive advantages, to take a new development path with emphasis on high efficiency, energy saving and environmental protection. In 2018, the Company seized the opportunity of commencing the construction of a "world-class" enterprise, to accelerate overseas mergers and acquisitions and proactively expand high-quality resources. The Company's long-term production was guaranteed through tapping corporate internal potentials, promotion of precision management in a comprehensive way so as to enhance its production efficiency and cost competitiveness. The Company increased investment in research and development ("**R&D**") to improve the level of technical contribution; adhered to the "double zero" goal of safety and environmental protection to achieve green and ecological development. In addition, the Company accelerated the transformation of old growth drivers with new ones and adhered to the improvement of traditional growth drivers through management improvement and innovation and transformation of mechanism, striving to build more powerful growth drivers to ensure the Company's sustainable and stable development.

Resources Superiority

Shandong is a large province in respect of gold resources and gold production. In terms of resource and reserves, the Jiaodong Peninsula gold mine concentrates 1/4 of the gold reserves of China, of which more than 90% are concentrated in Zhaoyuan and Laizhou Region. In addition, the region's prospective of resources/reserves are considerable. The Company has firmly established the concept of "resources first", and continuously increased its domestic exploration efforts and proactively carried out resource acquisitions internationally following the principle of "domestic exploration and international acquisition". In 2018, the Company focused on key projects and promoted exploration works at a high speed, further consolidating and enhancing the Company's resource reserves in the Jiaodong area and laying a solid resource foundation for the creation of a world-class gold production base in the Jiaodong area. At the same time, we unswervingly implemented the "going global" strategy, proactively participated in global resource allocation with an open and inclusive attitude, and completed preliminary investigations or due diligence for multiple projects, which provided strong backing for the Company's comprehensive development and utilisation of mineral resources and implementation of sustainable development.

Advantage in the Company's Structure and Scale

The Company is mainly engaged in the development and processing of gold mineral resources. Its existing production mines ranked the first in the world in many aspects: enterprise with accumulated production of over 100 tonnes of gold in China – "Jiaojia Gold Mine" and "Linglong Gold Mine", the first digitalised mine in China – "Jiaojia Gold Mine"; one of the mines with the highest equipment level and degree of mechanisation in China – "Sanshandao Gold Mine"; the first mining company rated as the "National Environment Friendly Enterprise" in China – "Xincheng Gold Mine"; a leading company in China in terms of mine gold trading volume – Shandong Gold Smelting Co., Ltd. etc. As of now, the Company is the only listed company with two mining enterprises with accumulated gold production exceeding 100 tonnes in China. Sanshandao Gold Mine, Jiaojia Gold Mine, Xincheng Gold Mine and Linglong Gold Mine have been on the list of "China Top Ten Gold Production Mines" for many consecutive years.

Advantage in technological innovation

The Company follows the principle of "science and technology are the primary productive forces", focusing on mastering the cutting-edge core technologies of mining industry by increasing investment in R&D and commitment to participate in key R&D projects on a national level as the stepping stone, and relying on key exemplary mine projects including Sanshandao Gold Mine "World-class Exemplary Mine" to comprehensively improve the Company's scientific and technological strength and innovation capability. The Company has established R&D institutions such as deep mining laboratory (深井開採實驗室), cut-and-fill laboratory (充填工程實驗室) and processing and smelting laboratory (選冶實驗室). The mining technical talent teams who are represented by the "Deep Underground Mining Key Technology Research and Innovation Team" have mastered and obtained a number of industry leading core technologies and 231 technical patents, including 58 invention patents as well as core technologies of gold mining and beneficiation including underground exploration, deep mining, offshore seabed mining, smart mining, harmless treatment of cyanide residue, refining, all of which are leading technologies in the industry. The Company proactively undertook and participated in the "deep resources exploration and mining", as a major science and technology project under the national "13th Five-Year Plan" related projects (topics). In particular, the Company took the lead in undertaking the "R&D and Exemplary Project of Key Technologies for Green Mining of Deep Metal Mines" for the first time, and undertook research on 3 topics including "Key Technologies for Deep Shaft Wall Structure and Surrounding Rock Control in Metal Mines", participated in the research on 8 topics including "3D Geochemical Prospecting Test and Demonstration of Altered Rock Gold Mine", which provided the Company with technical support for enhancing the development goal of green mining.

Talent Advantage

The employment concept of Shandong Gold is people-oriented and unleashing full potential of its employees; the human resource development mechanism is composed of internal training, external recruitment, reflux of talent, and competitive recruitment; meanwhile, Shandong Gold endeavours to create a good corporate culture environment and promotes the core values of "Openness, Accommodation, Loyalty and Responsibility", striving to achieve the ideal goal of "benefiting as many individuals as possible and the largest possible range from the existence of Shandong Gold". The Company made full use of the market mechanism to vigorously implement innovative talent climbing project, high-end talent introduction project, skilled talent training project, talent counterpart assistance project, recruitment of talents through extensive channels, all-round training of talents, and motivation of talents through multiple initiatives, resulting in continuous improvement of the number, quality and structure of talent team. In 2018, the Company established an investment development center based on the principle of "moderate concentration, positioning improvement, matching people to jobs, and reasonable selection and placement". In accordance with the Company's information planning, a trading center, information center and other business centers have been set up through the intensive system with core functions in terms of personnel, finance and material, to promote the rapid implementation of scientific and efficient control. Six experienced middle and senior management talents have been introduced through the market; the establishment of the Company's professional and technical post rank system offers a smooth professional development channel for professional and technical personnel; in addition, the Company selected a number of young cadres aged under 40 to further enhance the building of the Company's talent echelon.

CHAIRMAN'S STATEMENT

Brand Advantage

Thanks to its excellent performance and good corporate governance, the Company was successfully added into the MSCI indices of the United States, SSE 50 Index and the list of eligible securities for Southbound Trading, and became a member of China Association for Public Companies. The Company also won a number of honorary titles including the Forbes "2018 Global 2000", "Top 100 Listed Companies Most Respected by Investors" and "2018 China Industrial Contribution Award for Listed Companies", "China Top 100 Enterprises", "Excellent Board of Directors" of the Gold Prize of Round Table and A Grade for 2017-2018 Information Disclosure Appraisal of Companies Listed on Shanghai Stock Exchange. The Company is committed to the construction of ecological mining, and strives to build a harmonious mining area and establish a corporate brand image of "Shandong Gold, Ecological Mining". At present, the four major mines of the Company have met the standard of "Level 2 Mine Production Safety Standard" (安全生產標準化二級企業). Three of our enterprises were recognised as "Exemplary Enterprises in Building National Safety Culture" (全國安全文化建設示範企業) and three of our enterprises were recognised as "Exemplary Enterprises in Building Safety Culture" at the provincial level. Four enterprises were recognised as "National Level Green Mines" (國家級綠色礦山) and three enterprises were recognised as "National Level Pilot Green Mines" (國家級綠色礦山試點單位). Xincheng Gold Mine passed the third-party spot check and assessment of the first batch of green mines by the Ministry of Natural Resources and met the five-star standards.

By order of the Board of Directors
Li Guohong
Chairman

Jinan, the PRC
28 March 2019

DISCUSSION AND ANALYSIS ON OPERATING PERFORMANCE

The year of 2018 marked a turning point for implementing the Company's "13th Five-Year Plan". During the year, in the face of the complicated economic situation, the Board always adhered to the key work guidance of making progress while maintaining stability and remained focused on structural reform at the supply side. With the proactive implementation of the new development concept and high-quality development requirements, the Company continuously enhanced its corporate reform, strengthened operation management and proactively made innovation and changes to prevent operational risks. As a result, new progress was achieved in all aspects and the Company's comprehensive strength continued to grow and its industry status further improved, creating a new situation of high-quality development.

Overview of the Company's operations in 2018

In 2018, the Company's gold mine production volume was 39.32 tonnes, an increase of 3.43 tonnes, representing a year-on-year increase of 9.57%; the Company's total assets reached RMB45.61 billion, representing a year-on-year increase of 5.75%; the total liabilities at the end of the year amounted to RMB21.98 billion, representing a decrease of 14.27% as compared with RMB25.64 billion at the beginning of the period; the asset-liability ratio (calculated as the ratio of total liability over total asset) was 48.19%, down by 11.26% year-on-year; the equity attributable to the owners of the parent company totaled RMB21.71 billion, representing an increase of 31.82% as compared with RMB16.47 billion at the beginning of the period. The revenue for the year was RMB54.79 billion, representing a year-on-year increase of RMB3.75 billion or 7.35%; the total gross profit was RMB3.93 billion, up by RMB0.29 billion or 7.97% year-on-year.

Over the past year, we focused on the following aspects in accordance with the requirements of high quality development:

Strengthen strategic orientation and tap into the development potentials. In accordance with the requirements of 2018 operational indicators, the Company implemented policies in a comprehensive way to make breakthroughs in key aspects, enhance production organisation, and organize innovative competition between workforce. Index decomposition was strengthened to fully mobilise production enthusiasm, giving rise to gradual improvement of gold production capacity.

Emphasize on quality and efficiency enhancement and increase the development quality. We adhered to the requirements of high-quality development and made efforts to strengthen management, increase profits and create benefits. We developed a more distinctive and effective comprehensive ranking assessment system which laid emphasis on key aspects to reduce production costs. Activities were carried out thoroughly with the focus placed on analysing and streamlining of production process. We implemented strict management and control over the key aspects of mining and smelting and completed acceptance and evaluation of the activities of subsidiaries, which remarkably improved the refined management.

Enhance enterprise reform and optimise development mechanism. We unswervingly reformed with focus on eliminating system and mechanism obstacles and to stimulate development vitality. The functions of the departments at the headquarters were optimised and integrated and the trading center and information center were successively set up. By giving full play to the location advantages, the powers are thus concentrated on constructing a high-level business platform with clearer business units. Proactive efforts were exerted to ensure smooth channel for market-oriented selection and recruitment. The Company enhanced cultivation of professionals and the talent cultivation and introduction mechanism was further perfected.

MANAGEMENT DISCUSSION AND ANALYSIS

Highlight conversion of growth drivers to increase development impetus. Relying on the major projects of conversion of new and old growth drivers, we concentrated our efforts on engineering construction, scientific and technological research, etc. The full launch of major projects of conversion of old growth drivers to new ones as represented by Sanshandao Gold Mine "World-class Exemplary Mine" and accelerated implementation of underground high-speed network, 3D visual mining and smart site selection and plant construction, initiated the new digital and intelligent construction and operation model of metal mines.

Accelerate the pace of "going global" for greater development. The Company was listed on the Main Board of the Hong Kong Stock Exchange on 28 September 2018 with proceeds from the listing of HK$5.246 billion, marking the completion of the listing of A Shares and H Shares in the capital market of mainland China and Hong Kong. H Share remained strong since its listing. As of 31 December 2018, Hong Kong Hang Seng Index declined by 6.99%, while the closing price of the H Shares was 29.8% higher than the issue price with the increase of up to 33.74%, thus becoming the blue chip in the gold mining sector in the Hong Kong stock market. In addition, we also focused on main types of mineral resources such as gold, copper, zinc (lead) and silver and proactively facilitated the merger and acquisition of quality projects in Africa, South America and other regions.

Reinforce safety and environmental protection to pursue steady progress. We adhered to the "double zero" goal, prioritised safety and environmental protection issues, carried out "three in one" assessment for safety and environmental protection in an all-round manner, developed top slope support for mining, specifically managed the discharge of the "three wastes" to meet the standards, promoted the widespread use of dust removal devices and other advanced technologies, facilitated the passing by third parties of all "two systems" construction of the mines in the province. The Company also stepped up its efforts in promoting the construction of green mines, formulated green mine construction standards and 2018 to 2020 planning with a view to enhancing the brand image of "Shandong Gold, Ecological Mining".

Strengthen the party building to achieve unity for further development. We adhered to the new requirement of enforcing strict party discipline and thoroughly studied Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era as well as the spirit of the 19th National Congress of the Communist Party of China in an attempt to facilitate political construction, ideological construction, organization construction, work style construction and discipline construction of the party, established "Shandong Gold Linglong Red Education Base (山東黃金玲瓏紅色教育基地)", the first red education base in the gold mining sector in the PRC, which provided the Company with an important centre for the education concerning the party spirits and gathered a strong driving force for the Company's business development.

Major operations during the Reporting Period

In 2018, the Company completed processing (leaching) of 27.84 million tonnes, representing a year-on-year increase of 6.31 million tonnes or 29.33%, among which, processing amount in the PRC reached 14.29 million tonnes, representing a year-on-year increase of 0.44 million tonnes or 3.15%, while processing amount abroad amounted to 13.55 million tonnes, representing a year-on-year increase of 5.88 million tonnes or 76.62%.

In 2018, the raw ore grade of the Company was 1.59g/t, representing a year-on-year decrease of 0.21g/t or 11.75%, of which the raw ore grade of domestic mines was 2.28g/t, representing a year-on-year increase of 0.05g/t, while the raw ore grade of overseas mines was 0.85g/t, representing a year-on-year decrease of 0.15g/t. The decrease in the raw ore grade of overseas mines was mainly attributable to the decrease in the raw ore grade involved in leaching.

In 2018, the gold beneficiation recovery rate of domestic mines of the Company was 91.82%, representing a year-on-year decrease of 0.16 percentage points or 0.17%, while the gold beneficiation recovery rate of overseas mines was 73.14%, representing a year-on-year decrease of 1.59 percentage points or 1.99%.

Annual Production Data and Analysis

The following table sets forth the ore mined volume, ore processed volume and gold mine production volume of our mines for the period indicated:

	Year ended 31 December					
	2017			2018		
	Ore Mined (Mt)	Ore processed (Mt)	Gold production (koz)	Ore Mined (Mt)	Ore processed (Mt)	Gold production (koz)
Shandong Province						
Sanshandao Gold Mine	3.4	3.6	209.1	3.6	3.8	224.1
Jiaojia Gold Mine	3.4	3.4	233.8	3.6	3.5	232.5
Xincheng Gold Mine	2.0	2.0	139.7	1.5	2.0	135.7
Linglong Gold Mine	1.6	2.0	130.6	1.9	1.7	143.4
Guilaizhuang Gold Mine	0.4	0.4	55.0	0.2	0.2	38.7
Jinzhou Gold Mine	0.4	0.4	36.6	0.4	0.5	36.5
Qingdao Gold Mine[3]	0.6	0.6	36.3	0.8	0.8	52.4
Penglai Gold Mine	0.3	0.3	26.7	0.5	0.4	25.7
Yinan Gold Mine	0.5	0.5	12.4	0.5	0.5	16.1
Other Provinces						
Chifengchai Gold Mine	0.3	0.4	29.0	0.4	0.5	36.4
Fujian Yuanxin Gold Mine	0.3	0.2	21.4	0.3	0.3	26.5
Xihe Zhongbao Gold Mine	0.1	0.2	14.5	0.2	0.2	17.9
Sub-total[1]	13.4	14.0	944.9	13.7	14.2	986.0
Attributable to the Group[2]	11.7	13.0	926.5	13.4	13.8	942.5
Argentina						
Veladero Mine[4]	16.3	7.7	208.8	15.7	13.5	278.4
Total	29.7	21.6	1,153.7	29.4	27.7	1,264.4

Notes:

1. Includes the ore mined volume, ore processed volume and gold mine production volume of each PRC Mine on a 100% basis.

2. Includes 100% of the ore mined volume, ore processed volume and gold mine production volume of the Company's wholly-owned PRC Mines, namely, the Sanshandao Gold Mine, Jiaojia Gold Mine, Xincheng Gold Mine, Linglong Gold Mine, Qingdao Gold Mine, Penglai Gold Mine and Yinan Gold Mine, as well as 70.65%, 60.78%, 73.52%, 90.31% and 70% of the ore mined volume, ore processed volume and gold production volume of Guilaizhuang Gold Mine, Jinzhou Gold Mine, Chifengchai Gold Mine, Fujian Yuanxin Gold Mine and Xihe Zhongbao Gold Mine, respectively.

3. Qingdao Gold Mine includes Xinhui Gold Mine and Laixi Gold Mine.

4. Includes the ore mined volume, ore processed volume and gold mine production volume of the Veladero Mine on a 50% basis. As at 31 December 2018, the Company owned 50% interest in the Veladero Mine.

5. 1 ounce = 31.1 grams.

MANAGEMENT DISCUSSION AND ANALYSIS

ANALYSIS OF MAIN BUSINESS

Operation results

Analysis of fluctuation of related items in income statement and cash flow statement

Unit: *RMB'000*

Item	Amount of this Reporting Period	Amount of corresponding period in prior year	Increase/ (Decrease) *(%)*
Revenue	54,787,877	51,041,303	7.3
Cost of sales	(50,856,661)	(47,398,660)	7.3
Selling expenses	(37,227)	(31,152)	19.5
General and administrative expenses	(1,383,702)	(1,214,344)	13.9
Research and development costs	(321,041)	(273,559)	17.4
Finance costs, net	(661,059)	(538,521)	22.8
Net cash flows from operating activities	2,870,738	3,850,474	(25.4)
Net cash flows from investing activities	(3,784,811)	(11,135,344)	(66.0)
Net cash flows from financing activities	425,532	8,498,416	(95.0)

Analysis on sales and costs

The increase in revenue of the Company over the previous year was mainly due to the increase in the Company's self-produced gold and small gold bars. The increase in financial expenses was mainly due to the increase in interest expenses and the increase in exchange losses.

Status of the main businesses by industry and region

Unit: *RMB'000*

Status of the main businesses by industry						
By industry	Revenue	Costs	Gross profit margin *(%)*	Changes in revenue compared with last year *(%)*	Changes in costs compared with last year *(%)*	Changes in gross profit margin compared with last year *(%)*
Mining segment	10,678,465	6,942,624	35.0%	8.8%	8.5%	0.6%
Refining segment	44,109,412	43,914,037	0.4%	7.0%	7.1%	-21.3%
	54,787,877	50,856,661	7.2%	7.3%	7.3%	0.5%

Status of the main businesses by region						
By region	Revenue	Costs	Gross profit margin *(%)*	Changes in revenue compared with last year *(%)*	Changes in costs compared with last year *(%)*	Changes in gross profit margin compared with last year *(%)*
The PRC	52,412,139	48,844,611	6.8%	6.3%	6.1%	2.4%
Outside the PRC	2,375,738	2,012,050	15.3%	37.4%	47.5%	-27.4%
	54,787,877	50,856,661	7.2%	7.3%	7.3%	0.5%

Table of cost analysis

Unit: *RMB'000*

	Amount for the current year	Proportion to total cost during the current year	Amount for the last year	Proportion to total cost during the last year
Materials costs	45,604,852	89.7%	42,245,054	89.1%
Employee benefit expenses	1,353,704	2.7%	1,167,569	2.5%
Depreciation	1,796,571	3.5%	1,484,483	3.1%
Amortization	503,335	1.0%	609,371	1.3%
Labor outsourcing and outsourcing stripping expenses	891,327	1.8%	1,009,389	2.1%
Mining resource compensation fees	56,543	0.1%	85,667	0.2%
Mining resource tax	204,847	0.4%	189,200	0.4%
Transportation costs and port expenses	85,138	0.2%	66,671	0.2%
Repairs and maintainance costs	16,325	0.0%	21,999	0.0%
Operating lease rental expenses	23,606	0.0%	23,836	0.1%
Other expenses	320,413	0.6%	495,421	1.0%
Total	50,856,661		47,398,660	

Other explanations on the costs analysis

Information on major suppliers and customers

The sales income from the top five customers amounted to RMB41.6 billion, representing 75.8% of the total sales income of the year, out of which there were no sales amount from connected persons among the top five customers. The sales income from the largest customer represented 64.1% of the total sales income of the year.

The procurement amount from the top five suppliers amounted to RMB40.9 billion, representing 70.3% of the total procurement amount of the year, out of which there were no procurement amount from connected persons among the top five suppliers. The procurement amount of the largest supplier represented 65.8% of the total procurement amount of the year.

As far as the Directors are aware, none of the Directors, Supervisors, Shareholders holding more than 5% equity interest of the Company or their respective associates (as defined in the Hong Kong Listing Rules) had any interest in the above top five suppliers and customers in the year of 2018.

Research and development expenditure

Table of research and development expenditure

Unit: *RMB'000*

	2018	2017
Expensed research and development expenditure for the year	**321,041**	273,559
Total research and development expenditure	**354,580**	276,013
Percentage of total research and development expenditure to operating income *(%)*	**0.65**	0.54
Number of research and development staff	**768**	396
Number of research and development staff to total number of staff of the Company *(%)*	**4.79**	2.75
Percentage of capitalised research and development expenditure *(%)*	**25.79**	20.45

Gearing ratio

Gearing ratio is defined as the ratio of consolidated total debt to consolidated total equity. As at 31 December 2018, the Group's consolidated total debt was RMB6,432,174,000 (RMB10,974,926,000 as at 31 December 2017), and the Group's consolidated total equity was RMB23,636,678,000 (RMB17,493,766,000 as at 31 December 2017). As at 31 December 2018, the Group's gearing ratio was 27.2% (2017: 62.7%), or 54.5% if short-term financings through gold leasing were taken into account (2017: 95.6%). The movement of short-term financings through gold leasing are sets out in the following table:

Unit: *RMB'000*

	At beginning of the year	Proceeds received during the year	Changes in fair value of the obligations associated with outstanding gold leasing contracts	Settlement during the year	At end of the year
Short-term financings through gold leasing contracts	5,751,411	8,684,341	(8,726)	(7,988,300)	6,438,726
	5,751,411	8,684,341	(8,726)	(7,988,300)	6,438,726

MANAGEMENT DISCUSSION AND ANALYSIS

Analysis of assets and liabilities

Status of assets and liabilities

Unit: *RMB'000*

Item	31 December 2018	Proportion	31 December 2017	Proportion	Change	Reasons for the change
Cash and cash equivalents	1,937,718	4.2%	2,402,814	5.6%	(465,096)	Mainly due to the decrease in cash in from operating and financing activities, and the increase in cash out from investing activities
Trade and other receivables	1,058,192	2.3%	720,841	1.7%	337,351	Mainly due to the increase in receivables from sales of gold
Investment in an associate	1,037,144	2.3%	399,208	0.9%	637,936	Mainly due to capital injection to SDG Group Finance
Short-term borrowings	3,623,352	7.9%	796,879	1.8%	2,826,473	Mainly due to the increase in short-term borrowings by SDG Hong Kong during the year
Current portion of long-term borrowings and long-term bonds	62,000	0.1%	2,086,228	4.8%	(2,024,228)	Mainly due to the repayment of part of the bonds by the parent company during the year
Long-term bonds	687,862	1.5%	1,296,252	3.0%	(608,390)	Mainly due to the repayment of part of the bonds by the parent company during the year
Long-term borrowings	2,058,960	4.5%	6,795,567	15.8%	(4,736,607)	Mainly due to the repayment of long-term borrowings by SDG Hong Kong during the year
Reserves	9,080,984	19.9%	4,905,879	11.4%	4,175,105	Mainly due to the capital stock premium resulting from Company's issuance of H shares

Restrictions on main assets as at the end of the Reporting Period

Unit: *RMB'000*

Item	Carrying amount as at the end of the Reporting Period	Reasons for restrictions
Other monetary funds	98,973	Security deposits for issuance of notes
Other monetary funds	102,542	Security deposits for environmental restoration and governance
Total	201,515	

FINANCIAL REVIEW

For the year ended 31 December 2018, the Company's:

- **revenue** increased by 7.3% to RMB54,787.9 million from RMB51,041.3 million for the same period in 2017; which was mainly due to the increase in sales of the Company's self-produced gold and small gold bars and also the inclusion of full-year sales revenue from gold bullions produced by gold mined in the Veladero Mine acquired on 30 June 2017.

- **cost of sales** increased by 7.3% to RMB50,856.7 million from RMB47,398.7 million for the same period in 2017, which was partly due to the consolidation of the full-year 50% cost of sales attributable to the Veladero Mine acquired on 30 June 2017 into the Company and partly due to the increase in the costs of production of small gold bars;

- **gross profit** increased by 7.9% to RMB3,931.2 million from RMB3,642.6 million for the same period in 2017, which was partly due to the inclusion of the full-year gross profit from sales of gold bullions produced by gold mined in the Veladero Mine and partly due to the increase in gross profit from the sales of the Company's self-produced gold;

As at 31 December 2018, the Company's:

- **net current liabilities** increased to RMB7,696.8 million from RMB6,489.2 million as at 31 December 2017. While it is noted that the Company has received net proceeds of approximately RMB4,618.8 million from listing of Shares on the Main Board of Hong Kong Stock Exchange, the reasons for the increase in the net current liabilities are (i) the proceeds of approximately RMB4,560.1 million was utilized by SDG Hong Kong for repayment of three-year Syndicated Term Loan (which was considered as a repayment of a long term liability); (ii) an injection of RMB600.0 million to SDG Group Finance; and (iii) the redemption of corporate bonds of RMB611.0 million.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

As at 31 December 2018, the retained earnings of the Company amounted to RMB10,424.3 million and current borrowings amounted to RMB3,685.4 million. The cash balance of the Company as at 31 December 2018 was RMB1,937.7 million. Based on the following considering factors, the Directors 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 its principle bankers.

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 short term loans due to related parties in an aggregate amount of RMB608.4 million from SDG Finance at an interest rate of 4.35%.

Borrowings of the Company also include corporate bonds, of which include the company corporate bond (the first tranche) and (the second tranche). In relation to the corporate bond (the first tranche), the Company has repaid at maturity the Company corporate bond (the first tranche) in full at their principal amount together with interest accrued on 3 September 2018. In relation to the Company corporate bond (the second tranche), there were 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. The current outstanding balance of the Company corporate bond (the second tranche) is at RMB687.9 million. Meanwhile, the Company had arrangements of short-term bank loans of RMB3,685.4 million through a number of banks in the PRC with interest rates ranging from 3.64% to 4.79% per annum.

On 13 August 2018, the Shareholders approved our proposal to issue green bonds in accordance with the relevant CSRC laws and regulations. The fixed-rate green bonds with a term of three years and the issuance size of RMB1 billion were issued in March 2019. The issuance of the bonds had been completed on 22 March 2019. The coupon rate of the bonds was determined at 3.85%. For further details, please refer to the Company's announcements published on 4, 19, 21 and 22 March 2019. The proceeds from the bonds after deducting the issuance expenses are intended to be used for the operation of the comprehensive recycling project of gold concentrate and the Company's green mines.

Moreover, during the Reporting Period, the Company utilized the following sources of capital to finance the Veladero Acquisition: (i) obtaining the 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%. As at 31 December 2018, approximately RMB4,506.1 million of the proceeds raised from the listing of our H Shares on the Hong Kong Stock Exchange have been utilized to fully repay the three-year Syndicated Term Loan.

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 12 months ended 31 December 2018 and 31 December 2017:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Net cash generated from operating activities	**2,870,738**	3,850,474
Net cash used in investing activities	**(3,784,811)**	(11,135,344)
Net cash from financing activities	**425,532**	8,498,416
Net (decrease)/increase in cash and cash equivalents	**(488,541)**	1,213,546
Exchange gains on cash and cash equivalents	**23,445**	29,473
Cash and cash equivalents at end of the year	**1,937,718**	2,402,814

Operating cash flows

For the year ended 31 December 2018, the amount of net cash flow generated from operating activities was RMB2,870.7 million, reflecting a cash amount of RMB3,377.8 million was generated from operations, a tax amount of RMB543.9 million was paid and an interest amount of RMB36.8 million was received.

Investment cash flows

For the year ended 31 December 2018, the amount of net cash used in investing activities by the Company was RMB3,784.8 million, which mainly referred to the purchase of properties, plant and equipment of RMB3,540.0 million, capital injection to the associate in the amount of RMB600.0 million and the payment for the settlement of gold future and forward contracts in the amount of RMB84.7 million.

Financing cash flows

For the year ended 31 December 2018, the amount of net cash generated in financing activities by the Company was RMB425.5 million, mainly referred to the proceeds from issue of H Shares in the amount of RMB4,618.8 million, proceeds of bank borrowings in the amount of RMB4,802.0 million, the proceeds of borrowings from related parties in the amount of RMB2,156.0 million, and the proceeds from arrangement of gold leasing contracts in the amount of RMB8,684.3 million. It was partially offset by repayment of bank borrowings in the amount of RMB7,406.3 million, the settlement of gold leasing arrangements in the amount of RMB7,975.2 million and repayment of corporate bonds in the amount of RMB2,611.0 million.

MANAGEMENT DISCUSSION AND ANALYSIS

ASSETS AND LIABILITIES

The table below sets out selected information extracted from the Company's balance sheet for the year ended 31 December 2018 and 31 December 2017:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Non-current assets	**39,031,053**	36,868,727
Current assets	**6,580,636**	6,262,994
Equity attributable to owners of the Company	**21,712,885**	16,467,425
Non-controlling interests	**1,923,793**	1,026,341
Non-current liabilities	**7,697,529**	12,885,770
Current liabilities	**14,277,482**	12,752,185
Net current liabilities	**(7,696,846)**	(6,489,191)
Total assets less current liabilities	**31,334,207**	30,379,536

Net current liabilities of the Company increased from RMB6,489.2 million as at 31 December 2017 to RMB7,696.8 million as at 31 December 2018, While it is noted that the Company has received net proceeds of approximately RMB4,618.8 million from listing of Shares on the Main Board of Hong Kong Stock Exchange, the reasons for the increase in the net current liabilities are (i) the proceeds of approximately RMB4,560.1 million was utilized by SDG Hong Kong for repayment of three-year Syndicated Term Loan (which was considered as a repayment of a long term liability); and (ii) an injection of RMB600.0 million to SDG Group Finance; and (iii) the redemption of corporate bonds of RMB611.0 million.

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 year ended 31 December 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 RMB1,062.8 million; the total amount of leasing expenses for land and buildings, machinery, etc. was RMB92.5 million.

MAJOR INVESTMENT, ACQUISITION AND DISPOSAL OF SUBSIDIARIES

For the year ended 31 December 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.

The Group will make every endeavor to keep abreast of the changing market conditions, proactively identify investment opportunities and expand its mineral resources in order to broaden the revenue base of the Group, enhance its future financial performance and profitability. Moreover, the Group is seeking for further operating efficiency across the businesses. We are confident in the future and committed to continuous growth of the Company.

Because of the acquisition of the Veladero Gold Mine, the Company has previously 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. As at 31 December 2018, (i) all the aforesaid guarantees have been released and discharged; and (ii) the Company has provided two counter-guarantees for SDG Hong Kong in a sum of US$500 million in favour of China Development Bank Hong Kong Branch. Other than that, during the Reporting Period, the Company did not offer any financial assistance or guarantee with the total exceeding 8% of its assets for its subsidiaries.

Analysis on business information of the industry

Gold is an asset with a dual nature of commodity and currency. From the perspective of commodity attribute, the rarity of gold makes gold very precious, and the stability of gold makes gold easy to preserve. Therefore, gold is not only the material wealth for humans but also an important means for humans to accumulate wealth. As a result, gold has been exceptionally favoured by humans. From the perspective of currency attribute, gold is an important tool for the financial foreign exchange reserve systems of all countries and plays an irreplaceable role in safeguarding national financial stability and economic security.

In 2018, the overall price of gold showed a trend of suppression followed by rising with large fluctuations. In the first two quarters, the price of gold was continuously pulled down by the strong economic data of the United States, the continued interest rate hike by the Fed, and the strong dollar as a result of the tense global trade situation. The largest fall in the first half of the year exceeded 10%. In the third quarter, as Sino-US trade frictions showed signs of easing, the risk of global economic slowdown further increased, and the United States was also reeling under the impact as shown by a number of weakened economic indicator signals. There were concerns in the market that the U.S. economy might fall into recession in the near future, and thus there was a growing risk aversion. Moreover, factors such as the Federal Reserve of the U.S. released signals of possible slowdown in interest rate hike and political turmoil emerged in an endless stream in the Eurozone, such as the pending Brexit, the Italian budget crisis, the French riots, etc., have created support of risk aversion for gold as the price gradually rebounded from a low level. Gold price was about to reach US$1,300 per ounce. The weighted average price of London gold in 2018 was US$1,270.23 per ounce, representing an increase of 1.17% as compared with the weighted average price of US$1,255.59 per ounce in 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

In respect of gold supply and demand, the latest figures of the China Gold Association shows that, in 2018, the domestic gold production was 401.119 tonnes, which ranked first in the world for the twelve consecutive years, representing a year-on-year decrease of 25.023 tonnes or 5.87% as compared with 2017. In particular, the gold produced from gold mines was 345.973 tonnes, the gold produced with non-ferrous raw materials was 55.146 tonnes. In 2018, the gold produced with imported raw material was 112.783 tonnes, representing a year-on-year significant increase of 23.47%. Combined with the abovementioned gold produced with imported raw material, the national aggregate gold production was 513.902 tonnes, representing a year-on-year decrease of 0.69%. Under the background that the mine gold production in China declined significantly, the production of the large-scale gold groups indicated a trend of growth. The percentage of the gold production volume of 12 large-scale gold enterprise groups including China Gold, Shandong Gold, Zijin Mining and Shandong Zhaojin in the national production volume (including imported materials) increased from 52.42% to 55.08%, while the percentage of the production volume of mine gold in the national production volume increased from 40.65% to 44.55%, which was attributable to the achievements obtained by constantly promoting the technological innovation and optimizing the industrial structure in recent years.

The gold industry responded to the national ecological civilization construction in a proactively manner, constantly transforming the development mode and optimizing the industrial structure. By doing so, part of the mines located in the natural reserve withdrew from the market in an orderly manner and some of the mines with backward technical equipment reduced production or even shut down for rectification, which resulted in the decline of the mine gold production volume in some provinces (regions) such as Inner Mongolia and Shaanxi to different extents.

In 2018, the accumulated transaction volume of all varieties of gold product on the Shanghai Gold Exchange was 67,500 tonnes, representing a year-on-year increase of 24.3%, making it the world's largest physical gold exchange market offering floor trade; the total turnover of gold futures contracts of the Shanghai Futures Exchange was about RMB8.85 trillion and the total transaction volume was approximately 32,300 tonnes, down by 18% year-on-year.

In the context of the complicated and volatile international environment and the downward pressure on the global economy, the domestic economy has also shown a situation of slowdown amidst stability and more downward pressure. The major domestic gold producers continued to take various measures in terms of increase of production, cost reduction, and intensification of capital operation, etc. to continuously improve economic efficiency.

As a leading gold producer in China, Shandong Gold made several strategic important leapfrog developments in 2018, including the successful listing of H Shares, proactive participation in overseas mergers and acquisitions, and close cooperation with domestic and overseas financial institutions, laying a solid foundation for the Company to achieve sound and rapid development in the future.

Analysis on the operational information in the metals industry

Performance of respective region during the Reporting Period

Unit: *RMB'000*

Regions	Revenue	Proportion of revenue *(%)*	Increase in revenue from last year *(%)*
The PRC	52,412,139	95.7%	6.3%
Outside the PRC	2,375,738	4.3%	37.4%
Total	54,787,877	100%	7.3%

Reserves and Resources

The following table sets forth our reserves and resources under the NI 43-101 Code based on the BAW Report and RPA Report, as of 31 December 2018:

Gold Mine	Resources[1][2] Measured *(Mt)*	Indicated *(Mt)*	Measured and Indicated *(Mt)*	Inferred *(Mt)*	Total *(Mt)*	Gold content (100% basis) *(koz)*	Gold content (equity basis)[5] *(koz)*	Reserves[3][4] Proven *(Mt)*	Probable *(Mt)*	Total *(Mt)*	Gold content (100% basis) *(koz)*	Gold content (equity basis)[6] *(koz)*	LOM *(year)*	Validity period of permits/mining rights	Risk warning
Sanshandao Gold Mine	–	28.9	28.9	41.2	70.1	6,738	6,738	–	26.3	26.3	2,350	2,350	13	Mining right (2019.09.01); Mining right (2023.11.03); Mining right (2022.11.11); Mining right (2022.06.01); Exploration right (2019.03.31); Exploration right (2020.5.6); Exploration right (2019.02.02), in the process of renewal; Exploration right (2018.02.11), in the process of renewal;	
Jiaojia Gold Mine	–	13.9	13.9	19.4	33.3	3,278	3,278	–	9.3	9.3	934	934	4	Mining right (2019.09.01); Mining right (2021.5.25); Mining right (2021.6.21); Exploration right (2018.12.27), renewal granted and waiting for new permit; Exploration right (2018.06.30) , renewal granted and waiting for new permit;	
Xincheng Gold Mine	–	30.4	30.4	46.8	77.2	7,706	7,706	–	26.0	26.0	2,611	2,611	11	Mining right (2021.02.01); Exploration right (2019.06.28); Exploration right (2020.10.16);	

Gold Mine	Resources[1][2] Measured (Mt)	Indicated (Mt)	Measured and Indicated (Mt)	Inferred (Mt)	Total (Mt)	Gold content (100% basis) (koz)	Gold content (equity basis)[5] (koz)	Reserves[3][4] Proven (Mt)	Probable (Mt)	Total (Mt)	Gold content (100% basis) (koz)	Gold content (equity basis)[6] (koz)	LOM (year)	Validity period of permits/mining rights	Risk warning
Linglong Gold Mine	–	5.5	5.5	51.0	56.5	5,056	5,056	–	4.8	4.8	461	461	4	Mining right (2018.6.2), in the process of renewal; Mining right (2025.5.2); Mining right (2021.11.10); Exploration right (2020.08.08); Exploration right (2018.05.06), in the process of renewal; Exploration right (2018.3.31), in the process of renewal;	
Guilaizhuang Gold Mine	–	0.7	0.7	1.8	2.6	334	236	–	0.5	0.5	107	76	2	Mining right (2020.4.23); Exploration right (2018.3.31), in the process of renewal;	
Jinzhou Gold Mine	–	1.3	1.3	1.3	2.6	244	145	–	1.1	1.1	97	56	5	Mining right (2021.12.14); Mining right (2021.9.30); Mining right (2022.5.17); Mining right (2018.10.14), in the process of renewal; Mining right (2018.7.29), in the process of renewal; Mining right (2017.7.5), in the process of renewal; Exploration right (2017.3.16), in the process of renewal; Exploration right (2016.12.31), in the process of renewal;	
Qingdao Gold Mine	–	5.4	5.4	3.6	9.0	1,386	1,386	–	5.6	5.6	664	664	9	Mining right (2021.11.11); Mining right (2021.9.24); Exploration right (2019.6.30); Exploration right (2019.3.31); Exploration right (2019.3.31);	
Penglai Gold Mine	–	1.3	1.3	0.9	2.2	481	481	–	1.3	1.3	219	219	5	Mining right (2022.7.11); Mining right (2018.4.7), in the process of renewal; Mining right (2018.4.12), in the process of renewal; Exploration right (2019.3.31); Exploration right (2017.12.31), in the process of renewal;	
Yinan Gold Mine	–	4.1	4.1	14.6	18.6	654	654	–	0.1	0.1	7	7	–	Mining right (2021.11.11); Mining right (2021.11.11); Mining right (2025.4.21); Exploration right (2020.8.19);	The life of the mine is less than one year, and the expansion of boundary and integration of the mining right is under progress.

	Resources[1][2]							Reserves[3][4]							
Gold Mine	Measured	Indicated	Measured and Indicated	Inferred	Total	Gold content (100% basis)	Gold content (equity basis)[5]	Proven	Probable	Total	Gold content (100% basis)	Gold content (equity basis)[6]	LOM	Validity period of permits/mining rights	Risk warning
	(Mt)	*(Mt)*	*(Mt)*	*(Mt)*	*(Mt)*	*(koz)*	*(koz)*	*(Mt)*	*(Mt)*	*(Mt)*	*(koz)*	*(koz)*	*(year)*		
Shandong Province	–	91.4	91.4	180.6	272.0	25,879.0	25,678.3	–	75.0	75.0	7,450	7,379	–		
Chifengchai Gold Mine	–	1.0	1.0	0.4	1.4	235	173	–	1.0	1.0	176	130	3	Mining right (2025.12.8); Exploration right (2019.11.1); Exploration right (2019.2.14), in the process of renewal; Exploration right (2018.12.14), in the process of renewal;	
Fujian Yuanxin Gold Mine	–	0.9	0.9	0.3	1.2	160	145	–	0.7	0.7	83	75	3	Mining right (2029.6.2); Exploration right (2020.2.13);	
Xihe Zhongbao Gold Mine	–	6.8	6.8	7.3	14.1	1,036	725	–	6.0	6.0	436	305	20+	Mining right (2034.4.28); Exploration right (2020.2.11); Exploration right (2019.2.12), in the process of deregistration;	
Other Provinces	–	8.7	8.7	8.0	16.7	1,431.0	1,042.5	–	7.7	7.7	695	510	–		
China sub-total	–	100.1	100.1	188.6	288.7	27,309.9	26,723.7	–	82.7	82.7	8,146	7,889	–		
Veladero Mine	18.9	158.7	177.6	35.9	213.4	8,820	4,410	15.5	91.1	106.6	5,076	2,538	7	The Filo Norte mining group has a permanent validity period, and the validity period of Veladero mining group which is mined by MAS with the license from IPEEM is from 30 July 2003 to 30 July 2028. The license agreement is subject to renewal by MAS at its sole discretion upon expiry.	
Total	18.9	258.8	277.7	224.5	502.1	36,129.9	31,133.2	15.5	173.8	189.3	13,222	10,427	–		

(1) As to our PRC Mines, resources are based on the BAW Report and the following assumptions:

Resources are reported as in-place tonnes, without dilution or mining losses applied.

Mineral resources are inclusive of mineral reserves.

(2) As to the Veladero Mine, resources are based on the RPA Report, which from January to December 2018 are reported by the internal experts of the Veladero Mine in relation to the gold production resources and updating the resources of the mine through exploration of mineral resources during this period.

CIM (2014) definitions were followed for resources.

The mineral resources were estimated as of 31 December 2018 at US$1,500 per ounce and the exchange rate of US$1.0:AR$20.0.

Mineral resources that are not mineral reserves do not have demonstrated economic viability.

Mineral resources are estimated at economic cut-off values that vary by material type and are approximately equivalent to 0.14 g/t Au for Type 1 mineralization and 0.26 g/t Au for Type 2 mineralization.

Mineral resources are constrained by a Whittle pit shell.

Mineral resources are inclusive of mineral reserves.

(3) As to our PRC mines, reserves are based on the BAW Report and the following assumptions:

Price assumptions are US$1,231 per ounce and an exchange rate of US$1: RMB6.57.

Reserves in Sanshandao Gold Mine were based on a cut-off grade of 0.99 g/t.

Reserves in Jiaojia Gold Mine were based on a cut-off grade of 1.24 g/t.

Reserves in Linglong Gold Mine were based on a cut-off grade of 1.37 g/t.

Reserves in Xincheng Gold Mine were based on a cut-off grade of 1.01 g/t.

Reserves in Yinan Gold Mine were based on a cut-off grades of 1.71 g/t.

Reserves in Qingdao Gold Mine were based on a cut-off grade of 1.38 g/t.

Reserves in Jinzhou Gold Mine were based on the following cut-off grade: 2.99 g/t for Jinqingding mine area, Hubazhuang mine area and Songjiazhuang mine area, 1.19 g/t for Yinggezhuang mine area, Xipo mine area and Yinggezhuang exploration area, and 1.31 g/t for Sanjia mine area and Sanjia exploration area.

Reserves in Guilaizhuang Gold Mine were based on the cut-off grade of 2.70 g/t.

Reserves in Penglai Gold Mine were based on a cut-off grade of 1.33 g/t.

Reserves in Chifengchai Gold Mine were based on a cut-off grade of 1.34 g/t.

Reserves in Fujian Yuanxin Gold Mine were based on a cut-off grade of 1.40 g/t.

Reserves in Xihe Zhongbao Gold Mine were based on a cut-off grade of 2.15 g/t.

Mineral resources are estimated inclusive of mineral reserves.

Figures in the table are rounded to reflect estimate precision; small differences generated by rounding are not material to estimates.

Reserves are estimated based on delivery to the mill stockpile.

(4) As to the Veladero Mine, the assumptions adopted are the same as those defined by the CIM (2014). The relevant information from January to December 2018 are reported by the internal experts of the Veladero Mine in relation to the gold production resources and updating the resources of the mine through exploration of mineral resources during this period based on the RPA Report.

The mineral reserves were estimated as of 31 December 2018 at US$1,200 per ounce and the exchange rate of US$1.0:AR$20.0.

Mineral reserves are estimated at economic cut-off values based on process cost, recovery, and profit. The cut-off values are equivalent to approximately 0.18 g/t Au for Type 1 ore and 0.32 g/t Au for Type 2 ore. Numbers may not add due to rounding.

(5) As of 31 December 2018, we owned 50% interest in the Veladero Mine.

LISTING EXPENSES AND USE OF PROCEEDS

Listing Expenses

The Group has paid listing expenses of RMB136.6 million in the year ended 31 December 2018 in relation to the Group's listing on the Main Board of the Hong Kong Stock Exchange on 28 September 2018.

Use of Proceeds from Global Offering

The Shares were listed on 28 September 2018 on the Main Board of the Hong Kong Stock Exchange with net proceeds amounted to approximately HK$5,245.7 million after deducting relevant listing expenses. As of the date of this annual report, the Company does not anticipate any change to its plan on the use of proceeds as stated in the Prospectus. As at 31 December 2018, approximately RMB4,524.5 million have been utilized of which approximately RMB4,506.1 million were used to repay the three-year Syndicated Term Loan and the unutilized net proceeds of approximately RMB91.9 million from the global offering are deposited in the bank accounts and will be utilised to deduct the listing expenses.

BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

The Board of Directors comprises 9 Directors, including 3 executive Directors, 3 non-executive Directors and 3 independent non-executive Directors. The following table sets out certain information relating to the Directors.

Name	Age	Position	Date of Appointment as Director	Date of Joining the Company
Li Guohong (李國紅)	48	Chairman, non-executive Director	16 May 2016	May 2016
Wang Peiyue (王培月)	57	Executive Director	16 May 2016	March 2009
Li Tao (李濤) (appointed with effect from 14 January 2019)	58	Vice chairman, Executive Director	14 January 2019	April 2011
Chen Daojiang (陳道江) (resigned with effect from 27 November 2018)	48	Non-executive Director	27 February 2015	February 2015
Wang Lijun (王立君)	50	Non-executive Director	20 May 2014	January 2014
Wang Xiaoling (汪曉玲)	55	Non-executive Director	16 May 2016	July 2000
Tang Qi (湯琦)	41	Executive Director	8 December 2017	July 2000
Gao Yongtao (高永濤)	56	Independent non-executive Director	15 October 2013	October 2013
Lu Bin (盧斌)	42	Independent non-executive Director	8 December 2017	December 2017
Hui Wing (許穎)	42	Independent non-executive Director	8 December 2017	December 2017

BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

EXECUTIVE AND NON-EXECUTIVE DIRECTORS

Mr. Li Guohong (李國紅), was appointed as the chairman of the Board in May 2016 and was subsequently redesignated as a non-executive Director in December 2017. He is mainly responsible for the overall and strategic development, investment planning and human resources allocation. Mr. Li has more than ten years of experience in the gold mining industry.

Mr. Li served as a deputy general manager of SDG Group Co., the chairman of Shanghai Shengju Asset Operation and Management Co., Ltd. (上海盛鉅資產經營管理有限公司), the chairman of SDG Group Finance, the chairman of SDG (Shanghai) Precious Metals Investment Co., Ltd. and the general manager of SDG Capital Management. Mr. Li also holds the position of general manager of SDG Group Co. (since February 2016) within SDG Group (excluding our Group).

Prior to joining SDG Group, Mr. Li served as the financial controller in the financial and auditing department of Anhui Huangshan Cigarette General Factory (安徽黃山捲煙總廠), the chief financial officer of China Tobacco Anhui Industrial Co., Ltd. Hefei Cigarette Factory (安徽中煙工業有限責任公司合肥捲煙廠), the chairman of the board of supervisors and a director of Shandong International Trust Co., Ltd. (山東省國際信託有限公司) (currently known as Shandong International Trust Co., Ltd. (山東省國際信託股份有限公司), the H Shares of which were subsequently listed on the Hong Kong Stock Exchange (stock code: 1697) and vice general manager of China Securities Inter-agency Quotation System Co., Ltd. (中証機構間報價系統股份有限公司).

Mr. Li graduated from University of Science and Technology of China in June 2001 majoring in business administration, and obtained a master's degree in business administration in December of the same year and obtained a doctorate degree in accounting from Tianjin University in China in January 2015. He was recognized by Anhui Evaluation Committee of Senior Technical Positions in Account (安徽省會計專業高級技術職務評審委員會) as senior accountant in April 2008 and obtained the qualification of certified public accountant issued by Anhui Institute of Certified Public Accountants (安徽省註冊會計師協會) in December 2016 and recognized by Shandong Human Resources and Social Security Bureau (山東省人力資源和社會保障廳) as senior accountant (principal) in January 2018.

Mr. Wang Peiyue (王培月), was appointed as a Director, the general manager and the financial controller of the Company in May 2016 and was subsequently redesignated as an executive Director in December 2017, mainly responsible for daily production and operation management, administration, financial management, financing, budgeting, internal control and legal affairs. Mr. Wang has more than 30 years of experience in the gold mining industry. In particular, he has very extensive working experience in the fields relating to exploration and exploitation.

Mr. Wang served as a deputy general manager of the Company from March 2009 to March 2011, the general planner of the Company from December 2013 to May 2016, and the chairman of the Supervisory Committee of the Company from February 2015 to May 2016. He also served as a mine manager of Linglong Mining.

Mr. Wang successively held various positions in SDG Group. In SDG Group Co., he successively served as a vice department head of the planning department, the head of the production department, a deputy chief engineer and director of the industry information development center, a manager of the science and information technology department, a deputy chief engineer, the chief planner and an assistant to general manager and a manager of the strategic planning department. Mr. Wang also served as an executive deputy general manager of SDG Real Estate Co., Ltd (山東黃金置業有限公司), and the chairman of SDG Real Estate Tourism Group Co., Ltd. (山東黃金地產旅遊集團有限公司).

Mr. Wang graduated from Xi'an Institute of Metallurgical Construction (西安冶金建築學院) in China in July 1982 majoring in mining engineering with a bachelor's degree, and graduated from Northeast China Engineering Institute (東北工學院) (currently known as Northeastern University (東北大學)) in China in January 1987 majoring in mining engineering, and received his master's degree in March 1987. He obtained his doctorate degree in mining engineering from University of Science and Technology Beijing in China in January 2010. He received the title of engineering technology application researcher issued by Shandong Provincial Personnel Office (山東省人事廳) in January 2002.

Mr. Li Tao (李濤), was appointed as the vice chairman of the Board and executive Director on 14 January 2019 and as a deputy general manager of the Company, mainly responsible for the operation and management of Qilu Mining Business Department of the Company. He served as an assistant to general manager of the Company and as the president of Qilu Mining Business Department of the Company.

Mr. Li has served in various positions in the subsidiaries of the Company. From September 1981 to December 2008, he has served various positions in Jinzhou Group, including among others, as a mining technician and a director of the main well workshop and a deputy section chief and then the section chief of the expansion department of Jinzhou Group, he has also served as an assistant to mine manager, a deputy mine manager, a deputy chief engineer and a deputy general manager successively, and as the head of the leadership team for preliminary work of projects, a vice-chairman of the board and the general manager of Chaihulanzi Gold. Mr. Li has also served as the chairman of Guilaizhuang Mining, a director of Laizhou Mining and the chairman of Jinchuang Group, which is a subsidiary of SDG Group Co.

Mr. Li graduated from Southern Institute of Metallurgy (南方冶金學院) in China majoring in mining in July 1990, and was recognized as a senior engineer by Shandong Provincial Personnel Department in February 2001.

BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Wang Lijun (王立君), was appointed as Director in May 2014 and served as the chairman of the Company from February 2015 to May 2016. He was subsequently redesignated as a non-executive Director in December 2017. He mainly participates in decision making in respect of major issues of the Company. Mr. Wang also served as the general manager and a vice-chairman of the Company from January 2014 and May 2014 to February 2015, respectively. Mr. Wang has more than 27 years of experience in the gold mining industry.

Mr. Wang also successively held various positions in subsidiaries of the Company and has extensive industry experience. He successively served as an assistant mining engineer, a deputy director and a director of the mining workshop, an assistant to mine manager, a deputy mine manager and a mine manager of Xin Cheng Gold Mine.

Mr. Wang has been serving as a director of SDG Group Co.. He also successively served as the general manager and the chairman of SDG Non-ferrous and as the chairman of Qingdao Gold Training Centre Co., Ltd. (青島黃金培訓中心有限公司), which is an indirect subsidiary of SDG Group Co..

Mr. Wang graduated from Shenyang Gold Institute in China in July 1990 majoring in mining engineering, and graduated from Northeastern University in China in July 1997 majoring in management engineering. He also graduated from Northeastern University in July 2012 majoring in mining engineering, with a doctorate. In March 2014, he was recognized as engineering technology application researcher by the Department of Human Resources and Social Security of Shandong Province (山東省人力資源和社會保障廳).

Ms. Wang Xiaoling (汪曉玲), was appointed as a Director in May 2016 and was subsequently redesignated as a non-executive Director in December 2017. She mainly participates in decision making in respect of major issues of the Company. Ms. Wang has more than 30 years of experience in the gold mining industry.

Ms. Wang successively held various positions in the Company. She successively served as a manager of the finance department and the chief financial officer and a manager of the finance department of the Company. Ms. Wang also worked in Shandong Gold Mining (Laizhou) Co., Ltd. Jiaojia Gold Mine, a subsidiary of our Company and its predecessor, for many years and has tremendous industry experience, as she served, among others, as its accountant and a deputy director of the finance division.

Ms. Wang also has been serving as manager of the finance department, the deputy chief accountant and a deputy general manager of SDG Group Co. since January 2014, July 2016 and April 2018, respectively, and has been serving as the chairwoman of SDG Group Finance since February 2015. Prior to joining SDG Group Co., Ms. Wang served at Zhaoyuan Agricultural Bank of Shandong Province (山東省招遠縣農業銀行).

Ms. Wang graduated from Shenyang College of Technology (瀋陽工業學院) in China in July 1998 majoring in accounting, and graduated from Hong Kong Baptist University in November 2009 majoring in science in applied accounting and finance, with a master's degree in science. She obtained the senior economist qualification issued by Shandong Provincial Personnel Department in December 1999, the international registered senior accountant qualification issued by International Accreditation and Registration Institute in January 2007 and the senior gold investment analyst qualification issued by Occupational Skill Testing Authority of Ministry of Human Resources and Social Security (人力資源和社會保障部職業技能鑒定中心) in March 2011. Ms. Wang was recognized by Shandong Human Resources and Social Security Bureau (山東省人力資源和社會保障廳) as senior accountant (principal) in January 2018.

BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Tang Qi (湯琦), was appointed as a Director, secretary to the Board and the director of the Board office in December 2017 and November 2017, respectively, and was subsequently redesignated as an executive Director in December 2017, mainly responsible for the daily work of the Board, the normative operation of the Company, capital operation, information disclosure and investor relations management. Mr. Tang has more than 18 years of professional experience in corporate governance.

Mr. Tang has successively served as a secretary, the head of secretary, a deputy director and a director of the Board office of the Company. He also served as the securities affairs representative of the Board, during which, he participated in mine management of Laizhou Production Base (萊州生產基地) of the Company, and accumulated extensive industry experience. He has successively served as an assistant to general manager as well as the department head of the research and development department, a vice general manager as well as the department head of research and development department of SDG Venture Capital Co., Ltd and member of SDG Group Co.'s Reform Committee Office (山東黃金集團有限公司深化改革小組辦公室成員).

Mr. Tang graduated from Shandong Normal University in China in July 2000 majoring in educational technology, with a bachelor's degree, and graduated from Shandong University in China in December 2010 majoring in economics, with a master's degree of economics. Mr. Tang received the senior political official qualification issued by the Appraisal Committee for Senior Enterprise Ideological and Political Professionals of Shandong Province (山東省企業思想政治工作人員專業職務高級評審委員會) in September 2013, the qualification of registered gold investment analyst issued by the Occupational Skill Testing Authority of Ministry of Human Resources and Social Security (人力資源和社會保障部職業技能鑑定中心) in April 2010, and the qualification of secretary to board of listed companies issued by the Shanghai Stock Exchange in April 2004.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Gao Yongtao (高永濤), was appointed as an independent non-executive Director in October 2013. He has successively served as a teaching assistant as well as a lecturer, an associate professor and a PhD supervisor of University of Science and Technology Beijing since July 1985. Mr. Gao served as the chairman of Beijing Anke Technology Co., Ltd. (北京安科興業科技股份有限公司) since August 2010. He serves as a professor and a PhD supervisor of School of Civil and Resources Engineering of University of Science and Technology Beijing (北京科技大學土木與資源工程學院) since July 1998. Mr. Gao is currently a lifetime professor of mining in University of Science and Technology Beijing.

In addition, Mr. Gao served as the vice president of the committee for Soft Rock of the Chinese Society for Rock Mechanics (中國岩石力學學會軟岩委員會副主任), the chairman of the underground mining committee of Sub-society for Mining of the Chinese Society for Metals (中國金屬學會採礦分會) since December 2011 and a member of National Work Safety Expert Group (國家安全生產專家組) since November 2014.

Mr. Gao graduated from Beijing Steel College (北京鋼鐵學院) in China in May 1985 and obtained a master's degree in mining engineering in June 1985. He also obtained a doctoral degree in engineering mechanics from University of Science and Technology Beijing in China in March 2003.

Mr. Lu Bin (盧斌), was appointed as an independent non-executive Director in December 2017. He has successively served as a teacher and an associate professor of School of Finance of Nanjing University of Finance & Economics (南京財經大學金融學院) and has successively served as an assistant to director of the management committee and a director of the economic development bureau of Kunshan Huaqiao Economic Development Zone. He also acted as the deputy secretary of the Teaching Management Committee of the Auditing Cadre Education Institute (審計幹部教育學院教學管理委員會) and a member of the Financial Audit Teaching and Research Section (金融審計教研室) and a member of the Audit Case Teaching and Research Section (審計案例教研室). He also served as a associate professor, PhD supervisor of the Institute of Economics and Finance of Nanjing Audit University (南京審計大學), served as an associate dean of Training and Education School and the School of Finance, and the deputy head of the Research Department since July 2018. He acts as an associate professor and a supervisor of postgraduates in Nanjing Audit University, an associate dean of Jiangsu Zijin Industrial Finance Development Research Institute (江蘇紫金產業金融發展研究院), and a supervisor of Zhangyin Commercial Bank Co., Ltd. (彰銀商業銀行股份有限公司).

Mr. Lu was included in the third-batch of industry professors in Jiangsu province jointly issued by the Office of Leading Group for Talented Individuals in Jiangsu Province (江蘇省人才工作領導小組辦公室), the Department of Education of Jiangsu Province, the Department of Science and Technology of Jiangsu Province (江蘇省科學技術廳), the Department of Human Resources and Social Security of Jiangsu Province (江蘇省人力資源和社會保障廳) and the Finance Bureau of Jiangsu Province and served as a director of Jiangsu Capital Market Research Association (江蘇資本市場研究會).

Mr. Lu graduated from Anhui Normal University in China in July 1998, with a bachelor's degree of science in mathematics, and graduated from Southeast University in China in May 2001, with a master's degree of science in probability theory and mathematics statistics, and graduated from the Chinese University of Hong Kong in December 2005, with a doctor's degree of philosophy in statistics.

Ms. Hui Wing (許穎), was appointed as an independent non-executive Director in December 2017. She has intensive knowledge and experience in accounting. She served in Bank of Communications Hong Kong Branch, including as an audit officer, a senior audit associate of Hong Kong Mortgage Corporation Limited, in CTBC Bank Co., Ltd., Hong Kong Branch including as a manager of its internal audit department, an audit manager of China Merchants Bank Hong Kong Branch. Ms. Hui is currently an assistant to the general manager of the audit department of Industrial Bank Hong Kong Branch.

Ms. Hui obtained a bachelor's degree in arts in English major from Guangdong University of Foreign Studies in China in December 2000. She graduated from the department of accountancy and information systems of City University of Hong Kong in November 2005, with a master's degree in arts. She was issued the qualification of registered accountant by Hong Kong Institute of Certified Public Accountants in March 2009. She was issued the qualification of certified internal auditor by Institute of Internal Auditors in January 2012. She was issued the qualification of certified information systems auditor by the Information Systems Audit and Control Association in March 2014.

BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORS

The Supervisory Committee comprises 3 Supervisors. The following table sets out certain information relating to the Supervisors.

Name	Age	Position	Date of Appointment Supervisor	Date of Joining the Company
Li Xiaoping (李小平)	54	Chairman of the Supervisory Committee, Supervisor	16 May 2016	May 2016
Liu Rujun (劉汝軍)	50	Supervisor	15 October 2013	October 2013
Duan Huijie (段慧潔)	48	Supervisor	13 May 2016	May 2016

Mr. Li Xiaoping (李小平), has been the chairman of the Supervisory Committee since May 2016. Mr. Li has also been a standing committee member of the Party Committee of SDG Group Co. since October 2015.

Mr. Li successively served as a deputy director as well as a deputy director, a researcher of the Business and Trade Office of the Planning Commission of Shandong Province (山東省計委經貿處), the deputy secretary of Linzi District, Zibo City, the deputy secretary, head of district, secretary, officer of SCNPC, and principal of Party School of Dongchangfu District, Liaocheng City.

Mr. Li graduated from Jiangxi College of Finance and Economics (江西財經學院) (currently known as Jiangxi University of Finance and Economics (江西財經大學)) in China in July 1984 with a bachelor's degree in economics. He also graduated from the Party School of the Provincial Committee of Shandong (山東省委黨校) in China in June 2003 majoring in economic management and obtained a master's degree.

Mr. Liu Rujun (劉汝軍), has been a Supervisor since October 2013. He served as the chief administrative and supervisory officer since July 2016, and has been a secretary to the commission for discipline inspection, the general manager of auditing and risk control department and the head of discipline inspection and surveillance department of the Company since April 2016.

Mr. Liu served as an officer and an assistant engineer of the department of geodetic survey of Shandong Province Gold Industry Company and an associate chief officer of the cadre department of SDG Group Co. and its predecessor, both of which are predecessors of SDG Group. In SDG Group Co., he served successively as the section chief of the party's affairs department of SDG Group Co., a deputy department head, a deputy manager and a manager of the human resources department, a manager of the legal affairs department, a manager of the auditing and surveillance department, and a director of the discipline inspection and surveillance office of SDG Group Co..

Mr. Liu graduated from the department of coalfield geology of Shandong Mining Institute in China in July 1990, with a bachelor's degree in mining survey, and obtained a master's degree in business administration from Tianjin University of Finance and Economics in China in December 2004, and received the senior engineer qualification from Shandong Provincial Personnel Office (山東省人事廳) in September 2000.

Ms. Duan Huijie (段慧潔), was appointed as a Supervisor in May 2016, and was appointed as the deputy general counsel and the general manager of legal affairs department of the Company in June 2016.

Ms. Duan has served as a deputy general manager of Shandong Province Shisheng Real Estate Co., Ltd. (山東省世盛房地產有限公司), the chairman of the board of Shiwan Holiday Resort Co., Ltd. (仕灣度假村有限公司), the chairman of the board and the general manager of Shandong Jinling Services Co., Ltd. (山東金陵服務有限公司), the director of legal affairs center of auditing and risk management department of SDG Group Co., a senior manager of legal affairs department of SDG Group Co., a deputy manager of strategic planning department of SDG Group Co, and a deputy general counsel of SDG Group Co., an executive director of Shandong Province Guang'an Fire Services Technical Service Co., Ltd. (山東省廣安消防技術服務有限公司). Since December 2015, she has been serving as a director of SDG Group Co.

Before joining SDG Group, Ms. Duan was a teacher in the legal education and research office of the Marx and Lenin Education and Research Department of Inner Mongolia Normal University (內蒙古師範大學), a director of the general affairs department of Shandong Province Yingtai Real Estate Development Co., Ltd. (山東省英泰房地產開發有限公司) (formerly known as Zhongnongxin Real Estate Co., Ltd. (中農信房地產公司)). She was an officer of legal department and general affairs department of Shandong Jiaheng Real Estates Development Limited and a legal representative of Shandong Guangan Fire Services Technology Service Center.

Ms. Duan graduated from Inner Mongolia University in China in July 1993 with a bachelor's degree in law, and received the lawyer qualification from the Ministry of Justice of the People's Republic of China (中華人民共和國司法部) in September 1995.

SENIOR MANAGEMENT

The following table sets out certain information about the senior management of the Company.

Name	Age	Position	Date of Appointment as Senior Management	Date of Joining the Company
Wang Peiyue (王培月)	57	General manager and financial controller	May 2016	March 2009
Tang Qi (湯琦)	41	Secretary to the Board	November 2017	July 2000
Li Tao (李濤)	58	Deputy general manager and president of Qilu Mining Business Department	March 2013	April 2011
He Jiping (何吉平)	55	Deputy general manager	October 2013	February 2010
Song Zengchun (宋增春)	54	Deputy general manager and manager of Enterprise Management Department	May 2016	September 2013
Wang Deyu (王德煜)	53	Deputy general manager	October 2013	October 2013

BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Wang Peiyue (王培月) – for biographical details of Mr. Wang Peiyue, please see the section "– Directors – Executive and Non-executive Directors".

Mr. Tang Qi (湯琦) – for biographical details of Mr. Tang Qi, please see the section "– Directors – Executive and Non-executive Directors".

Mr. Li Tao (李濤) – for biographical details of Mr. Li Tao, please see the section "– Directors – Executive and Non-executive Directors".

Mr. He Jiping (何吉平), has been a deputy general manager of the Company since April 2011, mainly responsible for acquisition and consolidation of mineral resources. He served as an assistant to general manager of the Company from February 2010 to April 2011.

Mr. He successively served as a deputy director of mining workshop, a plant manager of Gaoshui Plant, a director of depth mining office and an assistant to mine manager of Laizhou Mining Jiaojia Gold Mine and its predecessor, a secretary to Party sub-branch at the gold refinery of SDG Group Co. from June 2003 to July 2005, a deputy mine manager, a mine manager and secretary to the Party Committee at Laizhou Mining Jiaojia Gold Mine and its predecessor, a mine manager at Laizhou Mining Sanshandao Gold Mine. Since August 2016, he has been serving as a director of SDG Beijing.

Mr. He graduated from Shenyang Gold School (瀋陽黃金專科學校) in China in July 1983 majoring in mining engineering, graduated from Northeastern University in China in July 1999 majoring in management engineering, obtained his master's degree in mining engineering from University of Science and Technology Beijing in China in March 2004, and received the engineering technology application researcher qualification from Shandong Provincial Department of Human Resources and Social Security in January 2016. As of 31 December 2018, Mr. He was interested in 121,678 Shares under the Employee Shareholding Scheme, representing approximately 0.0055% of our total share capital.

Mr. Song Zengchun (宋增春), has been a deputy general manager and a manager of corporate management department of the Company since May 2016, mainly responsible for corporate management, performance appraisal and large-scale project management. He also served as a deputy general manager of the Company from September 2013 to December 2015, he was mainly responsible for daily operation and management of Xin Cheng Gold Mine.

Mr. Song has served in the mining areas operated by subsidiaries of the Company for many years. He was a deputy mine manager of the predecessor of Laizhou Mining Jiaojia Gold Mine from December 2006 to October 2007 and a mine manager of Shandong Gold Mining Co., Ltd. Xincheng Gold Mine (山東黃金礦業股份有限公司新城金礦) from September 2013 to December 2015.

Mr. Song successively served as a technician, an assistant to mine manager and the department head of administrative management department as well as a vice mine manager of Cangshang gold mine in Laizhou, Shandong, served as a manager and a secretary to CPC Committee of an internal combustion machine overhead travelling cranes factory, served as a mine manager of Cangshang gold mine of Shandong Province Laizhou Jincang Mining Co., Ltd. (山東省萊州金倉礦業有限公司), the general manager and an executive deputy general manager of Shandong Province Laizhou Jincang Mining Co., Ltd., an executive deputy general manager of Laizhou Jincang, an executive deputy general manager of SDG Group Laizhou Mining Co., Ltd. (山東黃金集團萊州礦業有限公司), the general manager of SDG Group Changyi Mining Co., Ltd. (山東黃金集團昌邑礦業有限公司), a deputy general manager of Shandong Gold Non-ferrous Metal Mine Group Co., Ltd., and a manager of operation management department of SDG Group Co..

Mr. Song graduated from China Coal Economic College (中國煤炭經濟學院) with a bachelor's degree in economics in July 1988 and graduated from Northeastern University in China in September 2003 with a master's degree in mining engineering, and received the senior economist qualification from Shandong Provincial Personnel Office in December 2000. As of 31 December 2018. Mr. Song was interested in 162,238 Shares under the Employee Shareholding Scheme, representing approximately 0.0073% of our total share capital.

Mr. Wang Deyu (王德煜), has served as a deputy general manager of the Company since October 2013, mainly responsible for mining technology management, scientific and technological innovation and informatization.

Mr. Wang has served in many positions successively in subsidiaries of the Company with extensive industry experience and management experience. He has served, among others, as a technician and a deputy director of beneficiation and smelting plant, a director of tailings development office, a director of beneficiation and smelting plant and a deputy mine manager of Laizhou Mining Jiaojia Gold Mine and its predecessor from September 1987 to December 2006, during which he also served as the head of the Jiaojia refinery plant from June 2003 to December 2006, manager of the refinery plant of Laizhou Mining and its predecessor and served as the chairman of the board of Shandong Gold Mining Science and Technology Co., Ltd., our subsidiary, since December 2016.

Mr. Wang graduated from Jilin Metallurgy Industry School (吉林冶金工業學校) in China in August 1987 majoring in processing, graduated from Party School of the Provincial Committee of Shandong in China in June 2000 majoring in economy management, graduated from University of Science and Technology Beijing in China in July 2007 with a master's degree in environmental engineering, and received the senior engineer qualification from Shandong Provincial Personnel Office in October 2003. As of 31 December 2018. Mr. Wang was interested in 121,678 Shares under the Employee Shareholding Scheme, representing approximately 0.0055% of our total share capital.

JOINT COMPANY SECRETARIES

Mr. Tang Qi (湯琦) is one of the joint company secretaries of the Company and was appointed in December 2017 with his appointment to take effect on the Listing Date of our H Shares. For biographical details of Mr. Tang Qi, please see the section "– Directors – Executive and Non-executive Directors".

Ms. Ng Sau Mei (伍秀薇) is one of the joint company secretaries of the Company and was appointed in December 2017 with her appointment to take effect on the Listing Date of our H shares. She is an associate director of TMF Hong Kong Limited, a company secretarial service provider and is responsible for provision of corporate secretarial and compliance services to listed company clients. Ms. Ng has over 18 years of experience in the company secretarial field and has extensive knowledge and experience in dealing with corporate governance, regulatory and compliance affairs of listed companies. She currently serves as the company secretary or joint company secretary of several companies listed on the Hong Kong Stock Exchange.

Ms. Ng obtained a master's degree in Laws from University of London in December 2017 and a bachelor's degree in Laws from City University of Hong Kong in November 2001 and was qualified as an associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in United Kingdom in September 2007.

REPORT OF THE DIRECTORS

The Directors hereby present the Report of the Directors and the audited financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL BUSINESS

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

During the Reporting Period, the Company's approved business scope was mainly (i) mining and beneficiation of gold and (ii) production and sales of specialised equipment for gold mines and construction and decoration materials (excluding products restricted by national laws and regulations).

The business scope covers (i) geological prospecting, mining and beneficiation of gold, (ii) refining, processing, production and sales of precious metals, non-ferrous metal products, (iii) gold and jewelry accessories, production and sales of specialised equipment and materials for gold mines and construction materials. The Company mainly produces standard gold bullions, investment gold bars and silver ingots of various specifications and other products.

RESULTS

Results of the Group for the year ended 31 December 2018 and the financial position of the Group as at that date are set out in the audited consolidated statement of profit or loss on page 126 and the audited consolidated balance sheet on page 128 to 129, respectively in this annual report.

ANALYSIS ON INVESTMENT STATUS

Overall analysis on external equity investment

During the Reporting Period, the Company made capital contribution to SDG Group Finance, established Shandong Gold Mining Equipment Manufacturing Co., Ltd. (山東黃金礦業裝備製造有限公司), a wholly-owned subsidiary of the Company, introduced investors to invest in Shandong Gold Mining (Linglong) Co., Ltd., a subsidiary of the Company, and other equity investment projects. Projects as mentioned above further enhanced the operational efficiency and competitiveness of the Company.

Key Equity Investments

To further expand the business scope, leverage the centralized capital management and comprehensive financial service platform and enhance the value of financial related license of SDG Group Finance, the Board of Directors considered and approved the "Resolution on Increase of Capital Contribution to SDG Group Finance" on the seventh meeting of the fifth Board. It was resolved that the Company and SDG Group Co. shall increase the capital of SDG Group Finance in cash in the same proportion, based on their respective existing shareholdings in SDG Group Finance, of which the Company increased the capital by RMB600 million (including US$1.5 million), and SDG Group Co. increased the capital by RMB1.4 billion (including US$3.5 million). After the said capital increase, the registered capital of SDG Group Finance will increase to RMB3 billion. Details of the abovementioned capital increase were published on China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily and the SSE Website (LIN 2018-029) on 28 July 2018.

Upon the consideration and approval on the twelfth meeting of the fifth Board, the Company established a wholly-owned subsidiary, Shandong Gold Mining Equipment Manufacturing Company Limited (山東黃金礦業裝備製造有限公司), with its own capital of RMB300 million in Yantai. Announcement on the abovementioned Board resolution was published on (i) China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily and the SSE Website (LIN 2018-050) on 30 October 2018 and (ii) 29 October 2018 on the HKEx Website.

Upon the consideration and approval of the "Resolution on Introducing Investors for Capital Contribution to a Subsidiary, Shandong Gold Mining (Linglong) Co., Ltd. (山東黃金礦業(玲瓏)有限公司), to Implement Market-oriented Debt Conversion" on the twelfth meeting of the fifth Board, to fully follow the spirit of "Opinions on Stabilizing the Leverage Rate of Enterprises (《關於積極穩妥降低企業槓桿率的意見》)" (GUO FA [2016] No. 54) issued by the State Council of the PRC, which promotes the stabilizing reduction of gearing ratio and optimization of capital structure, Shandong Gold Mining (Linglong) Co., Ltd., a subsidiary of the Company, introduced ICBC Financial Asset Investment Co., Ltd. for cash contribution of RMB1 billion to implement market-oriented debt conversion.

Details were published on the "Announcement on Introducing Investors for Capital Contribution to a Subsidiary, Shandong Gold Mining (Linglong) Co., Ltd. (山東黃金礦業(玲瓏)有限公司), to Implement Market-oriented Debt Conversion" (LIN 2018 – No.057) (i) dated 22 December 2018 on China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily and the SSE Website and (ii) 21 December 2018 on the HKEx Website.

In relation to the capital contribution to Linglong Mining to implement market-oriented debt conversion, according to relevant agreements, in the event of relevant default events, Shandong Gold may decide whether to repurchase the equity interests in Linglong Mining held by ICBC Financial Asset Investment Co., Ltd. for its own benefits. Shandong Gold shall have no contractual obligations to pay the consideration for equity interests to ICBC Financial Asset Investment Co., Ltd. without repurchases. In the event of capital reduction and withdrawal by ICBC Financial Asset Investment Co., Ltd., the board meeting and general meeting shall be organized and held by Shandong Gold to vote on the capital reduction and withdrawal, and the refusal of capital reduction by Shandong Gold shall not constitute a breach. The occurrence of any agreed future event which is beyond the control of Shandong Gold and Linglong Mining, shall not constitute a breach by Shandong Gold and Linglong Mining which also assume no compensation liability. Upon the termination of the Capital Contribution Agreement, all relevant matters shall be settled by all parties through negotiations and if there is any dispute, Shandong Gold and Linglong Mining shall have no contractual obligations to pay the agreed amount to ICBC Financial Asset Investment Co., Ltd. The refusal of any resolution on profit distribution at the general meetings held by Shandong Gold and Linglong Mining on time shall not constitute a delay as defined in relevant terms and shall not constitute breaches by Shandong Gold and Linglong Mining which also assume no compensation liability. The failure of Shandong Gold and Linglong Mining to meet agreed performance targets shall not constitute a breach.

Financial Assets Measured at Fair Value

The seat fees payable to Shanghai Gold Exchange and investments in Shandong Yulong Vehicles Co., Ltd. (山東玉龍車輛股份有限公司) were reclassified to financial assets measured at fair value through other comprehensive income and recognised in investments in other equity instruments in the financial statements. The Company did not participate in or influence the financial and operational decision-making of Shandong Yulong Vehicles Co., Ltd. in any way, and therefore had no significant influence over it.

ANALYSIS OF MAJOR INVESTED COMPANIES

Unit: *RMB'000*

Name of Subsidiary	Type of Business	Main Product	Registered Capital	Total Asset	Net Profit
Laizhou Mining	Mining	Gold	410,000	11,215,745	788,818
SDG Hong Kong	Mining Investment	Gold	30,000	10,765,017	(231,725)
SDG Group Finance	Finance		3,000,000	8,756,981	126,618
Shandong Jinshi Mining Co., Ltd.	Mining		26,800	5,253,292	(126,214)
Linglong Mining	Mining	Gold	300,000	4,459,110	254,580
SDG Smelting	Smelting	Gold	350,000	2,520,733	(733)
Shandong Gold Mining (Xinhui) Co., Ltd.	Mining	Gold	257,000	1,960,144	5,067
Xihe Zhongbao Mining Co., Ltd.	Mining	Gold	200,000	1,852,144	5,274
Jinzhou Group	Mining	Gold	80,172	1,053,296	29,716
Shandong Gold Guilaizhuang Mining Co., Ltd.	Mining	Gold	621,670	974,088	77,533
Shandong Gold Mining (Laixi) Co., Ltd.	Mining	Gold	214,000	689,633	3,267
Fujian Zhenghe Yuanxin Mining Co., Ltd.	Mining	Gold	54,000	647,252	(3,888)
Shandong Gold Group Penglai Mining Co., Ltd.	Mining	Gold	50,000	645,982	49,907
Chaihulanzi Gold	Mining	Gold	10,018	601,736	76,374
Yinan Mining	Mining	Gold	171,000	504,782	(16,350)
Shandong Gold Mining Equipment Manufacturing Co., Ltd.	Manufacturing		300,000	81,440	–
Shandong Gold Mining Science and Technology Co., Ltd.	Servicing		200,000	34,902	168

Subsidiaries Attributable to More than 10% of Net Profit

Unit: *RMB'000*

Name of Subsidiary	Revenue	Profit	Net profit	Percentage of net profit in consolidated net profit *(%)*
Shandong Gold Mining (Laizhou) Co., Ltd.	3,812,929	1,034,039	788,818	90.4%
Shandong Gold Mining (Linglong) Co., Ltd.	1,189,676	332,021	254,580	29.2%

DISCUSSION AND ANALYSIS ON THE COMPANY'S FUTURE DEVELOPMENT

Landscape and Development Trend in the Industry

Competitive landscape in the industry

Gold is an important strategic resource with the dual attributes of commodity and currency and plays an irreplaceable role in safeguarding national financial security, enhancing monetary guarantee capability, and acting as the country's final instrument of payment. At the same time, gold is also important in terms of daily consumption demand and investment demand.

As to the international gold market, according to the data released by the World Gold Council, the total global gold demand was 4,345.1 tonnes in 2018, representing an increase of 4.45% as compared with 2017. According to segment information, the demand of the goldsmith industry was 2,200 tonnes, remained flat as compared with 2017; the demand of the technology sector was 334.6 tonnes, representing an increase of 2 tonnes as compared with 2017; the demand of the investment industry was 1,159.1 tonnes, representing a decrease of 92.5 tonnes as compared with 2017. The global central banks purchased 651.5 tonnes, representing a significant increase of 276.7 tonnes or 74% as compared with 2017, which was primarily attributable to the increased holding made by the central banks of Russia, Turkey, Kazakhstan, etc. to cope with the U.S. sanctions. With the ongoing de-dollarization, it is expected that the gold reserves will be further increased in the future.

In respect of domestic supply and demand, the information published by the China Gold Association shows that, in 2018, the domestic gold production was 401.119 tonnes, which ranked first in the world for the twelfth consecutive year, representing a year-on-year decrease of 25.023 tonnes or 5.87% as compared with 2017. In particular, the gold produced from gold mines was 345.973 tonnes, the gold produced with non-ferrous raw materials was 55.146 tonnes. In 2018, the gold produced with imported raw material was 112.783 tonnes, representing a year-on-year significant increase of 23.47%. Combined with the abovementioned gold produced with imported raw material, the national aggregate gold production was 513.902 tonnes, representing a year-on-year decrease of 0.69%. Under the background that the mine gold production in China declined significantly, the production accomplished by the large scale gold groups recorded a trend of rapid growth. The percentage of the gold production volume of 12 large scale gold enterprise groups including China Gold, Shandong Gold, Zijin Mining and Shandong Zhaojin in the national production volume (including imported materials) increased from 52.42% to 55.08%, while the percentage of the production volume of mine gold in the national production volume increased from 40.65% to 44.55%.

In 2018, the actual consumption of gold in the PRC was 1,151.43 tonnes, which ranked first in the world for the sixth consecutive year, representing an increase of 5.73% as compared with the same period of last year, including: gold jewelry of 736.29 tonnes, representing a year-on-year increase of 5.71%; gold bars of 285.20 tonnes, representing a year-on-year increase of 3.19%; gold coins of 24.00 tonnes, representing a year-on-year decrease of 7.69%; industrial and other gold products of 105.94 tonnes, representing a year-on-year increase of 17.48%. Gold consumption market in the PRC continued to recover, jewelry, gold bars, industrial and other gold products continued to grow stably, while the sales of gold coins fell slightly.

In addition, since July 2015, the People's Bank of China has continued to increase its gold reserves, which reached 1,852.52 tonnes at the end of 2018. In the future, with the further advancement of the internationalisation of the Renminbi, the central bank is expected to continue to increase its gold reserves.

From the perspective of risk aversion, the current global uncertainty is rising. The global trade war that swept the world in 2018 may cause the potential risk of decline after a brief recovery for the global economy. The stimulating effects introduced by the large-scale tax reduction implemented in the United States at the end of 2017, being the engine for this round of economic recovery, are gradually weakening, and the continuous interest rate hike by the Fed has led to a large-scale slowdown in private investment growth. In addition, the spillover effects of the global economic slowdown will inevitably impact the U.S. economy.

Furthermore, the risk of global political turmoil is also mounting. The international political situation is surging due to the pending Brexit in the Eurozone, continued riots in France, ongoing geopolitics in the Middle East, the increasingly fierce superpower game, etc., resulting in more uncertainties in the world. All the abovementioned events will become unstable factors for the global economic development.

The current economic development of China, as the world's largest developing country, is also facing greater pressure. As the external environment has undergone significant changes, the economic operation has slowed down amidst stability, and the downward pressure has increased, the economic development is facing severe challenges.

In terms of the global economic structure, the global economy will be highly possible to slow down in the future. As a traditional safe-haven asset, gold effectively hedges the risks brought about by uncertainties in the world and effectively plays the role of maintaining value, and thus has a high investment value.

Future development trend

Gold plays a very important role in the development of global economy due to its commodity and financial attributes. The development of the gold industry is closely related to the development of the global economy.

The vigorous development of the gold industry in recent years has continuously enhanced the technology and capital output capacity of the gold enterprises. The comprehensive adjustment of mining policies in various countries has also created a good opportunity for major gold enterprises to enhance exchanges and cooperation. Gold enterprises need to change the business philosophy of "single-handedly operation", and comprehensively strengthen international cooperation in the gold industry, to promote transformation through cooperation, strengthen exchanges of scientific and technological innovation and management experience, and jointly build a global win-win supply and demand and trade pattern of mutual benefit, forming a strong synergy to revitalise the global gold industry.

The global gold industry is on the rise, the focus of consumption shifts to Asia, dominated by China and India and the production and demand will be in steady growth. Therefore, the gold industry will remain a hot industry. As international currencies such as the US dollar, the Euro, and the British pound continue to depreciate, the value-preserving function of gold will become more and more important, giving rise to sustained increase in the demand for gold.

In the 40 years of reform and opening up, China's annual gold production has increased by 20 times as compared with 1978. However, based on the current domestic gold consumption and gold production, there is still a gap of 660 tonnes. For the gold industry, further efforts are required to promote the construction of the "Belt and Road" by improving the ecological civilisation and green environmental protection standards of domestic mines, to strengthen acquisition of overseas resources, expand the import trade channel of gold mine products, and innovate the recycling of gold resources and the reuse method to continuously meet people's growing needs for a better life.

As a leading gold company in China, Shandong Gold has established a world-class gold production and resource reserve base in the northwest Jiaodong peninsula of Shandong, relying on abundant resource reserves, advanced safety technology and green ecological concept, to carry out intensive construction and management and maximise integrated development efficiency of resources.

While carrying out efficient resource development and utilisation, Shandong Gold has always upheld the environmental protection concept of "guarding the clear waters and green hills diligently and creating benefits for the Earth with love", and adhered to the "double zero" goal of zero work-related casualties and zero major environmental accident, to vigorously develop circular economy, low-carbon economy and clean production. It has embarked on a road of ecological mining development with harmonious coexistence of people and nature, development and environment, economy and society, virtuous circle and sustained prosperity and achieved the unification of economic and ecological benefits.

Development Strategies of the Company

Strategic goal: optimising and expanding to become one of the top ten gold mining enterprises in the world in respect of comprehensive strength.

Strategic initiatives: Centering on improvement of development quality and efficiency with the major efforts exerted on the structural reform at the supply side, the Company implemented major projects of conversion of new and old drivers to further speed up reform in terms of quality, efficiency and driving force, enhance output capacity and scale, and proactively cultivate differentiated competitive advantages, to take a new development path featured by high efficiency, energy saving, green and environmental protection, with a view to building a world-class gold enterprise. While accelerating the pace of overseas mergers and acquisitions and proactively developing high-quality resources, the Company strengthened tapping corporate internal potentials to ensure long-term continuation of production; the advancement of fine management improved production efficiency and enhanced cost competitiveness; more investment in scientific R&D generated higher standards of technical contributions; moreover, the Company adhered to the "double zero" goal in terms of safety and environmental protection and achieved green and ecological development. In particular, the Laizhou Gold Base should be built into a world leading gold production and smelting base through tapping the material and spiritual potentials in terms of management, technology, safety, ecology, corporate culture, etc.

Business Plans

In 2019, the Company has determined the following production and operation plan: gold production not less than 37.87 tonnes. The plan is based on the current economic situation, market conditions and the Company's operating situation. The Board will make corresponding adjustments according to the future development. To ensure the realisation of the above objectives, the main production indicators are decomposed as follows:

Main measures:

Implement high-quality operation management and make continuous efforts to improve quality and efficiency

Highlight the strengthening of production management. The Company will continue to enhance production team, optimise and adjust production system, and implement strict technical index management. The production enthusiasm of all employees will be fully mobilised through labor competition, mining excavation, assessment rewards and punishments, etc., to ensure accomplishment of the annual production and operation objectives without compromise. A long-term mechanism for basic management will be established to consolidate the results of the "Target Hitting Activities of Basic Management", promote the continuous upgrading of production management, and constantly improve the quality of operations.

Emphasise the enhancement of project management. We will focus on promoting key projects including the main and auxiliary shafts in Dongfeng Linglong Gold Mine Area and the deep cut-through haulage in Xincheng Gold Mine, and discuss and review the two plans on the development and utilisation of the mineral resources of the Sanshandao Gold Mine and the development of the resources of the Jiaojia Gold Belt, which will consolidate the project support for the long-term development of the Company.

Strengthen mine prospecting and increasing in reserves. The focus will be placed on mine prospecting in the key target areas including the deep area of Xishan Mining Area in Sanshandao Gold Mine and the deep area of Sizhuang mine area in Jiaojia Gold Mine in Shandong province and achieving new breakthroughs in mine prospecting in the deep areas and surrounding areas of mines such as Fujian Province Zhenghe County Yuanxin Mining Co., Ltd., Chifengchai Chaihulanzi Gold Mining Co., Ltd., and Xihe County Zhongbao Mining Co., Ltd. outside Shandong province.

Stress the strengthening of trade management. We will continuously improve the capabilities of research and analysis on gold price trends, optimise the gold sales decision-making mechanism, and establish a price risk early warning and close-out mechanism; we will proactively carry out gold trading business, and strive to improve our performance through using instrument such gold forward contracts and future contracts and keep our sales risk within a reasonable range.

Underline the strengthening of risk management and control. We will focus on unification of pre-audit, concurrent audit, and post-audit, intensifying auditing of key enterprises, key departments, key positions, and key decisions in terms of power, funds, and resources, and enhancing audit and supervision for overseas enterprises and equity investment enterprises as well as deleverage, liabilities reduction, fixed asset investment management, engineering settlement, etc.. Besides, we will strictly strengthen investment management and improve investment approval system and accountability mechanism, to effectively prevent investment risks.

Focus on prioritise activities of “adhering to quality and efficiency enhancement” and strive to improve high quality development

We will vigorously carry out the activities of “increasing production while economising, increasing revenues while reducing expenditures” to deepen cost reduction and efficiency enhancement and improve the quality of operations and mainly intensify process control and implementation supervision, to combine broadening sources of income and expenditure reduction and set up the concept that cost is controllable. The lean cost management and control will be promoted proactively to comprehensively eliminate the unfavorable factors causing increase in costs. By consistently adhering to the concept of “cash is king”, we will enhance fine management of funds to reduce the fund precipitation, accelerate accommodation of funds, strengthen the management of cash flow, and reduce account receivables and the occupation of inventories, to ensure collection of all receivables and risk prevention to achieve simultaneous growth of revenue, efficiency and net cash flow.

The internal management and control will be strengthened to improve management quality. We will give rein to the regional integration advantages, and further optimise production layout and tap potentials for increased production to broaden the development space relying on technological transformation measures, project construction and other means. The results of the “Target Hitting Activities of Basic Management” will be put into practice and the key technical indicators will be optimised to achieve standard and upgraded management. Based on the management process optimisation results, the construction of information projects will be expedited.

We aim to facilitate resources acquisition to nurture new growth drivers in a proactive manner. The Company will expand its footprint into other provinces and abroad in reliance upon resources within the province, actively participate in global resources allocation, maximise its capabilities in obtaining resources as well as utilise and explore resources. Acquisition of overseas resources will also be regarded as a breakthrough and an initiative when promoting corporate strategy. Keeping abreast with the “One Belt One Road” initiative, the Company will strengthen its cooperation with world renowned enterprises and strive to enhance its gold production to a greater extent in 2019.

Push forward the shift in growth drivers, attach great importance to integration with technological innovation and strive to improve positive development momentum

The Company aims to focus on technological innovation for new development momentum relying on Shandong Gold think tank and innovative platforms including three major laboratories, the Company targets to reinforce its technological exchanges with leading enterprises in the same industry and science research institutions from home and abroad, facilitate its breakthroughs in key generic technologies concerning deep well construction, deep area mining, deep area exploration and filling and extraction of gold concentrates that are difficult to process, create more technological management achievements that are unique in the mining industry with proprietary intellectual property rights. The Company will also actively promote low cyanide or cyanide – free beneficiations and commence technological research on non-hazardous cyanidation tailings, acceleration transformation of achievements and improve the contribution of technologies to the Company.

Adhere to international standards to create a high development benchmark

We target to promote the construction of world-leading demonstration mine with Sanshandao Gold Mine as the pilot, utilise resources provided by Shandong Gold think tank, optimise construction plans, actively learn from construction experience of leading mines abroad especially in areas regarding improvement in automation, remote-control and technological management personnel quality, thereby leading the Company as a whole to achieve quality and efficient development.

Enhance the operational level of a world-leading enterprise in an all-round manner. Through proactively learning from the experience concerning global operation, management and control of Barrick Gold Corp., the Company aims to establish a comprehensive control mechanism for its overseas projects, intensify its regulatory management towards overseas projects and protect the profitability of the Company. Adhering to the principle of "ensuring quality and profits while lowering costs", the Company will foster Veladero Mine project management, strive to make a breakthrough in capacity and improve mine production through technological transformation and equipment upgrades.

Build a safety and environmental protection image of a world-leading enterprise

The Company will adhere to "double zero" goal of safety and environmental protection, perform production safety responsibilities and regulatory responsibilities step by step, improve risks classification control and the construction of potential risks identification system as well as continuously enhance the safety level. In addition, we will also put our green development philosophy into practice, proactively promote construction of green mines, persistently improve its international influence of "Shandong Gold, Ecological Mining".

Investors are reminded that the operating plan of the Company does not constitute an undertaking of operating results to investors. Investors are reminded to have sufficient risk awareness and they shall understand the difference between operating plans and undertaking of results.

Possible Risks

Safety management risk

Mining is considered to have higher safety risks amongst other industries. Inadequate safety management may result in accidents, causing casualties or property damage, which will directly affect the Company's gold production, revenue, corporate image, amongst other things.

Countermeasures: Firstly, we placed increased emphasis on the responsibility and the imperative need for safety as we formulated and issued the Opinions on Well Conducting the Work in relation to Safety and Environmental Protection in 2019; secondly, we established a "three in one" responsibility assessment system for safety and environmental protection, and implemented the execution of the letter of safety responsibility for all levels; thirdly, we reinforced the "grassroots and fundamental" management through the promotion of fundamental management and on-site standardisation construction; fourthly, we implemented at full speed the construction of a dual prevention system and the establishment of a long-term operational mechanism; fifthly, safety inspection and supervision were conducted to identify the potential risks involved and to strengthen the implementation of control measures to eliminate latent dangers; sixthly, we revised emergency response plans for safety production accidents, occupational health, and emergent environmental incidents in a timely manner, improved various types of rescue equipment, and held emergency rescue drills and training, strengthen emergency management and improve enterprise safety management standards and accident rescue ability; seventhly, we increased investment in "promotion of safety through science and technology" to improve the intrinsic safety level.

Environmental management risk

Wastes are generated during the mining and production of gold. Our environmental protection measures may be defective, causing hazardous substances in the wastes to be discharged to and thereby polluting the mining area and the surrounding environment.

Countermeasures: Firstly, we kept a close eye on the optimisation and adjustment of the ecological protection red lines and promoted the comprehensive improvement of environmental protection issues and optimisation and adjustment of the ecological protection red lines; secondly, we increased the number of environmental protection inspections, and established a system for identification and governance for contingent environmental incidents. Special inspections for environmental protection were carried out in a regular or irregular basis, and the inspection of ecological environmental protection was intensified; thirdly, an ecological mining construction committee was set up to strengthen ecological environmental protection management and promote green mine construction; fourth, we strengthened publicity and education on environmental protection to improve the environmental awareness of employees, interiorise the concept of environmental protection and make environmental protection a conscious behavior of employees.

Permit management risk

Insofar as the Company's continuation and transfer of mining rights, assignment of equity interests, preliminary approval and acquisition of land are concerned, should we fail to obtain permits such as safety production license in good time, the Company may be subjected to legal risks in production and operation, and even halt in production, revocation of warrants thus causing the inevitable reduction in resource reserves.

Countermeasures: Firstly, we utilized the role of overall coordination of the permit management functional department to plan the application procedures for permits; secondly, we sought for breakthroughs in all areas with reference to the experience gained to standardise the application for permits required for capacity expansion and oversizing in accordance with law to ensure more standard permit management, procedures and approval; thirdly, we implemented strict assessment in accordance with the assessment methods and rewarding excellence and punishing inferior mechanism to enhance the sense of responsibility and urgency in respect of application for permits.

Risks to investment in the merger and acquisition of mining rights

The inconsistency between facts of the projects proposed to be acquired by the Company and the actual information obtained by the Company through due diligence, and the existence of unpredictable factors including changes in market conditions may lead to deviations in project prospects and value assessments, resulting in the underachievement of expected return on the Company's investment, or even bring about economic losses.

Countermeasures: Firstly, in accordance with the Company's merger and acquisition process, we conducted screening, preliminary investigation, due diligence, feasibility study and other work for the proposed acquisition project, and organised the implementation of acquisition and cooperation business of resource projects; secondly, we continued to promote resource dynamics tracking management for key projects and key areas; thirdly, we conducted a comprehensive inspection of the resources of the proposed acquisition projects and its occurrence state and technical and economic conditions for development, and focused on verifying the reliability of project resources and reserves report information, to ensure the integrity of inspection and verification of sampling, the authenticity of the test results, the feasibility of the technical indicators of mining, beneficiation, and smelting, etc.

Risk Management of Overseas business

The Company has relatively less experience in transnational management of overseas companies. According to the Company's strategy, overseas merger and acquisition projects will continue to increase, and the Company faces risks and challenges of "going global", in terms of investment and financing, law, talent, and management.

Countermeasures: Firstly, we engaged and obtained consultation from reputable domestic and foreign investment experts and law firms in their respective countries, and took the initiative to pay attention to and study the documents issued by the National Development and Reform Commission, the Ministry of Natural Resources, the Ministry of Commerce, the State Administration of Foreign Exchange, etc. and the laws and regulations, etc. of the countries in which we had presence of, to circumvent and control the risk of overseas investment; secondly, we proactively expanded the financing channels and strengthened cooperation with financial institutions, and discussed issues including issuance of overseas bonds and financing with the lenders to avert the risks concerning overseas debt; thirdly, we strengthened the cultivation of overseas management talents, endeavouring to improve the management level of overseas enterprises; fourthly, interest rate swap, interest rate option and interest rate futures were adopted to fix interest rate and avoid overseas interest rate fluctuation risks.

Risks in gold prices fluctuation

As the primary product of the Company, the fluctuation in gold prices, to a certain degree, determines the profit level of the Company. International gold prices are affected by several factors, including expectation of inflation, US dollar trend, interest rate, supply and demand in the gold market and economic development, which cast great uncertainties over the Company's operation performance. The operating results of the Company will be affected if gold prices decrease significantly.

Countermeasures: Firstly, we enhanced our study and judgment on domestic and international economic development and commenced research on professional areas; secondly, we established decision-making mechanism on gold transactions, established decision-making committee of the Company's transactions, formed the transaction center of stock companies, accurately followed the fluctuations of prices and commenced centralised sales of gold; thirdly, we entered into gold forward and futures contracts or other instruments to avoid risks in price fluctuation.

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. Revenue generated by our Argentina operations are denominated in U.S. dollars while operating and capital costs for the Veladero Mine are partially denominated in Argentine Peso. Since the trend of gold prices in Renminbi is generally in line with that of international gold prices denominated in U.S. dollar and historically the Argentine Peso has experienced significant fluctuations, the revenue of the Group may be affected if there is any significant changes in the exchange rate of Renminbi vs U.S. dollar and Argentine Peso vs the U.S. dollar. Therefore, the consolidated financial results of the Group may be affected. The management has been monitoring foreign exchange risk and may promptly hedge against foreign exchange risk if necessary.

RELATIONSHIP WITH CONTROLLING SHAREHOLDER AND CONNECTED TRANSACTIONS

As at the date of preparation of this annual report, SDG Group directly and indirectly held 47.06% of the issued Shares.

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 annual report, it owned 30 gold mine exploration permits in the PRC with an aggregate of approximately 682.15 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 57.55 tonnes of measured gold resources (excluding one mining permit already leased to us). 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 SDG 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 annual report" 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 23 January 2017 and on 25 September 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.

NON-COMPETITION UNDERTAKING

SDG Group Co. and/or its subsidiaries has provided non-competition undertaking to our Company in August 2002, February 2007 and November 2014, respectively. In order to further regulate the business delineation between the Company and SDG Group, SDG Group Co. and the Company entered into a non-competition undertaking on 7 September 2018 (the "**Non-competition Undertaking**"). Pursuant to the Non-competition Undertaking, save for the Retained Businesses (as defined in the Prospectus) and subject to the provisions under the Non-competition Undertaking, SDG Group Co. undertakes that (a) none of SDG Group Co. and any entity in which it holds an interests as a controlling shareholder (excluding any member of our Group) (the "**Controlled Entities**") currently engage or will engage in gold mining business; (b) SDG Group Co. will not compete with our Company, directly and indirectly, in gold mining business; (c) SDG Group Co. will procure all Controlled Entities not to compete with our Company, directly or indirectly, in gold mining business; and (d) SDG Group Co. will not, and will procure any Controlled Entity not to, invest in a business opportunity that is primarily related to gold mining business and in which SDG Group Co. or a Controlled Entity has an actual or potential opportunity to invest or otherwise acquire an interest, or otherwise acquire an interest in a person or asset that as a material part of its business operates or holds assets in gold mining business. In addition, in order to avoid potential competition between SDG Group Co. and the Group, among others, SDG Group Co. has provided the Company the pre-emptive right regarding the Retained Businesses to better protect the interests of the Group.

SDG Group Co. has confirmed in writing to the Company of its compliance with the Non-competition Undertaking during the Reporting Period. The independent non-executive Directors have also reviewed the compliance by SDG Group Co. with the Non-competition Undertaking during the Reporting Period. The independent non-executive Directors have confirmed that, as far as they can ascertain, there is no breach by any of SDG Group Co. of the Non-competition Undertaking.

EXPLORATION AND MINING PERMITS HELD BY SDG GROUP (EXCLUDING OUR GROUP) IN THE PRC AS AT THE DATE OF PREPARATION OF THIS ANNUAL REPORT

Statistics of the resources under the exploration permits of SDG Group

No.	Name of exploration permit	Holder of exploration permit	Location	Gold content (tonnes) based on the latest assessment date	Status of mine development	Whether under the Equity Entrustment Framework Agreement	Estimated time of transfer to the Company	Status of the boundary and capacity expansion
1	The gold mine at deep level and outer rim of jiaojia mine area in Laizhou, Shandong Province (exploration) (山東省萊州市焦家礦區深部及週邊金礦勘探)	SDG Group Co. Ltd.	Laizhou, Shandong Province	15.19	The exploration permit on its reserves has been applied. Relevant materials for boundary and capacity expansion have been submitted to the authorities	No (under consolidation with the mining permit of Jiaojia Gold Mine)	Note 1	Approval for the mining area has been obtained
2	The outer rim of western Sanshandao gold mine area in Laizhou, Shandong Province (exploration) (山東省萊州市三山島金礦區西部週邊勘探)	SDG Group Co. Ltd.	Sanshandao, Laizhou, Shandong Province	Not detected yet	The general exploration report has been submitted in January 2015	No (No resource has been explored)	In the process of deregistration	N/A
3	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.	Jincheng Town, Laizhou, Shandong Province	85.54		Yes	To decide on whether to transfer by the end of 2023 upon transfer to the mining permit and receipt of other licenses	N/A
4	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週邊金礦勘探)	Shandong Tiancheng Mining Co., Ltd.	East of Hongbu Village in Jincheng Town, Laizhou, Shandong Province	19.37	In the process of exploration	Yes	Note 1	N/A

No.	Name of exploration permit	Holder of exploration permit	Location	Gold content (tonnes) based on the latest assessment date	Status of mine development	Whether under the Equity Entrustment Framework Agreement	Estimated time of transfer to the Company	Status of the boundary and capacity expansion
5	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週邊金礦勘探)	Shandong Tiancheng Mining Co., Ltd.	East of Matang Village in Jincheng Town, Laizhou, Shandong Province	Not detected yet	The general prospecting report has been submitted in April 2014	Yes	Note 1	N/A
6	The gold mine at Cangshang-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 Geological Mine Exploration Co., Ltd.	Sanshandao, Laizhou, Shandong Province	1.01	The geological exploration summary reports have been submitted in September 2004 and October 2017 respectively	Yes	Note 2	N/A
7	The middle and deep level of Liucun 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.	Hutouya Town, Laizhou, Shandong Province	2.00	The resources reserves report has been submitted in April 2016	Yes	Note 2	N/A
8	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.	Pinglidian Town, Laizhou, Shandong Province	Not detected yet	The general exploration report has been submitted in October 2016	Yes	Note 2	N/A
9	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.	Zhacun Town, Laizhou, Shandong Province	0.22	The general prospecting report has been submitted in November 2017	Yes	Note 2	N/A
10	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.	Sanshandao, Laizhou, Shandong Province	382.58	The general exploration report has been submitted in December 2016	Yes	Note 1	N/A

No.	Name of exploration permit	Holder of exploration permit	Location	Gold content (tonnes) based on the latest assessment date	Status of mine development	Whether under the Equity Entrustment Framework Agreement	Estimated time of transfer to the Company	Status of the boundary and capacity expansion
11	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.	Jincheng Town, Zhuqiao Town, Laizhou, Shandong Province	133.14	The exploration report has been filed	Yes	Note 1	N/A
12	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 Jindi Mining Co., Ltd.	Pinglidian Town, Zhuqiao Town, Laizhou, Shandong Province	Not detected yet	The summary report has been submitted in November 2017	Yes	Note 2	N/A
13	The gold mine at Cishan mine area in Penglai, Shandong Province (exploration) (山東省蓬萊市磁山礦區金礦勘探)	Shandong Gold Jinchuang Group Co., Ltd.	East Tuwu Village, Daliuhang Town, Penglai, Shandong province	3.86	The general exploration report has been submitted in July 2017	Yes	Note 1	N/A
14	The gold mine at Shanglanzi mine area in Penglai, Shandong Province (exploration) (山東省蓬萊市上嵐子礦區金礦勘探)	Shandong Gold Jinchuang Group Co., Ltd.	Yanzikuang Village, Daliuhang Town, Penglai, Shandong Province	5.25	The general exploration report has been submitted in January 2015	Yes	Note 1	N/A
15	The gold mine at the deep level of Tuwu gold mine area in Penglai, Shandong Province (general exploration) (山東省蓬萊市土屋金礦區深部金礦詳查)	Shandong Gold Jinchuang Group Co., Ltd.	West Tuwu Villing, Penglai, Shandong Province	0.57	The general exploration report has been submitted in April 2013	Yes	Note 1	N/A
16	The Sunjiagou gold mine in Penglai City, Shandong Province (general exploration) (山東省蓬萊市孫家溝金礦詳查)	Shandong Jinchuang Co., Ltd.	Daxindian Town, Penglai, Shandong Province	Not detected yet	The exploration summary report has been submitted in July 2018	Yes	Note 2	N/A

No.	Name of exploration permit	Holder of exploration permit	Location	Gold content (tonnes) based on the latest assessment date	Status of mine development	Whether under the Equity Entrustment Framework Agreement	Estimated time of transfer to the Company	Status of the boundary and capacity expansion
17	The gold mine at the deep level and outer rim 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週邊金礦勘探)	Shandong Jinchuang Co., Ltd.	Xiaomenjia Town, Penglai, Shandong Province	0.83	The resources reserves report has been submitted in May 2016	Yes	Note 2	In the process of consolidation with the mining permit of the item. The new mining permit is expected to be issued in 2019.
18	The deep level and outer rim of Heilangou gold mine in Penglai City, Shandong Province (general exploration) (山東省蓬萊市黑嵐溝金礦深部及週邊詳查)	Shandong Jinchuang Co., Ltd.	Daxindian Town, Penglai, Shandong Province	1.48	In preparation of the general exploration report	Yes	Note 1	N/A
19	Baolun gold mine in Ledong County, Hainan Province (general exploration) (海南省樂東縣抱倫金礦詳查)	Hainan Shanjin Mining Co., Ltd.	Haogangling, Baoyou Town, Ledong County, Hainan Province	10.04	The general exploration report has been submitted in March 2017	Yes	Note 1	In the process of consolidation with the mining permit of the item
20	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 Shanjin Mining Co., Ltd.	Alihe Town, Oroqen Autonomous Banner, Hulunbuir, Inner Mongolia	Not detected yet	The geological summary report has been prepared in 2013	Yes	Note 2	N/A
21	The silver (gold) mine in Xiangluping mine area, Zhenghe, Fujian Province (general exploration) (福建省政和縣香爐坪礦區香爐坪礦區銀（金）礦詳查)	Fujian Zhenghe Xiangluping Mining Co., Ltd.	Chengyuan Village, Chengyuan Town, Zhenghe County, Fujian Province	0.86	The general exploration report has been submitted in July 2013	Yes	Note 2	N/A
22	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週邊地質詳查)	Fujian Province Zhenghe Hongkun Mining Co., Ltd.	Dayaokeng Village, Xingxi Town, Zhenghe County, Fujian Province	Not detected yet	N/A	Yes	Note 1	N/A
23	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.	Dayaokeng Village, Xingxi Town, Zhenghe County, Fujian Province	Not detected yet	N/A	Yes	Note 1	N/A
24	The gold mine at Asiha (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 Shanjin Mining Co., Ltd.	Gouli Town, Dulan County, Qinghai Province	2.27	The general prospecting report has been submitted in December 2017	Yes	Note 2	N/A

No.	Name of exploration permit	Holder of exploration permit	Location	Gold content (tonnes) based on the latest assessment date	Status of mine development	Whether under the Equity Entrustment Framework Agreement	Estimated time of transfer to the Company	Status of the boundary and capacity expansion
25	Walega gold mine in Dulan County, Qinghai Province (general exploration) (青海省都蘭縣瓦勒尕金礦詳查)	Qinghai Shanjin Mining Co., Ltd.	Gouli Town, Dulan County, Qinghai Province	2.78	The general prospecting report has been submitted in December 2017	Yes	Note 2	N/A
26	The gold mine at Daligigetang District in Dulan County, Qinghai Province (general prospecting) (青海省都蘭縣達裡吉格塘地區金礦普查)	Qinghai Shanjin Mining Co., Ltd.	Gouli Town, Dulan County, Qinghai Province	Not detected yet	In the process of prospecting physical workload	Yes	Note 2	N/A
27	Guoluolongwa gold mine in Dulan County, Qinghai Province (general exploration) (青海省都蘭縣果洛龍窪金礦詳查)	Qinghai Shanjin Mining Co., Ltd.	Gouli Town, Dulan County, Qinghai Province	12.94	The general exploration report has been submitted in March 2010	Yes	Note 2	N/A
28	Annage gold mine in Dulan County, Qinghai Province (general prospecting) (青海省都蘭縣按納格金礦普查)	Qinghai Shanjin Mining Co., Ltd.	Gouli Town, Dulan County, Qinghai Province	1.67	The general prospecting report has been submitted in December 2017	Yes	Note 2	N/A
29	Dachaidan Hangwei Shengligou gold mine in Qinghai Province (general exploration) (青海省大柴旦行委勝利溝金礦詳查)	Shanjin Western Geological and Minerals Exploration Co., Ltd.	Dachaidan Hangwei, Haixi Prefecture, Qinghai Province	0.56	The general prospecting report has been submitted in December 2012	Yes	Note 2	N/A
30	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.	Dachaidan Hangwei, Haixi Prefecture, Qinghai Province	Not detected yet	The general prospecting report has been submitted in September 2017	Yes	Note 2	N/A
	Total			682.15				

Note 1: The transfer process is expected to commence 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.

Statistics of the resources under the mining permits of SDG Group

No.	Name of mining permit	Holder of mining permit	Location	Gold content (tonnes) based on the latest assessment date	Status of mine development	Whether under the Equity Entrustment Framework Agreement	Estimated time of transfer to the Company	Status of the boundary and capacity expansion
1	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.	Jincheng Town, Laizhou, Shandong Province	1.58	In commercial production stage. The annual resources reserves report has been submitted to the Land and Resources Bureau of Laizhou City in January 2019	Yes	Note 1	N/A
2	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.	Jincheng Town, Laizhou, Shandong Province	1.49	In commercial production stage. The annual resources reserves report has been submitted to the Land and Resources Bureau of Laizhou City in January 2019	Yes	Note 1	N/A
3	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.	Jincheng Town, Laizhou, Shandong Province	0.79	In commercial production stage. The annual resources reserves report has been submitted to the Land and Resources Bureau of Laizhou City in January 2019	Yes	Note 1	N/A
4	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.	Jincheng Town, Laizhou, Shandong Province	0.99	In commercial production stage. The annual resources reserves report has been submitted to the Land and Resources Bureau of Laizhou City in January 2019	Yes	Note 1	N/A

No.	Name of mining permit	Holder of mining permit	Location	Gold content (tonnes) based on the latest assessment date	Status of mine development	Whether under the Equity Entrustment Framework Agreement	Estimated time of transfer to the Company	Status of the boundary and capacity expansion
5	Shandong Gold Jinchuang Group Co., Ltd. Yanshan mine area (山東黃金金創集團有限公司燕山礦區)	Shandong Gold Jinchuang Group Co., Ltd.	Yanshan area, Daliuhang Town, Penglai, Shandong Province	4.64	In commercial production stage. The annual resources reserves report has been submitted to the Land and Resources Bureau of Penglai City in December 2018	Yes	Note 1	In the reconstruction and expansion process, to apply for the safety production license upon acceptance check by authorities
6	Shandong Gold Jinchuang Group Co., Ltd. Yankou mine area (山東黃金金創集團有公司奄口礦區)	Shandong Gold Jinchuang Group Co., Ltd.	Yankou area, Daliuhang Town, Penglai, Shandong Province	6.32	In commercial production stage. The annual resources reserves report has been submitted to the Land and Resources Bureau of Yantai City in December 2018	Yes	Note 1	In the reconstruction and expansion process, to apply for the safety production license upon acceptance check by authorities
7	Shandong Jinchuang Co., Ltd. Shangkouwangli gold mine area (山東金創股份有限公司上口王李金礦區)	Shandong Jinchuang Co., Ltd.	Daxindian Town, Penglai, Shandong Province	3.94	In commercial production stage. The annual resources reserves report has been submitted to the Land and Resources Bureau of Penglai City in December 2018	Yes	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. Heijinding mine area (山東金創股份有限公司黑金頂礦區)	Shandong Jinchuang Co., Ltd.	Daxindian Town, Penglai, Shandong Province	1.71	In commercial production stage. The annual resources reserves report has been submitted to the Land and Resources Bureau of Penglai City in December 2018	Yes	Note 1	In the reconstruction and expansion process, to apply for the safety production license upon acceptance check by authorities

No.	Name of mining permit	Holder of mining permit	Location	Gold content (tonnes) based on the latest assessment date	Status of mine development	Whether under the Equity Entrustment Framework Agreement	Estimated time of transfer to the Company	Status of the boundary and capacity expansion
9	Shandong Jinchuang Co., Ltd. Heilangou mine area (山東金創股份有限公司黑嵐溝礦區)	Shandong Jinchuang Co., Ltd.	Daxindian Town, Penglai, Shandong Province	7.65	In commercial production stage. The annual resources reserves report has been submitted to the Land and Resources Bureau of Yantai City in December 2018	Yes	Note 1	N/A
10	Shandong Jinchuang Co., Ltd. Qigouyifen mine area (山東金創股份有限公司齊溝一分礦區)	Shandong Jinchuang Co., Ltd.	Daxindian Town, Penglai, Shandong Province	2.08	In commercial production stage. The annual resources reserves report has been submitted to the Land and Resources Bureau of Penglai City in December 2018	Yes	Note 1	Expected to obtain a new mining permit in 2019
11	Qingdao Jinxing Mining Co., Ltd. (青島金星礦業股份有限公司)	Qingdao Jinxing Mining Co., Ltd.	Jiudian Town, Pingdu, Shandong Province	5.49	In commercial production stage	Yes	Note 1	In application for a new safety production license in relation to capacity expansion
12	Hainan Shanjin Mining Co., Ltd. Baolun gold mine in Ledong County (海南山金礦業有限公司樂東縣抱倫金礦)	Hainan Shanjin Mining Co., Ltd.	Ledong County, Hainan Province	6.72	In commercial production stage. The annual reserves report has been submitted to the Land and Resources Bureau of Ledong County, Hainan Province in January 2019	Yes	Note 1	In the process of boundary and capacity expansion

No.	Name of mining permit	Holder of mining permit	Location	Gold content (tonnes) based on the latest assessment date	Status of mine development	Whether under the Equity Entrustment Framework Agreement	Estimated time of transfer to the Company	Status of the boundary and capacity expansion
13	Songxian Shanjin Mining Co., Ltd. (嵩縣山金礦業有限公司)	Songxian Shanjin Mining Co., Ltd.	Shuigou Village, Dazhang Town, Song County, Luoyang	10.33	In commercial production stage. The dynamic reserves monitoring report has been submitted to the Land and Resources Bureau of Luoyang City, Henan Province in February 2019	Yes	Note 1	In application for a new safety production license in relation to capacity expansion
14	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藥坑金礦)	Fujian Province Zhenghe Hongkun Mining Co., Ltd.	Dayaokeng Village, Xingxi Town, Zhenghe County, Fujian Province	1.55	In commercial production stage. The reserves report has been submitted to the Land and Resources Bureau of Zhenghe County, Fujian Province in March 2019	Yes	Note 1	N/A
15	Qinghai Shanjin Mining Co., Ltd. Guoluolongwa gold mine in Dulan County (青海山金礦業有限公司都蘭縣果洛龍窪金礦)	Qinghai Shanjin Mining Co., Ltd.	Gouli Town, Dulan County, Qinghai Province	2.15	In commercial production stage. The reserves report has been submitted to the Land and Resources Bureau of Haixi State, Qinghai Province, in December 2018	Yes	Note 2	N/A
16	Fujian Province Zhenghe Xiangluping Mining Co., Ltd. Xiangluping silver mine (福建省政和縣香爐坪礦業有限公司香爐坪銀礦)	Fujian Province Zhenghe Xiangluping Mining Co., Ltd.		Au:0.126 Ag:11.02	The reserves report has been submitted to the Land and Resources Bureau of Zhenghe County, Fujian Province in July 2018			
	Total			57.55				

Note 1: The transfer process is expected to commence 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.

CONNECTED TRANSACTIONS

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**"). Linglong Mining is owned as to 74.57% by the Company while Yinan Mining is a wholly-owned subsidiary of the Company. As at the date of this annual report, the Company, Linglong Mining and Yinan Mining have paid RMB569,848,000, RMB56,000,000 and RMB3,879,390, respectively, representing approximately 96% of the Consideration. It is anticipated that, by the end of the first half of 2019, the remaining 4% of the Consideration will be paid by internal funding and the transfer will be completed.

Continuing connected transactions

Gold External Purchase Agreement

SDG Smelting entered into gold purchase and sale agreements with Mr. Chen Kaiyuan and his associate, Guizhou Southwest Gold Operation Co., Ltd. (貴州西南黃金經營中心有限公司) ("**Guizhou Southwest Gold**"), in relation to purchase and sale of gold (the "**Gold External Purchase Agreement**") on an annual basis. Pursuant to the Gold External Purchase Agreement, SDG Smelting is purchasing gold (other than standard gold bullion and other gold products restricted by the PRC) from Mr. Chen Kaiyuan. The pricing of gold is quoted by SDG Smelting with reference to the latest purchase price and quantity of the corresponding products traded at SGE. The annual cap for the Gold External Purchase Agreement for the year ended 31 December 2018 is set at RMB150 million. The Gold External Purchase Agreement is valid for a term of one year and is renewable upon its expiration on 31 December 2018.

The amounts of the purchase of gold by SDG Smelting from Mr. Chen Kaiyuan and/or Guizhou Southwest Gold during the year ended 31 December 2018 is approximately RMB148 million.

Renewal of Gold External Purchase Agreement

SDG Smelting has renewed the Gold External Purchase Agreement with Mr. Chen Kaiyuan and Guizhou Southwest Gold by way of an agreement dated 1 November 2018 and a supplemental agreement dated 1 January 2019 for a term of one year and renewable upon its expiration on 31 December 2019 (the "**Renewed Gold External Purchase Agreement**"). The annual cap for the Renewed Gold External Purchase Agreement for the year ending 31 December 2019 is set at RMB300 million.

As the applicable percentage ratios in respect of the annual cap of Renewed Gold External Purchase Agreement (in aggregate) for the year ending 31 December 2019 is less than 1% and the transaction is a connected transaction only because it involves connected person at the subsidiary level, the transaction falls within the de minimus threshold under Rule 14A.76(1)(b) of the Hong Kong Listing Rules and is exempted from reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Mr. Chen Kaiyuan owns 92% equity interests in Guizhou Southwest Gold, and in turn holds 25% of our subsidiary, Shenzhen SDG Precious Metal. Mr. Chen Kaiyuan is also a director of Shenzhen SDG Precious Metal. Accordingly, Mr. Chen Kaiyuan is a connected person of the Company at the subsidiary level.

Financial Services Framework Agreement

The Company has entered into a financial services framework agreement with SDG Group Finance (the "**Financial Services Framework Agreement**") on 10 September 2018, pursuant to which SDG Group Finance will provide the Company and/or our associates with financial services, among others, (i) deposits and related services (the "**Deposit Services**"), (ii) loan and related financing services (the "**Loan and Other Financing Services**"), (iii) overdraft services (the "**Overdraft Services**"), and (iv) other financial services. The Financial Services Framework Agreement is valid for a term from Listing Date to the Company's 2018 annual general meeting and that the renewal of which will be subject to independent Shareholders' approval.

Proposed caps and basis of caps:

The proposed caps for the transactions contemplated under the Financial Services Framework Agreement for the period from the Listing Date to the Company's 2018 annual general meeting are as follows.

	Proposed caps (RMB million) Period from Listing Date to the Company's 2018 annual general meeting
Daily Balance of Deposit Services	1,300
Interest Income from Deposit Services	8.5
Daily Balance of Loan and Other Financing Services	420
Interest Expenses for Loan and Other Financing Services	11
Daily Balance of Overdraft Services	600
Handling Fees and Other Financial Services	50

For the year ending 31 December 2018, (1) the historical amount of the daily balance of Deposit Services and interest income from Deposit Services are approximately RMB1,174.15 million and RMB9.31 million respectively; (2) the historical amount of the daily balance of Loan and Other Financing Services and interest expenses for Loan and Other Financing Services are approximately RMB418.52 million and RMB7.95 million respectively and (3) the historical amount of the daily balance of Overdraft Services and handling fees and other financial services are approximately RMB537.00 million and RMB0.14 million respectively.

As the Financial Services Framework Agreement is valid for a term from Listing Date to the Company's 2018 annual general meeting, the Company entered into a new financial services framework agreement (the "**New Financial Services Framework Agreement**") on 28 March 2019 to facilitate the Group's operational needs of financial services.

The proposed caps for the transactions contemplated under the New Financial Services Framework Agreement for the three years ending 31 December 2019, 2020 and 2021 are as follows.

	Proposed annual cap (RMB million) For the year ending December 31		
	2019	**2020**	**2021**
Maximum Daily Balance of Deposit Services	1,500	1,650	1,800
Interest Income from Deposit Services on an actual basis	20	23	25
Maximum Daily Balance of Loan and Other Financing Services	800	850	900
Interest Expenses for Loan and Other Financing Services and Overdraft Services on an actual basis	22	23	25
Maximum Daily Balance of Overdraft Services	700	800	900
Handling Fees and Other Financial Services	50	50	50

The Directors, including the independent non-executive Directors, are of the view that, the above continuing connected transactions under the New Financial Services Framework Agreement have been entered into on normal commercial terms in the ordinary and usual course of business of the Company, are fair and reasonable and are in the interest of the Company and its Shareholders as a whole. The Directors, including the independent non-executive Directors, also believe that the annual caps set out for the transactions contemplated under the New Financial Services Framework Agreement are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

Hong Kong Listing Rules Implication

As each of the percentage ratio(s) (as defined in Rule 14.07 of the Hong Kong Listing Rules) applicable to the Deposit Services under the New Financial Services Framework Agreement is more than 0.1% but less than 5%, the Deposit Services provided by SDG Group Finance to the Group are subject to the reporting and announcement requirements as set out in Rule 14A.35 of the Hong Kong Listing Rules but exempt from the independent Shareholders' approval requirement under Rules 14A.36 to 14A.39 of the Hong Kong Listing Rules. The Company will disclose the relevant details in the next published annual report and accounts of the Company in accordance with the relevant requirements as set out in Rule 14A.71 of the Hong Kong Listing Rules.

As the Loan and Other Financing Services and the Overdraft Services provided by SDG Group Finance to the Group are on normal commercial terms which, as far as the Group is concerned, are similar to or more favourable than those offered by independent third parties for comparable services in the PRC, and no security over the assets of the Group will be granted in respect of the Loan and Other Financing Services and the Overdraft Services, such services are exempt under Rule 14A.90 of the Hong Kong Listing Rules from reporting, announcement and independent Shareholders' approval requirements.

In respect of other financial services to be provided by SDG Group Finance to the Group, each of the percentage ratio(s) is below the de minimis threshold set out in Rule 14A.76 of the Hong Kong Listing Rules, therefore the provision of other financial services by SDG Group Finance to the Group is exempt from the reporting, announcement and independent shareholders' approval requirements of the Listing Rules.

As the Company's A Shares are listed on the Shanghai Stock Exchange, the Company will continue to be subject to and regulated by the SSE Listing Rules and other applicable laws and regulations in the PRC insofar as our A Shares remain listed. The requirements of the Hong Kong Listing Rules in relation to connected transactions are different from those of the SSE Listing Rules. In particular, the definition of connected person under the Hong Kong Listing Rules is different from the definition of related party under the SSE Listing Rules. Therefore, a connected transaction under the Hong Kong Listing Rules may or may not constitute a related party transaction under the SSE Listing Rules, and vice versa.

According to the SSE Listing Rules and the Articles of Association, the New Financial Services Framework Agreement and the transactions contemplated therein have to be submitted to the general meeting for consideration and approval. An ordinary resolution will be proposed at the AGM to seek for approval of the New Financial Services Framework Agreement and the transactions contemplated therein.

For further details of the New Financial Services Framework Agreement, please refer to the Company's announcement dated 28 March 2019 published on the HKEx website. SDG Group Finance is 70% owned by SDG Group Co. and 30% owned by the Company. SDG Group Finance is therefore a connected person of the Company.

Procurement and Sale Framework Agreement

The Company has entered into a framework agreement for procurement and sale of supplies, products and services with SDG Group Co. (the "**Procurement and Sale Framework Agreement**"), pursuant to which, our Group may from time to time purchase from and sell to SDG Group Co. and/or its associates various types of supplies, products and services.

The Procurement and Sale Framework Agreement is valid for a term of three years commencing from the Listing Date and will be renewable upon its expiration by mutual consent and negotiation between the parties.

Pricing basis:

If government-prescribed/government guided price is applicable to any particular suppliers, products or services, such as electricity, gold and certain metals, such supplies, products or services shall be supplied at the applicable government-prescribed/government guided price. Where such price standard is not available, the price shall be determined based on public bidding price. If there is no government-prescribed/government guided price or public bidding price, the price shall be determined taking into account then prevailing market prices of the same or similar products or services. If there is no above-mentioned references available, the price shall be negotiated through arm's length negotiations by the parties on normal commercial terms.

Annual caps and basis of caps:

The proposed annual caps for the transactions contemplated under the Procurement and Sale Framework Agreement for the three years ended 31 December 2020 are as follows.

	Annual caps (RMB million) For the year ended 31 December		
	2018	2019	2020
Procurement of electricity from SDG Electricity Company	400.0	450.0	500.0
Procurement of construction services for our PRC gold mines	140.0	140.0	140.0
Procurement of processing services from smelteries of SDG Group	10.0	10.0	10.0
Procurement of gold (mainly including gold concentrate and doré)	650.0	650.0	650.0
Others (including training fees, property management fees, etc.)	50.0	50.0	50.0
Total Procurement of Supplies, Products and Services	**1,250.0**	**1,300.0**	**1,350.0**

	Annual caps (RMB million) For the year ended 31 December		
	2018	2019	2020
Provision of Processing Services by SDG Smelting	5.0	5.0	5.0
Sale of gold (mainly including standard gold bullion)	675.0	725.0	775.0
Sale of other metals (including silver, lead and zinc)	60.0	60.0	60.0
Others (including utilities charge, outsourcing fees and disposal charge, etc.)	10.0	10.0	10.0
Total Sale of Supplies, Products and Services	**750.0**	**800.0**	**850.0**

During the year ended 31 December 2018, the historical amounts of (i) relevant procurements by the Group from SDG Group Co. and its associates for the supplies, products and services and (ii) the relevant sales from the Group to SDG Group Co. and its associates for the supplies, products and services are as follows.

	Historical Figures (RMB million) For the year ended 31 December 2018
Procurement of electricity from SDG Electricity Company	386.78
Procurement of construction services for our PRC gold mines	114.46
Procurement of processing services from smelteries of SDG Group	4.77
Procurement of gold (mainly including gold concentrate and doré)	220.62
Others (including training fees, property management fees, etc.)	38.46
Total Procurement of Supplies, Products and Services	**765.10**

	Historical Figures (RMB million) For the year ended 31 December 2018
Provision of Processing Services by SDG Smelting	0.76
Sale of gold (mainly including standard gold bullion)	114.60
Sale of other metals (including silver, lead and zinc)	0.39
Others (including utilities charge, outsourcing fees and disposal charge, etc.)	6.10
Total Sale of Supplies, Products and Services	**121.85**

SDG Group Co. is a controlling Shareholder and therefore a connected person of the Company.

Annual review of continuing connected transactions

Pursuant to Rule 14A.56 of the Hong Kong Listing Rules, the Board engaged the auditor of the Company to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor of the Company confirmed to the Board that:

(i) nothing has come to their attention that causes the auditor to believe that the disclosed continuing connected transactions have not been approved by the Board;

(ii) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes the auditor to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

(iii) nothing has come to their attention that causes the auditor to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions;

(iv) with respect to the aggregate amount of each of the disclosed continuing connected transactions, nothing has come to their attention that causes the auditor to believe that the disclosed continuing connected transactions have exceeded the annual cap as set by the Company.

The independent non-executive Directors have reviewed the above-mentioned continuing connected transactions and confirmed that for the year ended 31 December 2018:

(i) these transactions were entered into in the ordinary and usual course of business of the Group;

(ii) these transactions were entered into either on normal commercial terms, or on terms no less favourable to the Group than terms available to or from independent third parties;

(iii) these transactions were entered into according to the agreements governing them on terms that were fair and reasonable and in the interests of the Shareholders as a whole.

Save as disclosed above, none of the related-party transactions or continuing related-party transactions set out in Note 40 to the consolidated financial statements in this annual report fall within the scope of discloseable connected transaction or continuing connected transaction under the Hong Kong Listing Rules. The connected and continuing connected transactions of the Group are in compliance with the disclosure requirements under Chapter 14A of the Hong Kong Listing Rules.

ANALYSIS AND EXPLANATION ON THE REASONS AND IMPACTS OF CHANGES IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATES OR CORRECTION OF MATERIAL ACCOUNTING ERRORS OF THE COMPANY

Analysis and explanation on changes in accounting policies of the Company are set out in Note 2.1.2 to the consolidated financial statements.

DETAILS OF SHARE INCENTIVE SCHEME, EMPLOYEE STOCK OWNERSHIP SCHEME OR OTHER EMPLOYEE INCENTIVE MEASURES AND THEIR IMPACTS

In May 2015, the Company obtained approval from the Shareholders' general meeting of our Company to establish the Phase One Employee Shareholding Scheme of Shandong Gold Mining Co., Ltd. (山東黃金礦業股份有限公司第一期員工持股計劃) (the "**Employee Shareholding Scheme**") for the purpose of enhancing the cohesiveness of employees and vitality of the Company's development, and improving corporate governance, so as to better promote the Company's long-term, sustainable and healthy development. The Employee Shareholding Scheme is adopted with a duration of 84 months. The eligible participants of the Employee Shareholding Scheme include certain then management members of our Company, our subsidiaries and target companies in connection with the private placement in 2016.

On 19 September 2016, our Company issued an aggregate of 11,645,629 Shares to 128 individuals at the price of RMB14.30 per Share under the Employee Shareholding Scheme for a subscription amount of RMB166,532,494.70. The relevant Shares were subject to a lockup period of 36 months and are currently kept and managed by a professional asset manager until such Shares are vested with the said participants in accordance with the provisions of the Employee Shareholding Scheme. As of the date of this annual report, these Shares accounted for approximately 0.53% of the total number of our Shares. As of 31 December 2018, no further Shares under the Employee Shareholding Scheme have been granted, lapsed or cancelled. Certain Directors and senior management of the Company are currently interested in our Shares under the Employee Shareholding Scheme. For details of their shareholding, please see the sections headed "Disclosure of Interests and Short Positions of the Directors, Supervisors and Chief Executive of the Company" and "Brief Biographies of Directors, Supervisors and Senior Management" in this annual report. The Employee Shareholding Scheme does not constitute a share option scheme pursuant to Chapter 17 of the Hong Kong Listing Rules.

Other than those as disclosed above, the Group does not have any share incentive scheme, employee stock ownership scheme or other employee incentive measures which may result in a significant loss to the Group.

REPORT OF THE DIRECTORS

BUSINESS REVIEW

A fair review of the business of the Group as well as a discussion and analysis of the Group's performance during the year, including a discussion of the principal risks and uncertainties faced by the Group and an indication of likely future developments in the Group's business, can be found in the sections headed "Chairman's Statement", "Management Discussion and Analysis" and "Report of the Directors" in this annual report.

For discussion on the Group's compliance with relevant laws and regulations that have a significant impact on the Group and the Group's environmental policies and performance, please refer to the section headed "Environmental, Social and Governance Report" in this annual report.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

To the best of the Directors' knowledge, information and belief, as at the date of this annual report, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

Details of the staff of the Group and the related remuneration policy and training programmes are set out in this "Report of the Directors".

The Group maintains a good relationship with its customers. The Group continually provides high quality gold products at a competitive price to customers, and optimizes its products from time to time by lowering operating costs through technical advancement to increase customer satisfaction.

The Group maintains a good relationship with its suppliers. The Group continues to perfect its procurement process and mechanism. Not only does the Group reinforce its supplier management, but it also insists on the business principles of integrity and trustworthiness to enhance communications with suppliers by all available means, with the goal of seeking mutual benefit and prosperity for all.

SHARE CAPITAL

Details of the movements in the share capital of the Group for the year ended 31 December 2018 are set out in Note 26 to the consolidated financial statements in this annual report.

RESERVES

Details of the movements in the reserves of the Group for the year ended 31 December 2018 are set out in the consolidated statement of changes in equity on page 130 of this annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2018, pursuant to the relevant laws and regulations, the Company's distributable reserves amounted to RMB10,424,278,000 (31 December 2017: RMB9,710,812,000).

PROPERTY, PLANT AND EQUIPMENT

Details of changes in property, plant and equipment of the Group during the year ended 31 December 2018 are set out in Note 15 to the consolidated financial statements of this annual report.

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last four financial years, as extracted from the audited financial statements, is set out on page 3 of this annual report. This summary does not form part of the audited financial statements.

DONATIONS

During the Reporting Period, the Group made charitable and other donations of approximately RMB0.28 million.

BANK AND OTHER BORROWINGS

Details of the Group's bank and other borrowings for the year ended 31 December 2018 are set out in Notes 29 and 30 to the consolidated financial statements.

ASSETS PLEDGED OR CHARGED

As of 31 December 2018, the Group did not have any material pledge of assets.

FINANCIAL ASSISTANCE AND GUARANTEES TO AFFILIATED COMPANIES

Save as disclosed in this annual report, there is no financial assistance to affiliated companies of the Company, or guarantees given for facilities granted to affiliated companies of the Company which together in aggregate exceeds 8% of the assets ratio defined under rule 14.07(1) of the Hong Kong Listing Rules.

EQUITY-LINKED AGREEMENTS

Save as disclosed in this annual report, the Company has not entered into any equity-linked agreement during the Reporting Period.

MAJOR SUPPLIERS AND CUSTOMERS

The details of the Company's top five suppliers and top five customers are set out in "Management Discussion and Analysis" in this annual report. All transactions between the Company and the related suppliers and customers were entered into under normal commercial terms.

PERMITTED INDEMNITY PROVISION

The Company has arranged appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions arising out of corporate activities against the current Directors and senior management of the Company and its associated companies and the Directors and senior management of the Company and its associated companies who resigned during the year. Except for such insurance, the Company has no valid permitted indemnity provisions (as defined in Companies (Directors' Report) Regulation of the Chapter 622D of Hong Kong Laws) during the Reporting Period and at the time of approval of this annual report.

REPORT OF THE DIRECTORS

DIRECTORS AND SUPERVISORS

The Directors and Supervisors during the year ended 31 December 2018 and up to the date of this annual report are as follows:

Executive Directors:

Mr. Wang Peiyue
Mr. Li Tao *(Vice-chairman)* (appointed with effect from 14 January 2019)
Mr. Tang Qi

Non-Executive Directors:

Mr. Li Guohong *(Chairman)*
Mr. Wang Lijun
Ms. Wang Xiaoling
Mr. Chen Daojiang (resigned with effect from 27 November 2018)

Independent Non-Executive Directors:

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

Supervisors:

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

To the best of the Board's knowledge, information and belief, the Directors, Supervisors and senior management do not have any relationship amongst them.

BRIEF BIOGRAPHIES OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Brief biographies of the Directors, Supervisors and senior management are set out in "Brief Biographies of Directors, Supervisors and Senior Management" in this annual report.

DISCLOSURE OF INFORMATION OF DIRECTORS PURSUANT TO RULE 13.51B(1) OF THE HONG KONG LISTING RULES

As disclosed in the announcement of the Company dated 29 November 2018, Mr. Chen Daojiang resigned as non-executive Director and a member of the Strategy Committee due to work arrangements on 27 November 2018. As disclosed in the announcement of the Company dated 14 January 2019, Mr. Li Tao was appointed as executive Director, the vice chairman of the Company and a member of the Strategy Committee on 14 January 2019. Save as disclosed above, there are no other changes to the Directors' information as required to be disclosed pursuant to Rule 13.51B(1) of the Hong Kong Listing Rules.

SERVICE CONTRACTS OF THE DIRECTORS AND SUPERVISORS

Each of the Directors and Supervisors has entered into a service contract with the Company respectively. All these contracts are for a term of three years for Directors (pursuant to article 139 of the Articles of Association) and for Supervisors (pursuant to article 195 of the Articles of Association). The term of appointment for the Directors and the Supervisors is subject to re-election and re-appointment. Remuneration of the Directors and Supervisors can be adjusted at shareholders' general meetings.

Save as disclosed above, none of the Directors or Supervisors has or is proposed to have a service contract with any member of the Group (other than contracts expiring or determinable by the employer within one year without the payment of compensation other than statutory compensation).

REMUNERATION OF THE DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the remuneration of the Directors and the five highest paid individuals in the Group and remuneration payable to members of senior management by band are set out in Note 9 and Note 41 to the consolidated financial statements in this annual report.

The remuneration of the Directors is subject to review of the Remuneration Committee and approval by the Board, such remuneration is determined by taking into account the relevant Director's experience, responsibilities, workload and time commitment to the Group and the operating results of the Group and comparable market statistics.

No Director has waived or has agreed to waive any emoluments during the year ended 31 December 2018.

REMUNERATION POLICY

Based on the principle of marketization, incentive, dynamics and controllability, the Company has established a post-performance salary system that is competitive, fair, and motivating internally, and offering competitive salary in line with the external market rate to enhance the performance of employees. The employees at the headquarters implement a "broadband" system (寬頻薪酬) whereby employees have the opportunity to be promoted from low level to high level at their positions. The annual salary standard of senior management is determined according to the market rate whilst in consideration of the corporate efficiency, scale, and operational difficulty of his respective position and fulfilment of one's target responsibility signed by the senior management annually.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Hong Kong Listing Rules. The Company believes that all of the independent non-executive Directors are independent in accordance with the guidelines set out in the Hong Kong Listing Rules.

COMPETING BUSINESS

Save for some of our Directors holding certain directorships and/or other senior management positions in SDG Group, none of our Directors had any interests in any business, which competes or is likely to compete, either directly or indirectly with our principal business.

DISCLOSURE OF INTERESTS AND SHORT POSITIONS OF THE DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE OF THE COMPANY

As at 31 December 2018, the interests and short positions of the Directors, Supervisors and chief executive of the Company in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) 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 or short positions which the Directors, Supervisors and chief executive of the Company are taken or deemed to have taken under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO to be entered into the register referred to therein; or (c) were required, pursuant to the Model Code, to be notified to the Company and the Hong Kong Stock Exchange are as follows:

Name	Title	Nature of Interest	Class of Shares	Number of Shares	Long/Short Positions	Approximate percentage of shareholding in the relevant class Shares	Approximate percentage of shareholding in the total issued share capital
Mr. Tang Qi [1]	Executive Director	Beneficial Interest	A Shares	152,098	Long	0.0082%	0.0069%

Notes:

(1) Mr. Tang Qi is interested in 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.

(2) Mr. Li Tao was appointed as our executive Director with effect from 14 January 2019 and as at the date of this annual report, he is interested in 131,818 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, as at 31 December 2018, none of the Directors, Supervisors and chief executives of the Company 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 pursuant to the Model Code.

DISCLOSURE OF INTERESTS AND SHORT POSITIONS OF THE SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

As at 31 December 2018, so far as the Directors, Supervisors and chief executive of the Company are aware, the following persons (not being a Director, Supervisor or chief executive of the Company) had interests and long/short positions in the Shares or underlying Shares which required, pursuant to Section 336 of the SFO, to be entered into the register to be kept by the Company referred to therein, or required to be notified to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholders	Nature of Interest	Class of Shares	Number of Shares or underlying Shares held directly or indirectly	Long/Short Positions	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	Long	44.80%	37.58%
	Interest held by controlled corporation [2]	A Shares	210,052,107	Long	11.31%	9.49%
Shandong Gold Geological Mine Exploration Co., Ltd. ("**SDG Exploration**")	Beneficial owner	A Shares	99,424,515	Long	5.35%	4.49%
Shandong Gold Resources Development Co., Ltd. ("**SDG Resources Development**")	Interest held by controlled corporation [3]	A Shares	99,424,515	Long	5.35%	4.49%
China Structural Reform Fund Corporation Limited (中國國有企業結構調整基金股份有限公司)	Beneficial owner [4]	H Shares	80,037,000	Long	22.43%	3.62%
Jianxin (Beijing) Investment Fund Management Co., Ltd. (建信(北京)投資基金管理有限責任公司)	Interest held by controlled corporation [4]	H Shares	80,037,000	Long	22.43%	3.62%
Jianxin Trust Co., Ltd. (建信信託有限責任公司)	Interest held by controlled corporation [4]	H Shares	80,037,000	Long	22.43%	3.62%
Postal Savings Bank of China Co., Ltd.	Beneficiary of a trust [4]	H Shares	80,037,000	Long	22.43%	3.62%
CEB-GFAM-China Structural Reform Fund Asset Management Account No. 1	Trustee [4]	H Shares	80,037,000	Long	22.43%	3.62%
Barrick Gold Corporation	Beneficial owner	H Shares	63,942,000	Long	17.92%	2.89%
Industrial and Commercial Bank of China Limited	Beneficial owner [5]	H Shares	46,200,000	Long	12.95%	2.09%

Name of Shareholders	Nature of Interest	Class of Shares	Number of Shares or underlying Shares held directly or indirectly	Long/Short Positions	Approximate Percentage of Shareholding in the Relevant Class of Shares	Approximate Percentage of Shareholding in the Total Issued Share Capital
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	37,541,500	Long	10.52%	1.70%
China Credit Trust Co., Ltd.	Interest held by controlled corporation [6]	H Shares	37,541,500	Long	10.52%	1.70%
Harvest Fund Management Co., Ltd.	Investment Manager [6]	H Shares	37,541,500	Long	10.52%	1.70%
Zhaojin Mining Industry Company Limited (招金礦業股份有限公司)	Interest held by controlled corporation	H Shares	26,679,000	Long	7.48%	1.21%
China Asset Management Co., Ltd.	Investment Manager	H Shares	24,011,000	Long	6.73%	1.08%

Notes:

(1) On 23 January 2017 and on 25 September 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) respectively. Such pledged Shares were used as the security for borrowing of SDG Group Co. for its own use, which accounted for approximately 11.74% 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).

(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, 20,979,020 A Shares held by SDG Capital Management, 16,054,672 A Shares held by Shandong Gold Group Qingdao Gold Co., Ltd. ("**Qingdao Gold**") and 1,661,758 A Shares held by SDG (Beijing) Industry Investment Co., Ltd. ("**SDG Beijing**"). SDG Exploration is wholly-owned by SDG Resources Development. Each of SDG Resources Development, SDG Capital Management, Qingdao Gold and SDG Beijing is wholly-owned by SDG Group Co.. SDG Group Co. holds 95.65% interest of SDG Non-ferrous. As such, SDG Group Co. is deemed to be interested in 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 (中國國有企業結構調整基金股份有限公司) ("**China Structural Reform Fund**") held as to 38.2% as at the end of the Reporting Period) and Jianxin Trust Co., Ltd. (建信信託有限責任公司, sole shareholder of Jianxin (Beijing) Investment Fund Management Co., Ltd. (建信(北京)投資基金管理有限責任公司) as at 31 December 2018) is deemed to be interested in the Shares held by China Structural Reform Fund for the propose of the SFO. The remaining approximately 58.0% of shares of China Structural Reform Fund were ultimately controlled by State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會) ("**SASAC**"). The controlling person of Postal Savings Bank of China Co., Ltd. is the trust settlor who can influence the rights of Jianxin Trust Co., Ltd. and Jianxin (Beijing) Investment Fund Management Co., Ltd. to exercise its voting powers in China Structural Reform Fund. China Structural Reform Fund has engaged GF Securities Asset Management Guangdong Co., Ltd., an asset manager that is qualified domestic institutional investor as approved by the relevant PRC authority, in the name of CEB-GFAM-China Structural Reform Fund Asset Management Account No. 1 to subscribe for and hold such Shares on a discretionary basis on behalf of the China Structural Reform Fund.

(5) Industrial and Commercial Bank of China Limited 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).

(6) 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 the 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 partner held as to 75.8% as at the end of Reporting Period) is deemed to be interested in the Shares held by CCT China Merchant Buyout Fund for the purpose of the SFO. CCT China Merchant Buyout Fund has engaged Harvest Fund Management Co., Ltd. as the asset manager of the fund. China Credit Trust Co., Ltd. controlled Harvest Fund Management Co., Ltd., as to 40%.

Save as disclosed above, as at 31 December 2018, the Directors are not aware of any person (who were not Directors, Supervisors and chief executive of the Company) who had an interest or short position in the Shares or underlying Shares which would be required to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or will be interested in 10% or more of the nominal value of any class of the share capital carrying the rights to vote in all circumstances at general meetings of our Company or required to be entered into the register to be kept by the Company pursuant to section 336 of the SFO.

DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as the service contracts of the Directors and Supervisors as disclosed above, there were no transactions, arrangements or contracts of significance to which the Company or its controlling company or any of its subsidiaries was a party to and in which a Director or Supervisor or an entity connected with a Director or Supervisor had a material interest, either directly or indirectly, subsisting at the end of the year or at any time during the year.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed under the paragraphs headed "Continuing connected transactions", no controlling Shareholder or its subsidiary had a material interest, either directly or indirectly, in any contract of significance, whether for the provision of services or otherwise, to the business of the Group to which the Company or any of its subsidiaries was a party during the year ended 31 December 2018.

MANAGEMENT CONTRACTS

Other than the service contracts of the Directors and the Supervisors, the Company has not entered into any contract with any individual, firm or body corporate to undertake management or administration of the whole or any substantial part of any business of the Company during the year.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board is of the view that the Company has complied with the code provisions in the Corporate Governance Code as set out in Appendix 14 of the Hong Kong Listing Rules (the "**Code**") during the year ended 31 December 2018.

For details of the Corporate Governance Report, please refer to pages from 104 to 121 of this annual report.

STAFF OF THE GROUP

As of 31 December 2018, the Group had a total of 16,032 full-time employees (31 December 2017: 14,378 employees). For the year ended 31 December 2018, the staff cost (including Directors' remuneration in the form of salaries and other benefits) was approximately RMB2,291.5 million (2017: RMB1,906.7 million).

The Group ensured that the remuneration packages of employees remain competitive and the remuneration level of its employees was determined on the basis of performance with reference to the profitability of the Group, industry remuneration standards and market conditions within the general framework of the Group's remuneration system.

REPORT OF THE DIRECTORS

The following are the status, professional structure and education level of the staff in the Group:

Staff

The number of current staff of the parent company	2,092
The number of current staff of the major subsidiaries	13,940
Total number of current staff (including staff of domestic enterprises and Chinese staff of overseas enterprises)	16,032
The number of retired employees that parent company and the major subsidiaries are responsible for the retirement expenses	0

Professional Structure

Classification	Number of Staff
Production	10,961
Sales	8
Technical	1,478
Finance	252
Administration	3,333
Total	16,032

Education

Classification	Number of Staff
Doctoral degree	306
Master degree	2,474
Bachelor degree	2,802
Other tertiary education	5,420
Secondary school and below	5,030
Total	16,032

TRAINING PROGRAMMES

In order to facilitate the personnel training and adhere to the key task of the year on the Group's "Thirteenth Five-year" plan, the Group has made plans based on an extensive research on training needs, with targets to strengthen weaknesses, improve capability and enhance efficiency of its employees. The Group's training covered "three teams" including operation management personnel, professionals and technicians.

Training for operation management was based on the guiding principles of the Nineteenth National Congress with targets of going international and securitization as well as refined management. The Group aimed at enhancing its strategic planning and creativity through focusing on corporate governance, overseas merger and acquisitions, capital operations, strategic exits, transformation development, basic management etc. During the year, 4,822 individuals received training from the 54 training sessions held.

Trainings for professionals focused on providing updates on current knowledge and creative enhancement. New trainings on geology, survey, mining, processing, smelting, machinery, electronic, safety, finance and others were provided with focus on enhancing capabilities in profession, implementation and creativity. During the year, 5,791 individuals received training from the 122 training sessions held.

With a focus on the skill training of the unique types of work in mines and by way of skill competitions and skill appraisals, the training of skilled personnel highlights the standardization of practical operation and continuously improves the ability and quality of skilled personnel. 1,471 individuals received training from the 64 training sessions held throughout the year. The effect of training was remarkable, as shown by the fact that three individuals were awarded the title of National Technical Expert (全國技術能手), four individuals were awarded the title of National Gold Industry Technical Expert (全國黃金行業技術能手), three individuals were awarded the title of Shandong Province Technical Expert (山東省技術能手), 30 individuals were awarded the title of Shandong Province Gold Industry Technical Expert (山東省黃金行業技術能手); one individual was awarded the title of Shandong Province Taishan Industry Leading Talent (Industrial Skills) (山東省泰山產業領軍人才(產業技能類)); two individuals were awarded the title of Qilu Chief Technician (齊魯首席技師) in Shandong Province, one individual was awarded the title of Shandong Province Technician with Outstanding Contribution (山東省突出貢獻技師) and four individuals were awarded the title of Shandong Gold Group Chief Technician (山東黃金集團首席技師).

OUTSOURCING STATUS

Total working hours of outsourcing services	20,609,886 Hours
Total outsourcing payment	RMB737,409,800

SHARE CAPITAL AND SHAREHOLDERS

CHANGES IN ORDINARY SHARES AND SHAREHOLDERS

Changes in ordinary Shares

Details of changes in ordinary Shares of the Group for the year ended 31 December 2018 are set out in Note 26 to the consolidated financial statements.

Impacts on financial indicators including earnings per Share, net assets per Share, etc. from changes in ordinary Shares during the most recent year and period (if any)

On 28 September 2018, the Company issued 327,730,000 H Shares and then issued 29,159,500 H Shares upon the exercise of the Over-allotment Option on 26 October 2018, totaling 356,889,500 H Shares in issue. The total number of the Shares was changed from 1,857,118,809 Shares to 2,214,008,309 Shares. The increase in the ordinary Shares would dilute earnings per Share and net assets per Share during the most recent year and period, which, however, would have no impact on the Company's financial indicators including turnovers, net profit etc.

REPORT OF THE DIRECTORS

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Save as disclosed in this annual report, the Board confirmed that neither the Company nor any of its subsidiaries purchased, sold, redeemed or wrote off any of the Company's listed securities during the period from the Listing Date to 31 December 2018.

AUDIT COMMITTEE

The Audit Committee has reviewed the audited consolidated financial statements for the year ended 31 December 2018 and further discussed the auditing, internal control and financial reporting matters. The Audit Committee considers that the audited consolidated financial statements for the year ended 31 December 2018, which has been agreed by the Company's auditors, is in compliance with the applicable accounting standards and relevant laws and regulations and has made sufficient disclosure.

ISSUANCE AND LISTING OF SECURITIES

Issuance of Securities during the Reporting Period

Types of Shares and their derivative securities	Date of issue	Issue price (or interest rate)	Number of Shares issued	Date of listing	Number of Shares permitted to be listed for trading	Ending date of the trading
Ordinary Shares						
H Shares	28 September 2018	HK$14.7 per Share	327,730,000	28 September 2018	327,730,000	–
	26 October 2018	HK$14.7 per Share	29,159,500	26 October 2018	29,159,500	–
Convertible corporate bonds, detachable convertible bonds, corporate bonds						

As verified by CSRC and approved by the Hong Kong Stock Exchange on 28 September 2018, the Company issued 327,730,000 H Shares on 28 September 2018 and then issued 29,159,500 H Shares upon the exercise of the Over-allotment Option on 26 October 2018, totaling 356,889,500 H Shares in issue.

Changes in total number of ordinary Shares, shareholding structure and the structure of assets and liabilities of the Company

For details of the changes in the Company's assets and liabilities structure, please refer to "Analysis of Assets and Liabilities" of the Management Discussion and Analysis of this annual report.

INFORMATION OF CORPORATE BONDS

Overview of corporate bonds

Unit: RMB'000

Name of Bonds	Abbreviation	Code	Date of Issuance	Date of Maturity	Outstanding balance	Interest Rate	Payment of Principal and interest	Place of Listing
The Company Corporate Bond (the First Tranche)	13 Lujin 01	122273	3 Sep 2013	3 Sep 2018	–	5.16%	Interest to be paid annually, principal to be repaid in full at maturity.	SSE
The Company Corporate Bond (the Second Tranche)	13 Lujin 02	122284	30 Mar 2015	30 Mar 2020	687,862	4.80%	Interest to be paid annually, principal to be repaid in full at maturity.	SSE

Settlement of interests and principals of the corporate bonds

On 28 March 2018, the Company exercised the right to early partially redeem 6,110,040 Company Corporate Bond (the Second Tranche) in the amount of RMB611,004,000. Date of the third payment of interest of the Company Corporate Bond (the Second Tranche) was 30 March 2018, and the payment was settled on schedule. The next date of payment will be 30 March 2019.

The Company has repaid at maturity the Company Corporate Bond (the First Tranche) in full at their principal amount together with interest accrued on 3 September 2018.

DESCRIPTION OF OTHER IMPORTANT MATTERS

Mutual Strategic Investments between the Company's Controlling Shareholder, SDG Group and Barrick Gold

The controlling Shareholder, SDG Group Co. and Barrick Gold signed a mutual strategic investment agreement in September 2018 ("**Mutual Strategic Investment Agreement**") to deepen the strategic cooperation between the two parties. SDG Group Co. and Barrick Gold agreed that within 12 months after the signing of the Mutual Strategic Investment Agreement, the parties will respectively purchase the public listed shares of the other party in an open stock exchange through one or more transactions with the investment of no more than US$300 million. SDG Group Co. purchased stocks listed and traded by Barrick Gold on the New York Stock Exchange and the Toronto Stock Exchange through one or more transactions on open market with one or more funds of no more than US$300 million; Barrick Gold purchased the Company's A Shares listed on the open market of the SSE through one or more transactions with no more than US$300 million in funds and purchased the Company's H Shares on open market through Hong Kong Stock Exchange. The agreement allows both parties to dispose of (sell) the shares purchased.

As at 31 December 2018, SDG Group, through SDG Financial Holdings Group (HongKong) Co., Limited (山東黃金金控集團(香港)有限公司), a wholly-owned subsidiary of SDG Capital Management, had purchased and held a total of 16,213,200 shares of Barrick Gold and Barrick Gold had purchased and held a total of 63,942,200 H shares of Shandong Gold.

Description of Fines on Environmental Incidents at the Veladero Gold Mine

In relation to the two environmental incidents occurred at the Veladero Gold Mine which was owned by Barrick Gold and acquired by the Company through its wholly-owned subsidiary SDG Hong Kong in April 2017 (the acquisition had been completed on 30 June 2017 (Beijing time)) in 2016 and 2017, the San Juan Provincial mining authority in Argentina made an administrative ruling on 27 December 2017 that an administrative fine of AR$104,400,000 would be imposed on MAS, the owner of the mine. On 23 January 2018, MAS paid the fine of AR$104,400,000 (equivalent to approximately US$5,399,534.53 at the then-applicable Argentine Peso to US$ exchange rate). As agreed in the merger agreement between Shandong Gold and the vendor, the loss caused by the administrative penalty to MAS should be borne by the vendor, not by Shandong Gold because the penalty on the environmental incidents had occurred before the merger. A reimbursement of US$1,864,285.71 had been received by SDG Hong Kong on 11 July 2018.

SHARE OPTION SCHEME

During the year ended 31 December 2018 and up to the date of this annual report, the Group has no share option scheme.

PRE-EMPTIVE RIGHTS

According to the Articles of Association and the laws of the PRC, there are no provisions for pre-emptive rights requiring the Company to offer new Shares to its existing Shareholders in proportion to their shareholdings.

DEBENTURES

Details of debenture are set out in Note 30 to the consolidated financial statements.

ACQUISITIONS, DISPOSALS AND MERGERS

The Company has no other material acquisitions, disposal or merger of subsidiaries, associates and joint ventures during the Reporting Period.

RETAINED EARNINGS

As at 31 December 2018, details of the Group’s retained earnings are set out on page 128 of this annual report.

CONTINGENCIES

Details of contingency liabilities are set out in Note 36 to the consolidated financial statements.

TAXATIONS

Details of the Group’s taxation are set out in Note 13 to the consolidated financial statements.

DIVIDEND POLICY

Pursuant to the Articles of Association, we shall distribute cash dividends at least once in any consecutive three years. The total amount of the cash dividend distributed in the most recent three years shall be at least 30% of our average annual distributable profits in the same period. The Company may distribute the cash dividend provided that there are no expected significant investment plans or significant cash expenditures in the following twelve months (excluding fund-raising projects). Upon satisfaction of the cash dividend payout ratios, we may distribute stock dividends if our operating revenue and net profit increase rapidly and our Directors consider that our equity scale and shareholding structure are reasonable. In addition, we may declare interim dividends based on our financial performance and working capital requirements.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's securities.

RESULTS AND DIVIDENDS DISTRIBUTION

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and comprehensive income on pages 126 to 127 of this annual report.

Pursuant to a resolution passed at the Board meeting on 28 March 2019, the Board proposed the distribution of a final dividend of RMB1 per ten (10) Shares (tax inclusive) for the year ended 31 December 2018, amounting to a total of approximately RMB221.4 million and the issue of four (4) bonus Shares for every ten (10) Shares to all shareholders by way of conversion of capital reserve (the "**Proposed Issue**"), based on the total issued share of the Company of 2,214,008,309 as of 31 December 2018. The remaining undistributed profits are carried forward for the subsequent annual distribution. The above proposal will be put forward for the forthcoming annual general meeting of the Company for consideration and approval. The specific arrangements regarding the final dividend and its distribution, the Proposed Issue and the time and arrangement of the closure of register of members of H Shares will be disclosed separately in the circular for the annual general meeting. If approved at the annual general meeting, the Company shall distribute the dividend within two months after the date of the annual general meeting. The Company shall announce separately the expected dividend payment date.

For the cash dividends from the 13,015,060 locked Shares which shall be compensated by SDG Non-ferrous to the Company, SDG Non-ferrous shall return the relevant cash dividends to the Company according to Article 4.3 of the Profit Forecast Compensation Agreement for Purchase of Assets by Issuance of Shares entered into between the Company and SDG Non-ferrous on 5 May 2015. Save as mentioned above, the Group is not aware of any arrangement under which a Shareholder has waived or agreed to waive any dividends.

The dividend will be denominated and declared in RMB, and distributed to the domestic shareholders and investors participating in the Shanghai-Hong Kong Stock Connect Program in RMB and to the overseas shareholders in Hong Kong Dollar. The exchange rate for the dividend calculation in Hong Kong Dollar is based on the middle rate as published by the People's Bank of China on the date on which the annual general meeting of the Company is held.

TAXATION

According to the Enterprise Income Tax Law of the PRC《(中華人民共和國企業所得税法》) and its implementation regulations (the "**EIT Law**"), the tax rate of the enterprise income tax applicable to the income of a non-resident enterprise deriving from the PRC is 10%. For this purpose, any H shares registered under the name of non-individual enterprise, including the H shares registered under the name of HKSCC Nominees Limited, other nominees or trustees, or other organisations or entities, shall be deemed as shares held by non-resident enterprise shareholders (as defined under the EIT Law). The Company will distribute the dividend to those non-resident enterprise shareholders subject to a deduction of 10% enterprise income tax withheld and paid by the Company on their behalf.

Any resident enterprise (as defined under the EIT Law) which has been legally incorporated in the PRC or which was established pursuant to the laws of foreign countries (regions) but has established effective administrative entities in the PRC, and whose name appears on the Company's H share register should deliver a legal opinion ascertaining its status as a resident enterprise furnished by a qualified PRC lawyer (with the official chop of the law firm issuing the opinion affixed thereon) and relevant documents to Company's H share register, Computershare Hong Kong Investor Services Limited, in due course, if they do not wish to have the 10% enterprise income tax withheld and paid on their behalf by the Company.

Pursuant to the Notice on the Issues on Levy of Individual Income Tax after the Abolishment of Guoshuifa (1993) No. 045 Document《(關於國税發(1993) 045號文件廢止後有關個人所得税徵管問題的通知》) (the "**Notice**") issued by the State Administration of Taxation on 28 June 2011, the dividend to be distributed by the PRC non-foreign invested enterprise which has issued shares in Hong Kong to the overseas resident individual shareholders, is subject to the individual income tax with a tax rate of 10% in general. However, the tax rates for respective overseas resident individual shareholders may vary depending on the relevant tax agreements between the countries of their residence and Mainland China. Thus, 10% individual income tax will be withheld from the dividend payable to any individual shareholders of H Shares whose names appear on the H share register of members of the Company on the record date, unless otherwise stated in the relevant taxation regulations, tax treaties or the Notice.

The Company will not be liable for any claim arising from any delay in, or inaccurate determination of the status of the shareholders or any disputes over the mechanism of withholding.

PROFIT DISTRIBUTION TO INVESTORS OF NORTHBOUND TRADING

For investors of the Hong Kong Stock Exchange (including enterprises and individuals) investing in the A shares of the Company listed on the SSE (the "**Northbound Trading**"), their dividends will be distributed in RMB by the Company through the Shanghai Branch of China Securities Depository and Clearing Corporation Limited to the account of the nominee holding such shares. The Company will withhold and pay income taxes at the rate of 10% on behalf of those investors and will report to the tax authorities for the withholding. For investors of Northbound Trading who are tax residents of other countries and whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate of lower than 10%, those enterprises and individuals may, or may entrust a withholding agent to, apply to the competent tax authorities for the entitlement of the rate under such tax treaty. Upon approval by the tax authorities, the paid amount in excess of the tax payable based on the tax rate according to such tax treaty will be refunded.

The record date and the date of distribution of cash dividends and other arrangements for the investors of Northbound Trading will be the same as those for the holders of A shares of the Company.

PROFIT DISTRIBUTION TO INVESTORS OF SOUTHBOUND TRADING

For investors of the SSE and Shenzhen Stock Exchange (including enterprises and individuals) investing in the H shares of the Company listed on the Hong Kong Stock Exchange (the "**Southbound Trading**"), the cash dividends for the investors of H shares of Southbound Trading will be paid in RMB. The record date and the date of distribution of cash dividends and other arrangements for the investors of Southbound Trading will be the same as those for the holders of H shares of the Company. As for the relevant taxation policies, pursuant to the relevant requirements under the Notice on the Tax Policies Related to the Pilot Program of the Shanghai-Hong Kong Stock Connect (Caishui [2014] No. 81) (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知(財稅[2014]81號)》) and the Notice on the Tax Policies Related to the Pilot Program of the Shenzhen-Hong Kong Stock Connect (Caishui [2016] No. 127) (《關於深港股票市場交易互聯互通機制試點有關稅收政策的通知(財稅[2016]127號)》), for dividends received by domestic individual investors from investing in the H shares of the Company listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, the Company shall withhold and pay individual income tax at the rate of 20% on behalf of the investors. For dividends received by domestic securities investment funds from investing in the H shares of the Company listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, the tax payable shall be the same as that for individual investors. The Company will not withhold and pay the income tax of dividends for domestic enterprise investors and those domestic enterprise investors shall report and pay the relevant tax themselves.

Shareholders are suggested to consult their tax consultants regarding the tax impacts in China, Hong Kong and other countries (regions) for holding and selling the Company's shares.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this annual report, there is sufficient public float of more than 25% of the Company's issued shares as required under the Hong Kong Listing Rules.

AUDITOR

The Company has appointed PricewaterhouseCoopers and Beijing TianYuanQuan Certified Public Accountants (Special General Partnership) as its international and domestic auditor, respectively for the year ended 31 December 2018. The financial statements prepared by the Company in accordance with the International Financial Reporting Standards have been audited by PricewaterhouseCoopers.

IMPORTANT EVENTS AFTER REPORTING PERIOD

Pursuant to a Board's resolution dated 28 March 2019, the Board of Directors has proposed a final dividend for the year ended 31 December 2018 and proposed the issue of bonus Shares (on the basis of four (4) bonus Shares for every ten (10) Shares) to all of the Company's shareholders by way of the capitalisation of capital reserve (representing an increase of approximately 885,600,000 shares based on the Company's total share capital as at 31 December 2018).

On 22 March 2019, the Company has issued 10,000,000 corporate bonds with a par value of RMB100 each and received total proceeds of RMB1,000,000,000. These bonds carry a coupon rate of 3.85% per annum and are fully repayable on 22 March 2022 when they become due.

On 14 January 2019, the Shareholders approved the amendments to the Articles of Association at the extraordinary general meeting of the Company to improve the level of standardized operation of the Company. For details, please refer to the circular of the Company dated 29 November 2018.

By order of the Board of Directors
Li Guohong
Chairman

Jinan, the PRC
28 March 2019

REPORT OF THE SUPERVISORY COMMITTEE

Dear Shareholders and representatives of Shareholders,

In 2018, all members of the Supervisory Committee strictly complied with the requirements of the Company Law, the Articles of Association, the Rules of Procedures of the Supervisory Committee and other relevant laws, regulations and departmental rules, adhered to the principle of good faith, earnestly performed their supervisory duties, and actively carried out various tasks. The members of the Supervisory Committee has supervised the voting procedures and fairness of lawful operations, major investments and other matters of the Company, inspected its financial position and supervised the legal compliance of its directors and senior management in performing their duties. They effectively protected the Shareholders' rights and corporate interests of the Company and the legitimate rights and interests of its employees. The main work report in 2018 is as follows:

I. DAILY WORK OF THE SUPERVISORY COMMITTEE

(I) Organized the convening of Supervisory Committee meetings

During the Reporting Period, the Supervisory Committee held a total of five meetings to review the periodic reports prepared by the Board of Directors and issued the written review opinions. The members of the Supervisory Committee reviewed 2017 profit distribution plan and the issuance of green corporate bonds. They also supervised and inspected financial position and the use of proceeds of the Company, the implementation of decisions made by the Board of Directors, the establishment of a risk management and control system and major business management issues. The specific matters were reviewed as follows:

1. On 6 March 2018, the Company held the 3rd meeting of the Fifth Session of the Supervisory Committee in its conference room, reviewing and approving the following resolutions: the “2017 Work Report of the Supervisory Committee of the Company”, the “Annual Report and Its Summary of the Company for 2017”, the “Profit Distribution Plan of the Company for 2017”, the "Resolution Regarding Renewal of the Procurement, Sales and Service Framework Agreement by the Company and the Estimation of Normal Connected transactions in 2018”, the “Resolution Regarding Application for Increase in Audit Fees by the Accounting Firms of the Company”, the "Resolution Regarding Re-appointment of Accounting Firms of the Company", the “Resolution Regarding Re-appointment of Internal Control Auditor of the Company”, the “Resolution Regarding the 2017 Appraisal Report on Internal Control of the Company”, the “Resolution Regarding the Corporate Social Responsibility Report of the Company for 2017”, the “Resolution Regarding the Special Report on Saving and Use of Proceeds of the Company for 2017”, the “Resolution Regarding Changes in the Accounting Policies and Accounting Estimates of the Company” and the “Resolution Regarding the Supplementary Conclusion of the Supplementary Agreement to the Entrustment Agreement and the Entrustment Agreement between the Company and its Related Companies including Shandong Gold Group Co., Ltd. (山東黃金集團有限公司)”.

2. On 20 April 2018, the Company held the 4th meeting of the Fifth Session of the Supervisory Committee by means of communication, reviewing and approving the “Full Text and Main Text of the First Quarterly Report of the Company for 2018”.

3. On 27 July 2018, the Company held the 5th meeting of the Fifth Session of the Supervisory Committee by means of communication, reviewing and approving the “Resolution Regarding the Company’s Capital Increase in Shandong Gold Group Finance Co., Ltd.”, the “Resolution Regarding the Company’s Compliance with the Conditions for Public Issuance of Green Corporate Bonds”, and the "Resolution Regarding the Issuance of Green Corporate Bonds by the Company" in an item-by-item manner.

4. On 13 August 2018, the Company held the 6th meeting of the Fifth Session of the Supervisory Committee by means of communication, reviewing and approving the “Half-yearly Report and Summary of the Company for 2018”.

5. On 29 October 2018, the Company held the 7th meeting of the Fifth Session of the Supervisory Committee in its conference room, reviewing and approving the "Full Text and Main Text of the Third Quarterly Report of the Company for 2018" and the "Resolution Regarding Utilizing Part of Unused Proceeds to temporarily replenish the working capital of the Company".

(II) Performed supervisory duties earnestly

The Supervisory Committee constantly strengthened the coordination, planning and guidance of the work relating to the supervisory system of the Company. Through visiting and researching on the subsidiaries of the Company, the Supervisory Committee stayed informed about and kept track of the important operation management activities of enterprises. Concerned about the sustainable development of enterprises while maintaining communication with the internal and external auditors of the Company, the Supervisory Committee tracked and understood the auditors' various audit results on the Company and, with an emphasis on problems solving and risk prevention, timely provided reasonable advice and risk warnings to the Board of Directors and management. As a result, the Supervisory Committee has made significant progress in promoting reform, risk prevention and standardized management.

II. INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE ON THE RELEVANT MATTERS OF THE COMPANY IN 2018

(I) Independent opinions of the Supervisory Committee on lawful operations

In 2018, the Supervisors attended the general meetings and all Board meetings of the Company in accordance with laws, and strictly supervised the decision-making procedures of the Company and the duty performance of its Directors and senior management.

The Supervisory Committee believes that: in 2018, the Company operated in strict accordance with the Company Law, the Securities Law, the Articles of Association and other relevant laws and regulations, and its operational decisions were reasonable and effective. The convening of and convening procedures for three kinds of meetings of the Company were in compliance with relevant requirements, and the internal management system and the internal control mechanism have been established and further improved. The Directors and senior management worked diligently during the Reporting Period and fully implemented the resolutions passed at the general meetings of the Company, without any prejudice to the rights and interests of the Company and its Shareholders.

(II) Independent opinions of the Supervisory Committee on inspection of the Company's financial position

The Supervisory Committee conducted a detailed and rigorous review of the Company's financial position and periodic reports, and strengthened supervision over the Company's financial management.

The Supervisory Committee believes that, during the Reporting Period, the Company strictly implemented the Accounting Standards for Business Enterprises. The financial system and internal control system of the Company were relatively sound, its financial operation was standardized, and its financial position was sound and healthy. The periodic reports and review procedures of the Company were formulated in compliance with the requirements of laws, regulations and the Articles of Association. The unqualified audit report issued by Beijing Tianyuanquan Certified Public Accountants (Special General Partnership) for 2018 and the unqualified 2018 independent auditor's report issued by PricewaterhouseCoopers gave a fair and objective view of the financial position and operating results of the Company.

(III) Independent opinions of the Supervisory Committee on the use of proceeds

During the Reporting Period, the Supervisory Committee verified the Company's issuance of shares for asset acquisitions and the use of proceeds, and effectively supervised the saving, use and management of proceeds.

Since the project funded with the proceeds was a mine infrastructure project, for which the investments are made by the Company year by year in accordance with its investment plan and mining plan, the proceeds was not used out in the short term. In order to improve the capital utilization rate, reduce the capital cost and maximize the Shareholders' interests, on 29 October 2018, the 7th meeting of the Fifth Session of the Board of Directors of the Company reviewed and approved the "Resolution Regarding Utilizing Unused Proceeds to replenish the working capital of the Company", and utilized part of the unused funds amounting to RMB680,000,000.00 to replenish the working capital of the Company.

The Supervisory Committee believes that the Company has established the proceeds management system and standardized the procedures for the use of proceeds. During the Reporting Period, the Company saved the proceeds in a special account for special use. The actual investment project was in line with the committed investment project, without any breach in the use of proceeds. During the Reporting Period, the Company utilized part of the unused proceeds to replenish its working capital, which improved the proceeds utilization rate and saved the financial costs of the Company. It has standardized the relevant decision-making procedures which are lawful and effective.

(IV) Independent opinions of the Supervisory Committee on connected transactions

The Supervisory Committee supervised and verified the connected transactions occurred in 2018.

The Supervisory Committee believes that the connected transactions conducted by the Company were fully discussed and carefully determined by the Board of Directors and the management. They were all conducted on the principle of fairness, the pricing was fairly made in line with relevant procedures. The related Directors and related Shareholders abstained from voting in accordance with the relevant requirements. The independent Directors made objective and independent judgments over the connected transactions, and the relevant information disclosure was adequately made in a timely manner, without any prejudice to the interests of the Company and its Shareholders.

(V) Independent opinions of the Supervisory Committee on the internal control evaluation report

The Supervisory Committee reviewed the self-evaluation report on internal control of the Company for 2018, and the establishment and operation of the internal control system of the Company.

The Supervisory Committee believes that the Company has established and improved the internal control system for management of all the relevant matters in accordance with the requirements of relevant laws and regulations, which reasonably ensured the achievement of internal control objectives. The internal control organization has been set up completely and scientifically with a sound and effective internal control system. The "Evaluation Report on Internal Control for 2018" prepared by the Board of Directors gives a true and objective view of the actual status of establishment of the Company's internal control.

(VI) Independent opinions of the Supervisory Committee on establishment and implementation of the insider information management system

The Company has strictly complied with the relevant requirements of insider information management, and implemented the relevant procedures in strict accordance with the requirements in the process of information disclosure, such that the insider information was kept confidential, the management work was adequate and effective, and the information disclosure was made fairly. There was no occurrence of inside information trading, thus protecting the rights of all the investors to obtain the corporate information on an equal and fair basis.

III. THE WORK PLAN FOR 2019

In 2019, we will continue to fulfill our duties diligently in strict accordance with the Company Law, the Securities Law and other laws and regulations as well as the Articles of Association, urge the Board of Directors and management to make decisions and operate according to law, enhance information management, prevent insider trading, improve internal control and corporate governance, and protect the interests of the Company and all its Shareholders. The work plan is now reported as follows:

(I) Perform duties diligently and promote compliant operation

Attend the general meetings and the Board meetings in a timely manner to earnestly perform the duties of the Supervisory Committee. Firstly, focus on financial supervision to carry out daily supervision work, and enhance the inspection and supervision of major matters such as the production and operation, connected transactions, financial position, reform and development of the Company; secondly, comprehensively grasp the establishment and operation of the internal control system of the Company, pay attention to the legitimacy, effectiveness and adaptability of the internal control system, and inspect the implementation of the internal control system. Thirdly, maintain communication and contact with the internal auditor and the accounting firm entrusted by the Company, make full use of internal and external audit information to understand and grasp relevant situation in a timely manner, and effectively protect the legitimate rights and interests of all the Shareholders.

(II) Strengthen supervision and inspection to prevent operational risks

Strengthen the risk supervision of enterprises with a focus on coordination and implementation, enhance the follow-up supervision of significant business management activities, and broaden the coverage of supervisory work. Firstly, strengthen financial management, improve the capital utilization rate and reduce operational risks. Secondly, regularly track changes in the Company's asset operation and major financial information, so as to make clear judgments, identify problems and make quick responses. Thirdly, pay attention to the progress of asset acquisitions, sales and connected transactions, and prevent the loss of assets and other operational risks of the Company. Continue to strengthen the implementation of supervisory duties, sufficiently discuss the basic resolutions formulated by the Board of Directors and the various resolutions reviewed and approved by it, and actively propose revisions and improvements to ensure that each of the decisions is conducive to the long-term development of the Company and can protect the legitimate rights and interests of all the Shareholders.

(III) Strengthen self-improvement to raise the supervisory level

The Supervisory Committee will actively attend various training organized by the regulatory authorities, and at the same time strengthen the studying of accounting, auditing, legal and financial knowledge, continuously broaden professional knowledge, enhance business skills, and raise supervisory level. The Company will constantly strengthen supervision over the duty performance of the Directors and senior management, establish efficient communication channels and methods, continuously improve the quality and efficiency of the duty performance of the Supervisory Committee, better exert the supervisory functions of the Supervisory Committee, and promote the sustainable and healthy development of the Company.

Shandong Gold Mining Co., Ltd.
Supervisory Committee

28 March 2019

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

This report is the Environmental, Social and Governance ("**ESG**") Report for 2018 of the Company and aims to objectively and fairly reflect the annual update of Shandong Gold's performance in ESG in 2018. This report is prepared in accordance with the requirements of Appendix 27 Environmental, Social and Governance Reporting Guide of the Hong Kong Listing Rules. Unless otherwise stated, the reporting period covers the period from 1 January 2018 to 31 December 2018. This report should be read in conjunction with the 2018 Annual Report and the 2018 Social Responsibility Report of Shandong Gold Mining Co., Ltd. and the "Ecological Mining" section on the official website of Shandong Gold Mining Co., Ltd.

ESG MANAGEMENT SYSTEM AND STRATEGY

(I) ESG Philosophy

The Company upholds the corporate spirit of "pursuing excellence, innovation and progress" and the core value of "Openness, Accommodation, Loyalty and Responsibility" and keeps a close eye on the strategic goal of "improving and expanding the main business of gold and becoming the top ten comprehensive strength in the global gold mining industry". In view of the characteristics of the industry in which the Company operates, the Company regards "environmental protection" and "safety" as its core concepts of ESG management and is committed to achieving safe production and protecting the natural environment while serving customers and obtaining good economic benefits.

Shandong Gold proposes and implements the concept of eco-mining development, designs and extends the mineral resources industry chain according to the ecological regularity, and obtains the maximum resources (value) with the minimum ecological disturbance. We always believe that to achieve the leading position in gold production, we must realize it in the circular mining development model guided by the concept of ecological civilization; to become an international first-class gold enterprise, we must always adhere to the principle of "protecting the green environment with heart and benefiting our earth with love".

Shandong Gold put forward the "double zero" strategy of "zero casualties and zero major environmental pollution accidents", scientifically upgraded the mine production systems and safety facilities and maintained a stable situation of safe production. The investment for safety and environmental protection work of the Company exceeded the national standard by 46%. During the 13th Five-Year Plan period, the annual investment in safety and environmental protection increased by about 15%. The green coverage of the mining areas in the core mines reached more than 90% of the afforestation area and the tailings dams were also greened with vegetation. At present, four enterprises were recognised as "National Level Green Mines" (國家級綠色礦山) and three enterprises were recognised as "National Level Pilot Green Mines" (國家級綠色礦山試點單位). The goal is to make all mines meet the national green mine standard by 2020.

(II) ESG Management Structure

In order to better implement the ESG concept, we have built an ESG management system. Adhering to the core concept of ESG management of the Company, we have built a complete safety and environmental protection management structure: the Production Safety Committee and the Eco-Mining Construction Committee headed by the Chairman of the Board of the Company comprehensively lead the Company's safety and environmental protection work. At the company level, we established the position of the Director of Safety and Environmental Protection and production safety department (eco-mining department). At the business department level, we established the position of president in charge of safety and environmental protection and production safety department (eco-mining department). At the level of tertiary enterprises, we established the position of the Director of Safety and Environmental Protection and production safety department (eco-mining department).

(III) Stakeholder Communication

The Company attaches great importance to communication with stakeholders. Combining with the characteristics of actual business and management operations, the Company collects the requirements of stakeholders through diversified communication channels and takes corresponding measures to meet their reasonable expectations and ultimate demands. Through the participation of stakeholders from all sectors, the Company promotes sustainable development in environmental protection, energy conservation and emission reduction, employee care, community participation and so on.

The table below lists the major stakeholders, concerns and communication channels identified.

Major stakeholders	Main ESG concerns	Main communication channels
Government and regulatory authorities	Emissions, use of resources, environment and natural resources, employment, labor standards, product responsibility, anti-corruption and community investment	Special reportings, on-site visits, policy consultation, information disclosure, correspondence and participation in meetings of government authorities
Investors and shareholders	Employment, anti-corruption and product responsibility	General meetings, investors' meetings, business announcement meetings, official website
Employees	Employment, labor standards, health and safety, development and training	Performance review, communication meetings, researches and receipt of advice
Contractors, suppliers and intermediaries	Product responsibility, supply chain management and anti-corruption	Market research, supplier investigations, supplier meetings
Media and non-government organizations	Emissions, use of resources, environment and natural resources, health and safety, employment, labor standards, community investment	News report, press release, social media, official website, communication meetings
Community members/ community organizations	Emissions, use of resources, environment and natural resources, health and safety and community investment	On-site visits, volunteer activities, charitable activities, social media and poverty reduction

(IV) Analysis of Substantive Issues

According to the 11 ESG issues listed in the ESG Reporting Guide of the Hong Kong Stock Exchange and based on the Company's own development characteristics, we conducted a substantive analysis and used it as an important reference for our ESG work and information disclosure in this Report. These 11 ESG issues are relevant to us. We identified the most important issues, including "emissions", "use of resources", "environment and natural resources", "health and safety", "employment" and "labor standards". The second most important issues include "anti-corruption", "product responsibility", "development and training", "supply chain management" and "community investment".

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL RESPONSIBILITY

The Company closely follows to the "13th Five-Year Plan" strategy, firmly adheres to the safety and environmental protection "double zero" target of zero safety responsibility accidents and zero environmental pollution accidents, and upholds the development concept of "Shandong Gold, Eco-mining" to actively promote resource conservation and emission reduction. The Company attaches great importance to the environmental risks faced in environmental protection and business operations and recognizes the importance of maintaining balance with the environment. We strictly abide by laws and regulations such as Atmospheric Pollution Prevention and Control Law of the People's Republic of China, Law of the People's Republic of China on the Prevention and Control of Environment Pollution Caused by Solid Wastes and Environmental Protection Law of the People's Republic of China. We have also established a sound corporate environmental management system in accordance with relevant laws and regulations and advocated and adhered to the values and behaviors of environmental protection. The Company has established a production safety department to be responsible for the daily environmental protection management of the Company.

(I) Emission Management

Emissions of the Company are mainly from the production process of the Company. The Company has implemented the green development concept throughout the whole process of mineral resources development and utilization and formulated the "Green Mine Construction Specification" and "Shandong Gold 2018-2020 Eco-mining Green Mine Construction Plan". By 2020, the Company aims to make all of its mining enterprises meet the national green mine standard so as to become the first green mining enterprise group in China. In addition, taking Sanshandao Gold Mine as a pilot, the Company plans to build it into an international first-class exemplary mine in 2-3 years and apply for entry into the "National 1000 science and technology-led, innovation-driven green mine models".

1. Waste Gas Treatment

The Company strictly controls and handles the waste gas generated in the production process in accordance with national laws and regulations and pollutant discharge standards. The Company's main emissions include nitrogen oxide, sulfur dioxide, soot and solid particulates in mining and smelting processes. The Company has installed waste gas treatment devices to ensure that the waste gas emissions comply with national and regional waste gas emission standards.

2. Wastewater Recycling and Treatment and Discharge

Through the establishment of wastewater treatment and recycling system, the Company has realized the recycling of production wastewater (cyanide-containing wastewater, processing wastewater, tailings pond clarified water) and domestic wastewater, without discharge. In respect of wastewater treatment caused by shaft seepage, Sanshandao Gold Mine and Jiaojia Gold Mine of Shandong Gold Mining (Laizhou) Co., Ltd. were listed as key pollutant discharge units of water environment in 2018 by the Shandong Provincial Department of Ecology and Environment. Mine water from Sanshandao Gold Mine of Shandong Gold Mining (Laizhou) Co., Ltd. is partly used to produce supplementary water, and the remaining water is discharged after being treated to meet the standards. The discharge spot is Laizhou Port discharge spot. The Company uses physical and chemical methods to treat mine water and has a design capacity of 1,000 cubic meters per hour. The concentration of COD in the treated wastewater is 10mg/L, which meets the requirement of Comprehensive Discharge Standard of Water Pollutants in Shandong Peninsula Basin (DB37/676-2007) (COD discharge standard is 50 mg/L). Mine water from Jiaojia Gold Mine of Shandong Gold Mining (Laizhou) Co., Ltd. is partly used to produce supplementary water, and the remaining water is discharged after being treated to meet the standards. The discharge spot is Jiaojia Gold Mine Shihuzui discharge spot. The Company uses physical and chemical methods to treat mine water and has a design capacity of 500 cubic meters per hour. The concentration of COD in the treated wastewater is 15mg/L, which meets the requirement of Comprehensive Discharge Standard of Water Pollutants in Shandong Peninsula Basin (DB37/676-2007) (COD discharge standard is 50 mg/L).

3. Hazardous Waste Storage and Disposal

The Company pays attention to the storage and disposal of hazardous wastes and conducts safe storage and disposals in strict accordance with national standards such as "Hazardous Waste Storage Pollution Control Standards" (GB18579–2001). The hazardous waste produced by the Company is mainly cyaniding tailings produced during the production process.

SDG Smelting, Guilaizhuang Mining and Shandong Gold Mining (Xinhui) Co., Ltd. were listed as key pollutant discharge units of soil environment in 2018 by the Shandong Provincial Department of Ecology and Environment. All three companies contain a cyanidation process, which produces cyaniding tailings. The cyaniding tailings produced by SDG Smelting and Shandong Gold Mining (Xinhui) Co., Ltd. are all handed over to qualified units for safe disposal. The cyaniding tailings produced by Guilaizhuang Mining complying with the requirements of the "Technical Specification for Cyanide Slag Pollution Control in Gold Industry" (HJ 943–2018) after detoxification treatment are discharged to tailings ponds that meet environmental requirements for disposal.

4. Comprehensive Utilization and Disposal of Non-hazardous Waste

The non-hazardous waste produced by the Company are mainly waste rocks produced in the production process and tailings classified as general wastes, which can realize 100% comprehensive utilization or safe disposal. Through the comprehensive utilization of tailings, the filling of tailings underground and the reuse of construction materials can be realized.

5. Noise Control

Through optimizing blasting design, technological process modification, using low-noise equipment, adopting indoor layout measures for high-noise sources, setting shock absorber pads for crushing and screening equipment to reduce noise hazards, the Company has achieved good noise reduction, which meets the requirements of Noise Standard for Industrial Enterprises GB12348-90.

6. Emission Reduction Measures and Effectiveness

In 2018, the Company also actively promoted emissions management and reduced pollutant emissions. The followings are some examples of the measures we have taken to reduce emissions and their effectiveness:

- *Xihe Zhongbao Mining Co., Ltd.*

  In 2018, Xihe Zhongbao Mining Co., Ltd. issued the "2018 Industrial Air Pollution Prevention and Control Work Plan" to control various atmospheric pollutant indicators and modified some processes. In the crushing section, three dust collectors are installed, and processing devices are added to reduce dust emissions. Electric boilers are used instead of coal-fired boilers and energy-saving equipment and solar water heaters are used to reduce waste gas emissions. Through routine monitoring, a total of 0.667 ton of smoke (powder) dust waste gas was emitted in 2018, which was 16.039 tons less than the total approved emissions of 16.706 tons. Domestic sewage is treated as processing water after being treated by integrated equipment. Processing wastewater is returned to the process system after pressure filtration to achieve "zero" discharge of sewage.

- *Shandong Gold Smelting Co., Ltd.*
  In 2018, the company continued to carry out research on the project "Research and Development and Application of Cyanide Residue Detoxification Treatment Technology", which won the first prize in 2018 for the Group's scientific and technological progress. The project utilizes new filter press technology products to filter and wash cyanide tailings slurry efficiently. The average moisture content of the filter cake can be kept below 13%, which reduces the amount of water taken away by the cyanide residue product, thereby reducing the harmful components in the water contained in the cyanide residue. The cyanide, thiocyanate and cyanide complex heavy metals in the cyanide residue were successfully transferred to the liquid phase, wherein the washing rates of cyanide and copper were 99.5%. The cyanide residue reached the standard of general solid waste (Class II), realizing cyanide residue detoxification, thus avoiding the environmental hazards to atmosphere and soil caused by the leakage of cyanide and heavy metals in the transportation, storage or disposal process of cyanide residues and bringing greater environmental benefits.

(II) Use of Resources

1. Use of Mineral Resources

Mineral resources are the foundation of the Company's sustainable development. Through optimizing mining methods and processing methods, the Company strengthened on-site operation management to maximize the utilization of mineral resources and prevent waste of resources.

2. Use of Natural Resources

Guided by the concept of green development and the principle of saving economy, the Company actively advocates resource conservation in production and office. The main natural resources used by the Company include water, electricity, diesel and so on.

In order to save energy, the Company continuously adopts new methods, new technologies and new equipment to improve or replace high-energy-consuming process equipment, constantly improves energy management, achieves energy conservation and emission reduction and comprehensive utilization of resources, reduces costs and enhances efficiency to create a green low-carbon enterprise.

The water resources used by the Company include municipal water supply and recycled water in the production process. In terms of water conservation, the company has established a recycling water system to reuse the mine water produced in production as much as possible. The Company encourages the use of technological transformation and other measures to improve water use efficiency. At the same time, the Company encourages employees to love water, cherish water and save water in daily life, shut down the faucet in time after using it, stop running and leaking and "long running water", and advocates multi-use of water.

The followings are some examples of the resource conservation measures we have taken and their effectiveness:

- *Jiaojia Gold Mine of Shandong Gold Mining (Laizhou) Co., Ltd.*
  Jiaojia Gold Mine attaches great importance to the promotion and application of new technologies for energy conservation and emission reduction and realizes the scientific and efficient energy conservation and emission reduction by speeding up the elimination of disadvantaged production processes and equipment. The use of LED energy-saving lamps instead of incandescent lamps in the middle section of the underground is promoted, saving 1.8 million kWh per year. The water source heat pump technology is used to replace the traditional coal-fired boiler and air-conditioning advanced technology is adopted to comprehensively utilize the underground water resources to achieve clean heating in winter and energy-saving cooling in summer. The heating renovation covered 126,000 square meters and the annual coal saving reached 4,800 tons. In addition, the company actively promotes the application of air compressor waste heat recovery technology, which can produce 330 tons of hot water per day at 50°C to meet the bathing needs of more than 5,500 people. The annual cost can be saved by RMB2.2 million, with remarkable energy saving and emission reduction effect.

- *Xincheng Gold Mine of Shandong Gold Mining Co., Ltd.*
  In 2018, Xincheng Gold Mine invested RMB970,000 to the transformation of its production and water supply system. A 4,000 cubic meter high-level pool was built for the settlement of underground water, in order to regulate the water volume, strengthen the recycling of water, and improve the water utilization rate. All underground water enters into the production process without discharge. The company invested RMB3.8 million to implement the filling automation transformation project. Through the automation transformation of slurry preparation, lime-sand ratio, liquid level control, pipeline switching and other production processes, on the premise of guaranteeing the requirement of filling concentration, energy consumption was reduced, and various technical indicators and economic indicators of the filling system were improved. It can save 250,000 cubic meters of water and more than 400,000 units of electricity per year.

  In addition to production, the company also advocates green office. The company pays attention to the construction of green office buildings, and advocates cherishing every unit of electricity, every drop of water, every piece of paper and every piece of office supplies. The slogan of "civilized office and resource conservation" can be seen everywhere in the office building. In order to save electricity, the lighting facilities used by the company are all LED light tubes and employees are reminded to turn off the power facilities after work. The company requires that the air-conditioning temperature in summer shall not be lower than 26°C and arranges special personnel to inspect after work so as to avoid "keeping lights on at all times" in unmanned office areas. Computers, printers, and photocopiers are turned off during lunch breaks and the power supply of office equipment will be cut off completely after eight hours of work. Employees are encouraged not to use elevators when travelling within 3 floors.

(III) Environment and Natural Resources

The Company deeply understands that its business will have a significant impact on the surrounding environment and natural resources. Therefore, in addition to reducing pollution and saving resources through environmental and energy management in the Company's operations and mineral mining, we also actively take measures from other aspects to reduce negative impacts.

1. Environmental Emergency Response Plan

All the subsidiaries of the Company carried out environmental risk assessment in accordance with relevant national regulations, formulated the Environmental Emergency Response Plan and conducted emergency drills.

2. Hazardous Chemicals Management

The raw and supplementary materials used by the Company and the products produced do not involve prohibited substances as stipulated in national laws and regulations and international conventions. The hazardous chemicals involved in production and operation mainly include sodium cyanide and sulphuric acid, which are managed in accordance with the Regulations on Safety Management of Hazardous Chemicals (State Council of the PRC Order No. 591), using special storage tanks or warehouses, equipped with anti-seepage and anti-leakage facilities and managed by special personnel.

3. Circular Economy

The Company greatly promotes clean energy such as geothermal and solar energy, eliminates coal-fired boilers, and gradually realizes "zero-burning coal". In 2017-2018, 22 coal-fired boilers with 10 steam tons/hour or less were eliminated in the provincial mines, reducing coal combustion by about 30,000 tons. SO_2 and NO_x (nitrogen oxide) emissions were reduced by approximately 144 tons and 216 tons, respectively. The Company strengthens wastewater treatment and reuse measures. Xincheng Gold Mine realized "zero discharge" of water in the mining area through the "magnetic biological carrier wastewater treatment" technology.

4. Green Mine Construction

In mine construction, the Company strictly abides by relevant laws and regulations such as the Water and Soil Conservation Law of the People's Republic of China, Provisions of the Protection of the Geologic Environment of Mines and the Wildlife Protection Law of the People's Republic of China, implements scientific and orderly mining, pays attention to the protection of natural environment and biodiversity, never explores or exploits in world heritage sites or legal protection zones, advocates conservation and intensive land use, eliminates pollution of soil pollutants, and actively carries out ecological restoration, land reclamation and geological disaster prevention and control in various mining areas. The Company's subsidiaries strictly follow the Shandong Gold "2018-2020 Opinions on the Implementation of Eco-mining Green Mine Construction Plan" and the specification requirements of green mine construction to promote green mine construction in an orderly manner. At present, four mines of the Company have been awarded "National Level Green Mines" and three mines of the Company have been awarded "National Level Pilot Green Mines". In 2018, Xincheng Gold Mine successfully passed the third-party spot checks and assessments of the first batch of green mines organized by the Ministry of Natural Resources, reaching the 5-star standard, which plays a demonstration and leading role.

Sanshandao Gold Mine under the Company invested RMB70 million to transform the closed tailings into a domestic first-class seaside tourist resort integrating leisure, tourism and coastal folk culture, which has driven the development of local tourism and achieved a win-win situation in the mining area. Guilaizhuang Mining invested RMB150 million to successfully build the waste rock mountain and open pits formed by mining into a beautiful mine park, which has been awarded a national "industrial tourism demonstration site". In the future, the Company will continue to focus on the strategic goal of "striving to become a world-class and bravely breaking into the top ten in the world", move forward along the road of eco-mining and green mines, earnestly safeguard the environmental interests and create a beautiful scenery of "lucid waters and lush mountains as invaluable assets".

(IV) Key Environmental Performance

The followings are the key environmental performance indicators of the Company. Unless otherwise stated, the following data cover most of the Company's domestic business, including Sanshandao Gold Mine, Jiaojia Gold Mine, Xincheng Gold Mine, Linglong Gold Mine, Yinan Gold Mine, Jinzhou Company, Laixi Company, Xinhui Company, Chifengchai Mine, Yuanxin Company, Xihe Zhongbao Company, Guilaizhuang Mining, Penglai Mining, SDG Smelting. Some subsidiaries are excluded from the disclosure because they only have a small amount of office-generated pollutants and energy consumption, or the production of pollutants and energy consumption are minuscule compared to other companies.

Emissions	
Total greenhouse gas emissions (10,000 tons)	81.95
Greenhouse gas emissions intensity (ton/RMB million)	14.96
Scope 1: Greenhouse gas emissions (10,000 tons) including: coal, natural gas, gasoline and diesel	5.41
Scope 2: Greenhouse gas emissions (10,000 tons) including: purchased electricity	76.54
Nitrogen oxide (tons)	13.08
Sulphur dioxide (tons)	5.29
Smoke (tons)	1.99
Particulate matter emissions (tons)	41.57
Wastewater discharge (10,000 tons)	3,350.06
Wastewater discharge intensity (ton/RMB million)	611.46
COD (tons)	408.38
Ammonia nitrogen (tons)	20.53
Hazardous waste safely disposed of (10,000 tons)	97.13
Intensity of hazardous waste safety disposed of (ton/RMB million)	17.73
General solid waste discharge (10,000 tons)	1,073.56
General solid waste discharge intensity (ton/RMB million)	195.95

Notes:

- The greenhouse gas emissions inventory includes carbon dioxide, methane and nitrous oxide, mainly from the use of electricity converted from fossil fuels. Greenhouse gas emissions data is presented in carbon dioxide equivalent and is based on the "2015 Baseline Emission Factors for Regional Power Grids in China" issued by the National Development and Reform Commission of China, and the "2006 IPCC Guidelines for National Greenhouse Gas Inventories" issued by the Intergovernmental Panel on Climate Change.

- Nitrogen oxide, sulphur dioxide, smoke and particulate matter emissions are mainly derived from organized emissions from the production process.

- The wastewater mainly includes the well permeable water produced in the mining process, which is discharged after being treated to the standard. The production wastewater (cyanide-containing wastewater, processing wastewater, tailings pond clarified water) and domestic wastewater are all recycled.

- Hazardous waste mainly includes cyaniding tailings, which are disposed of safely.

- General solid waste mainly includes waste rock, tailings, all of which are comprehensively utilized or safely disposed of.

Energy and Resources Consumption

Total energy consumption (million kWh)	1,209.27
Energy consumption intensity (MWh/RMB million)	22.07
Petrol consumption (tons)	509.48
Diesel consumption (tons)	13,044.42
Coal consumption (tons of standard coal)	3,501.04
Natural gas consumption (10,000 cubic meters)	169.13
Purchased electricity (MWh)	1,009,880.70
Total water consumption (10,000 tons)	1,744.40
Water consumption intensity (tons/RMB million)	318.39

Notes:

- Total energy consumption is worked out by the data of electricity with reference to the coefficients in the Energy Consumption Limit of Gold Mining Unit Product under the national standards of the People's Republic of China (GB32032-2015).

- The Company's water resources mainly come from municipal water supply.

- The Company's business includes exploration, mining, processing, smelting (refining) and deep processing and sales of gold products. Based on the Company's business characteristics, the use of packaging materials is only involved in the sale of gold products, and the use of packaging materials is extremely small compared to other resources such as fossil fuels and water, hence it is not disclosed.

EMPLOYEE CARE

The Company pays attention to providing employees with a healthy and safe workplace, safeguards employees' rights and interests, and concerns about their personal growth. In 2018, the Company won the title of "Spiritual Civilization Unit in Shandong Province".

(I) Employment and Labor Standards

The Company strictly follows relevant laws and regulations such as the Labor Law of the People's Republic of China, the Law of the People's Republic of China on the Protection of the Rights and Interests of Women and Children, Labor Contract Law of the People's Republic of China, Insurance Law of the People's Republic of China and the Law on the Protection of Women's Rights and Interests of the People's Republic of China. In accordance with relevant laws and regulations, the Company has formulated a number of internal systems to regulate the salary, dismissal, recruitment, promotion, working hours, holidays, equal opportunities, diversification, anti-discrimination and other entitlements and benefits of employees.

1. Recruitment and Dismissal

In order to strengthen the recruitment management of the Company and its subsidiary units, the Company has formulated the "Recruitment Management System" based on relevant national laws and regulations and the rules and regulations of companies under the Group and combined with actual work. Company recruitment does not discriminate against anyone on grounds of race, gender, age or religious beliefs. We adhere to the principle of fairness, justice and transparency, recruit and use employees according to the quality requirements of the posts, strictly implement the employment policies, and actively build harmonious and stable labor relations. The Company clearly regulates in the system to prevent the employment of child labor or forced labor. In 2018, the Company did not find any case of recruitment or use of child labor or forced labor.

In addition, the Company has formulated "Interim Provisions on Termination and Removal of Labor Contract by Group Headquarters" and "Relevant Provisions on Employee Labor Contract of Shandong Gold Group" to provide formal instructions on the procedures for resignation, changes, and termination of contracts, and safeguard the legitimate rights and interests of employees.

2. Salary and Benefits

By improving internal labor and salary distribution mechanisms, the Company ensures the fairness of remuneration packages and rationally arranges labor demand and salary distribution. The Company has formulated the "Measures for the Administration of the Budget for the Total Wages of Shandong Gold Enterprises", which made the total wages and benefits be linked in the same direction, giving full play to the incentive effect of labor employment and salary distribution. Meanwhile, the enterprise has formulated the remuneration management measure for the person in charge of the enterprise to maintain the salary competitiveness, attract external talents, retain internal talents and enhance the competitive advantage of human resources, so as to ensure the sustainable development of the enterprise.

The Company follows the regulations to contribute to five insurances and one fund in time and in full for its employees to safeguard their legitimate rights and interests. In addition, the Company encourages employees to return home for the New Year to reunite with their parents and families and reimburse a certain amount of holiday transportation expenses each year. The company also pays attention to the employees who are in difficulty and perseveres in "sending warmth" to help the poor. For example, during Spring Festival, Guilaizhuang Mining helped 26 employees with a distribution of relief funds of RMB96,000.

3. Promotion and Development

Through the establishment of a dual-channel system for managers and professional technicians, the Company improves the career planning of employees, provides effective support for the construction of the professional development channels of the Group, and promotes the upgrading of the Company's overall professional competence.

We have set up an all member competition process. The human resources department formulates the plan according to the needs, and publishes the recruitment notice to organize the registration. All members are qualified to compete in a unified manner. Based on factors such as performance contribution, leadership and professional competence, the internal review committee reviews the promotion of employees. Before evaluation, employees can participate in training to understand the criteria and process of promotion evaluation. After evaluation, employees can provide feedback on promotion through open channels of promotion complaints.

4. Work-life Balance

The Company has formulated the "Regulations on the Paid Annual Leave for Employees" and the "Regulations on the Management of Employees' Attendance" to strengthen its management of employees' paid annual leave, protect physical and mental health of employees, and improve work efficiency and enthusiasm of employees. For working hours, the Company has established an attendance system, forbidding compulsory overtime and encouraging employees to work and rest. The Company also organizes various activities for employees, such as New Year's Tea Party, Summer Evening Party, to enrich their spare time.

5. Diversity and Equal Opportunities

The Company is committed to creating a fair and diverse work environment for its employees, ensuring equal opportunities for employees, whether in terms of remuneration or promotion. We also have a variety of internal communication channels, such as democratic communication life meetings, so that employees' requests, suggestions or opinions can be heard and responded in time.

(II) Occupational Health and Safety

The Company cares about the health and safety of its employees and is committed to providing a safe and healthy working environment for its employees. The Company strictly abides by the relevant laws and regulations on occupational health and safety in China, including the Law on Mine Safety of the People's Republic of China, the Law on Work Safety of the People's Republic of China, the Regulations on Work Safety Permits and the Provisions on Accountability towards safe production of Production and Operation Units in Shandong Province, and has established a sound occupational health and safety management system.

1. Safety Management

The Company has developed a number of safety management systems and operational procedures, such as the "Safe Production Inspection System" and the "Interim Regulations on Graded Management and Control of Safe Production Risk". The Company adheres to the safety and environmental protection "double zero" target of zero safety responsibility accidents and zero environmental pollution accidents. It has formed three levels of safety concepts: Company, managers of mines and employees.

- The safety concept at the company level: Safe development with peace and prosperity;
- The safety concept at the level of managers of mines:
    - The "first position" of the managers of mines is the front line of production
    - The "first responsibility" of the managers of mines is safe production
    - The "first target" of the managers of mines is the "double zero" target
- The safety concept at the employee level: All of us work safely to maintain a happy life

(1) Safety Responsibility Management and Supervision

The Company implements accountability towards safe production, establishes a safe production committee headed by the chairman of the Company to lead the Company's safety work in an all-round way, establishes and improves the "three-in-one" safety responsibility certificate assessment format and the ranking model of safety director assessment, and formulates a number of safety management systems and operating rules such as "Opinions on Effectively Improving Safety and Environmental Protection Work in 2018". The Company implements the notification system of the main person in charge of mining enterprises, safety director and safety assessment indicators, takes the safety director as the lead to conduct in-depth on-site inspection and implement supervision responsibilities, and effectively carries out monthly, quarterly and "one post with two responsibilities" professional inspection.

Safety risk identification and elimination are the key points of safety management work of the Company. The Company actively carries out the construction of double prevention system for risk grading management and control of hidden dangers, comprehensively identifies and evaluates mine risks, and forms a four-level management responsibility system for post, workshop, profession and mining departments, as well as a hidden danger investigation and management system of post investigation at shifts, workshop daily investigation, weekly investigation at professions and monthly investigation of mining departments job scheduling, workshop daily inspection, professional weekly inspection, and clarifies the responsibilities and assessment mechanism at all levels, and accurately identifies risks and eliminates hidden dangers. The Company carries out the mechanism of retrospective investigation of hidden danger accountability. For the hidden danger not found in time and the hidden danger of inadequate remediation, the Company shall seriously investigate the responsibility according to the accident. In 2018, Yantai Mining Business Department identified 556 hidden dangers and fined RMB123,000 in total; and China Mining Business Department identified 339 hidden dangers and fined RMB92,200 in total.

For areas that are prone to safety risk, the Company has established corresponding systems and measures to reduce the safety risk, such as:

- Management of Explosives and Hazardous Chemicals
  The Company strictly implements the National Regulations on Safety Management of Hazardous Chemicals and the Fire Safety Supervision and Management Measures for Flammable and Explosive Chemicals, and strictly regulates and controls the procurement, transportation, use and storage of hazardous chemicals involved in production. In 2018, the Company carried out a special management activity focusing on standardizing the qualification of blasting operation, the management of blasting articles and external engineering teams. Mining departments formulated special management rewards and punishments and tracked the progress of supervision and control.

- Management of Tailings Ponds
  The Company attaches great importance to the safety management of tailings ponds. It has formulated "Regulations on Dust Prevention Management of Tailings Ponds", "Safety Management System of Tailings Ponds Construction", "On-line Monitoring Management System of Tailings Ponds" and other management systems. The Company carries out special safety inspection and rectification of tailings ponds every summer.

(2) Emergency Response and Handling of Safety Accidents

All enterprises under the Company have formulated emergency plans for production safety accidents, and organized emergency rescue drills for production safety accidents every year to continuously improve emergency plans and improve emergency rescue capabilities.

(3) Safety Technology Innovation

The Company encourages safety technology innovation. In 2018, the Company achieved remarkable achievements in safety technology innovation. Many mines promoted the application of safety protection blocking device at the main unloading wellhead. Wet spraying technology with roof supports of Jiaojia Gold Mine is widely used. The optimization effect of ventilation system in Xincheng Gold Mine is obvious. The project of "mechanized replacement and reduction of personnel with automation" has achieved phased results.

(4) Safety Education

Through carrying out various safety meetings, safety education and "Safe Production Month" activities, the Company builds a safety exchange platform, establishes a comprehensive safety culture system, and conducts comprehensive safety education and training. In 2018, the Company organized 1,018 various safe production training sessions with 123,215 attendances of employees.

2. Occupational Health

The Company attaches great importance to the prevention and control of occupational diseases and strives to improve the production and operation environment of employees. All mining enterprises shall formulate and strictly implement the "Occupational Disease Prevention and Control Management System" and the "Occupational Health Operation Regulations" according to relevant laws and regulations.

The Company conducts occupational health check-ups for employees exposed to occupational hazards every year and establishes occupational health surveillance files. The Company conducts occupational health education and training for employees every year and enhances the occupational health protection knowledge and skills of employees through regular training and rigorous examinations. In 2018, the medical check-up rate of employees exposed to occupational hazards reached 100%.

(III) Staff Training and Development

The Company pays attention to employee growth, develops training plans based on the Company's development needs and training needs, and conducts training programs for the needs of business management personnel, professional technicians, and vocational and technical personnel. In 2018, the Company invested RMB18.16 million to its annual training.

The training of management personnel is guided by the spirit of the Nineteenth National Congress, with the goal of internationalization and securitization strategy and refined management. It focuses on corporate governance, overseas mergers and acquisitions, capital operation, strategic exit, transformation and development, and basic management, aiming at improving strategic thinking and innovation ability.

The training of professional and technical personnel focuses on the renewal of knowledge structure and the improvement of innovation ability, covering geology, surveying, mining, processing, smelting, machinery, electrical, safety, finance and so on. The Company strives to improve professional ability, practical ability and innovation ability.

The training of skilled personnel mainly focuses on the training of mine-specific work skills, highlighting the standardization of practical operation to improve the competency of skilled personnel. The training effect was remarkable. Three workers were awarded the title of "National Technical Experts". Four workers were awarded the title of "National Technical Experts in Gold Industry". Three workers were awarded the title of "Shandong Province Technical Experts". 30 workers were awarded the title of "Shandong Province Technical Experts in Gold Industry". One worker was awarded the title of "Shandong Taishan Industry Leading Talent (Industrial Skills Category)". Two workers were awarded the title of "Chief Technicians in Qilu" of Shandong Province. One worker was awarded the title of "Technicians with Outstanding Contribution in Shandong Province". Four workers were awarded the title of "Chief Technicians of Shandong Gold Group".

SUPPLY CHAIN MANAGEMENT

The Company's main suppliers include suppliers of materials and services. The Company understands the importance of supply chain compliance management and the establishment of stable business partnerships for the sustainable operation of the Company, and actively urges supply chain partners to improve their environmental and social risk management level. The Company has established "Interim Measures for the Management of Tendering and Bidding" and other systems to regulate the activities of the Company's procurement process.

In the procurement of materials and engineering, the Company adopts the supplier early entry system. For those suppliers who apply for admission, the Company will check their environmental and social management related qualification certificates, capacity-building materials, etc. For key equipment and key projects, the Company's business department organizes special inspection teams to conduct on-site visits to suppliers. In the course of investigation, besides understanding enterprise scale, management level, technical personnel composition, on-site environment and production capacity, environmental management and social risk management are also considered as one of the contents of the investigation and as the reference factors for final review. In open tenders, we focus on the environmental and social risks associated with the bidders. The qualification construction of bidders is included in the scoring standards, and various qualification certificates of suppliers are inspected, including environmental management system certification, occupational health and safety management system certification, credit rating certification, quality certification system certification, etc. Meanwhile, we learn about the supplier's reputation from the Internet, bid evaluation experts, using enterprises and other channels, including whether there are environmental and social complaints, lawsuits and accidents related reports, and take the investigation results as one of the reference factors when scoring. In addition, we are also concerned about the environmental and social performance of the entire process of cooperation with suppliers.

PRODUCT RESPONSIBILITY

(I) Product Quality Management

The Company is mainly engaged in gold mining and has a complete industrial chain of exploration, mining, processing, smelting (refining) and deep processing and sales of gold products. Due to the Company's business characteristics, we mainly provide gold products and corresponding sales services to consumers. The products and services themselves basically do not involve the impact on consumers' health and safety.

For product quality management, the Company strictly implements the requirements of the quality management system, focuses on the needs of customers, conducts quality inspections on incoming materials and manufactured products in accordance with national standards, and establishes and improves customer communication mechanisms. SDG Smelting under the Company has formulated and implemented the "Quality/Environment/ Occupational Health and Safety Management Manual for Shandong Gold Smelting Co., Ltd." and has passed the three-system certification of ISO9001, ISO14001 and OHSAS18001, LBMA quality certification, and CNAS certification of the National Qualified Laboratory. It has been awarded the honorary title of Advanced Enterprise Providing Standard Gold Ingots" by the Shanghai Gold Exchange. "Taishan" brand standard gold and "Shandong Gold" brand products are excellent in quality and have maintained "zero complaints" in terms of quality issue for many years, with product quality passing rate reaching 100%. In addition, in order to improve the service level, SDG Smelting regularly carries out customer satisfaction surveys, customer return visits, internal control testing and authoritative agency testing to constantly improve product service and quality level.

(II) Data Security and User Privacy

The Company pays attention to the confidentiality of user data, sales data and network information. Complying with laws and regulations such as the Network Security of the People's Republic of China, we have formulated and implemented relevant systems such as the "Regulations on the Establishment and Management of Network Security Technology Management System (Trial Implementation)", the "Management System of Network Security Technicians (Trial Implementation)", and the "Management System of Information System Operations and Maintenance (Trial Implementation)" to protect user data.

The Company has set up a leading group for network security and informatization, which is chaired by the chairman of the Group with the network security and informatization work office. The Company uses jump server to strengthen the management of resource authorization, user authentication and operation auditing of servers and network devices, cuts off the direct access of terminal computers to servers and network resources, and blocks malicious attacks, illegal commands and illegal access behaviors. The Company carries out auditing and monitoring of the internal personnel mis-operation and illegal operation to reduce the probability of network security incidents. The Company establishes and improves the emergency response mechanism for network security incidents, builds a network security "firewall", clarifies the responsibilities of relevant personnel, refines the division of labor, and achieves prevention and control from the sources.

We sign a confidentiality agreement with our employees and a responsibility letter for network security. The leaders of network security work leading group of enterprises under the Company signed the "Corporate Responsibility Commitment for Network Security", and earnestly assumed the responsibility of network security of the Company. At the same time, we have established relevant remediation mechanisms. Every year, we will update the emergency response mechanisms, assess key risks, formulate disaster response plans, and conduct emergency drills on a regular basis.

(III) Intellectual Property Rights and Trademarks

We emphasize the importance of respecting and protecting intellectual property rights, and strictly abide by the relevant laws and regulations of intellectual property rights in China, such as the Copyright Law of the People's Republic of China, the Trademark Law of the People's Republic of China and the Patent Law of the People's Republic of China.

Through training and propaganda, we can raise the awareness of intellectual property risks in business departments, establish effective mechanisms to control intellectual property risks in all business segments, and strengthen our own intellectual property accumulation to cater for external challenges. In May 2018, we organized practical training on the application of intellectual property rights in enterprises to help R&D personnel enhance their awareness of intellectual property rights and enhance their awareness of patent risk prevention.

We respect and encourage originality and have an internal system to encourage employees to participate in innovation and creation, and to protect innovative achievements. As of 2018, the Company has 287 valid trademarks, 75 patents applied in China, 1 PCT and 231 valid patents accumulated.

(IV) Advertising Management

We follow the relevant laws and regulations of advertising, such as the Advertising Law of the People's Republic of China, the Regulations on Control of Advertisements and the Interim Measures for the Administration of Internet Advertisement, strictly control marketing advertising and advertising strategies, set up different approval processes for different levels and contents of advertising, and ensure that the published content conforms to laws and regulations.

ANTI-CORRUPTION

In accordance with the Criminal Law of the People's Republic of China, the Anti-Money Laundering Law of the People's Republic of China and other national laws and regulations, as well as the Anti-corruption Self-discipline Code of Conduct of the Community Party of China and other relevant policies and systems, the Company strengthens anti-corruption, bribery risk and internal control management, and improves a series of internal management systems. In 2018, there were no violations of laws and regulations related to corruption and bribery.

(I) Integrity Risk Prevention and Control Management

The Company continues to promote the management of integrity risk prevention and control. All of its subsidiaries actively promoted the mode of "finding risks – formulating prevention and control measures – establishing long-term mechanisms", initially established an integrity risk prevention and control work system, and played a role in earlier inspection, full-process supervision, and early warning and prevention. Meanwhile, the Company closely adheres to the "three important points" of important positions, important personnel and important issues, grasps the "three key points" of pre-existing prevention, in-process monitoring and post-disposal, clarifies the responsibilities, identifies integrity risks, formulates prevention and control measures and establishes a long-term mechanism. The Company integrates the concept of integrity risk prevention and control management into the production and operation process of the enterprise, realizes the whole process and all-round monitoring of key functions and powers, and establishes and improves the integrity risk prevention and control with comprehensive coverage, clear responsibility, strict prevention and control, long-term mechanism and supervision. The Company effectively guards against the integrity risk brought about by the lack of system, the failure of balances, internal control imbalances and misconduct.

At the same time, all companies have set up the positions of Supervisor of Party Conduct and Honesty to promote supervision. The main responsibilities include formulating and implementing an integrity strategy, comprehensively identifying and guarding against integrity risks, obtaining and mastering clues to violations of Party policies and discipline, and promptly reporting to the disciplinary committees of the companies under the Group.

(II) Reporting and Investigation Mechanism

The Company has a "four in one" reporting channel (reporting mailbox, reporting calls, visits, letter acceptance) to accept external reports. At the same time, the Company has set up an internal complaint and reporting mechanism to encourage employees to report violations against laws and disciplines. We have a whistleblower protection system and take a number of measures to ensure the anonymity of the whistleblower and to protect the whistleblower's legitimate rights and interests from infringement.

The supervision department is responsible for timely acceptance of fraud-related reports and the formation of an anti-fraud investigation team for investigation. We have a complaint and clarification mechanism to ensure the fairness and accuracy of the investigation. Employees proven to have committed fraud will be dismissed. The Company will transfer matters that violate national laws to the judicial authorities.

(III) Construction of Integrity Culture

The Company has carried out the integrity promotion work throughout the whole process of production and operation and strives to build a culture of integrity. The Company actively organized activities such as Integrity Culture Month, "Four Enhancements" of Integrity Culture, Anti-corruption Speech Competition, Painting and Calligraphy Competition on Integrity; organized the study and revision of the "Regulations on Disciplinary Punishment"; conducted visits to educational bases to watch educational films such as "Uncontrolled Yahao" (《失控的「雅好」》) "Daring tide riders stood atop the towering waves" (《弄潮兒向濤頭立》); and organized Party discipline regulations and Conduct and Honesty test, "Lighthouse" online contest competition to further create an atmosphere of anti-corruption.

In June and September 2018, the Company held two special training courses, engaged the Provincial Discipline Commission Law and Regulations Office, the Fifth Discipline Supervision Office, the Provincial Discipline Commission's Discipline Inspection Unit in the Provincial State Assets Commission and the Yantai Discipline Commission to study and interpret the Party's Regulations, the Disciplinary Regulations, the Party's Supervision Regulations, the Accountability Regulations and the Work Rules of Supervision and Discipline. Discipline committee secretaries (in charge of leadership) and discipline inspection and supervision cadres of joint stock companies and their affiliated enterprises all participated in the training. In 2018, online training coverage on integrity reached 100%.

(IV) Honest Procurement

The Company carries out procurement project management on sunshine platform to avoid commercial bribery and fraud. In order to further cultivate the sense of integrity of the relevant staff in the procurement process, we have conducted anti-commercial bribery and honest procurement related training for procurement demand personnel and procurement executives. The Company's procurement department regularly conducts self-examination on procurement activities, and procurement activities are subject to supervision and inspection by the Company's supervisory department and internal audit department.

COMMUNITY INVESTMENT

While pursuing our own development, we also actively communicate with the community to understand the needs of the communities in which we operate and to ensure that interests of the community are fully taken into account in our business activities.

In the process of project development and establishment, the Company shall, in strict accordance with the relevant laws, regulations and local government requirements, communicate and consult with the immigrants in a timely manner, carry out immigration planning, compensation, resettlement and other related work, and properly handle the follow-up matters of migrants. When corporate projects involve local cultural traditions and heritage, we fully respect and protect the cultural traditions and heritage of the community and minimize the negative impact. The Company also adheres to the territorial recruitment policy and implements recruitment methods for localized personnel, especially for the remote provinces and underdeveloped areas in the west.

In addition, the Company also actively carries out charitable activities in combination with its own advantages:

- **Charitable Projects**

  On 24 December 2018, the Red Cross Society of China teamed up with Shandong Gold to hold a donation ceremony for "Guarding Safety – Safety Protection Schoolbag for Primary and Secondary School Students in Bahrain Zuoqi" in the 6th Primary School of Bahrain Zuoqi, Chifeng City, Inner Mongolia. In this donation, we donated 1,000 sets of school bags for safety protection, including one school bag for safety protection, five safety manuals and one emergency bag each. During the activity, the first-aid lecturer of the Red Cross Society in Inner Mongolia Autonomous Region also introduced first-aid knowledge such as chest compression, artificial respiration, and other common campus safety knowledge such as drowning prevention and trampling prevention to improve students' safety awareness and skills.

  In December 2018, Shandong Gold set up a working committee on caring for the next generation. The working committee is a mass working organization with retired veterans as the main body, relevant departments of the Company and leaders of mass organizations, aiming at caring, educating and cultivating healthy growth of young people.

- **Precise Poverty Alleviation**

  The Company is actively engaged in the national strategy of poverty alleviation. Since the launch of the precise poverty alleviation, the Company has carried out precise identification and cadre assistance in an orderly manner. For example, Chifengchai Mining Company has launched a charitable donation campaign according to the requirements of "Notice on Enhancing the Social Support for the Newly Identified Poverty-stricken Villages in 2017" and "Notice on the Launch of Community Poverty Alleviation of One Hundred Million" of Songshan District of Chifeng City, to show caring for the disadvantaged groups and support the poor.

- **Volunteer Activities**

  The Company continuously promotes and encourages employees to participate in volunteering. In 2018, Yinan Gold Mine and other companies actively organized and carried out volunteer service activities. For example, during the public holidays, young employees were gathered together to participate in charitable activities organized by Yinan Dandelion, during which they cleaned up the streets and picked up garbage in parks. They also visited homes for the elderly to help with cleaning and send fruits.

CORPORATE GOVERNANCE REPORT

OVERVIEW

The Company, being a company listed in Hong Kong and the PRC, manages its operation in strict compliance with the laws, regulations and regulative documents of the places where its shares are listed, and strives to protect and enhance its corporate image. The Company continues to improve its corporate governance structure in compliance with the PRC Company Law and the regulations and requirements of the CSRC, SFC and the Hong Kong Stock Exchange. The corporate governance of the Company complies with the applicable requirements of the laws and regulations.

The Corporate Governance Report is presented for the period from the Listing Date to 31 December 2018.

The Company is committed to the maintenance of good corporate governance practices, with reference to the CG Code as set out in Appendix 14 to the Hong Kong Listing Rules. The Board is of the opinion that the Company had complied with all applicable code provisions as set out in the CG Code during the period from the Listing Date to 31 December 2018.

SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the model code for Securities Transactions of Listing Issuers (the "**Model Code**") as set out in Appendix 10 of the Hong Kong Listing Rules as the model code for the trading of securities by the Directors and Supervisors. Having made specific reasonable enquiries with all Directors and Supervisors, the Company confirmed that all Directors and Supervisors have complied with all applicable provisions of the Model Code for the period from the Listing Date to 31 December 2018.

BOARD COMPOSITION AND PRACTICE

As at the date of this annual report, the Board comprises nine Directors, including three executive Directors, three non-executive Directors and three independent non-executive Directors as follows:–

The executive Directors are Mr. Wang Peiyue, Mr. Li Tao and Mr. Tang Qi; the non-executive Directors are Mr. Li Guohong, Mr. Wang Lijun and Ms. Wang Xiaoling; and the independent non-executive Directors are Mr. Gao Yongtao, Mr. Lu Bin and Ms. Hui Wing. The biographical details of each Director are set out in the section headed "Brief Biographies of Directors, Supervisors and Senior Management" in this annual report. To the best of the Board's knowledge, there is no relationship(s) among the members of the Board.

During the period from the Listing Date to 31 December 2018, the Board at all times has met the requirement of rules 3.10 and 3.10A of the Hong Kong Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise. The Company has received an annual confirmation of independence from each of the independent non-executive Directors. The nomination committee of the Board (the "**Nomination Committee**") has assessed their independence based on the guidelines in accordance with rule 3.13 of the Hong Kong Listing Rules, and the Company considered them to be independent.

Each of the non-executive Directors was engaged on a service contract or letter of appointment for a fixed term and shall be subject to retirement by rotation once every three years.

Led by the chairman of the Board, the Board is responsible for resolving on the Company's business plans and investment plans, preparing the annual financial budgets and final accounting plans of the Company, preparing the profit distribution plan and loss makeup plan of the Company, formulating plans for material acquisitions, purchase of shares of the Company, merger, division, dissolution or transformation of the Company, listening to work reports of the general manager, reviewing his/her work and convening general meetings, reporting to general meetings and implementing resolutions of general meeting. The chairman has delegated the secretary to the Board to draft the agenda of each Board meeting. With the assistance of executive Directors, the secretary to the Board and the company secretary, the chairman will ensure that all Directors will be provided with sufficient and reliable information in a timely manner to enable them to make necessary analysis according to their business expertise.

In accordance with the Articles of Association, the term of a Director shall last for not more than three years but can be re-elected to serve consecutive terms.

As the chairman of the Company, Mr. Li Guohong is mainly responsible for the overall and strategic development, investment planning and human resources allocation and delegates the daily operation management to the relevant managers. Executive Directors and deputy general managers of the Group are responsible for the daily management of various businesses, including executing resolutions of the Board, and are responsible to the general manager for the business operations of the Group.

EXPLANATION ON THE RELEVANT MATTERS OF CORPORATE GOVERNANCE

The Board is responsible for the performance of the functions of corporate governance. For the year ended 31 December 2018, the Board has performed the functions set out in code provision D.3.1 of the CG Code.

During the Reporting Period, the Company strictly followed the requirements of the PRC Company Law, PRC Securities Law, "Code of Corporate Governance for Listed Companies", SSE Listing Rules, Hong Kong Listing Rules and other domestic and foreign laws and regulations, continuously improved the Company's corporate governance structure, regulated the Company's operation, and enhanced the Company's corporate governance standard. Currently, the Company has already established a relatively sound corporate governance structure and corporate governance system.

CHAIRMAN AND THE GENERAL MANAGER

During the Reporting Period, Mr. Li Guohong is the Chairman of the Company and the General Manager is Mr. Wang Peiyue. The Chairman and the General Manager are two different positions, and their duties are clearly separated and set out in the Articles of Association. The main duties of the Chairman are: to preside over shareholders' general meetings, and convene and preside over meetings of the board of directors; to supervise and check the implementation of resolutions passed by the Board; to sign the share certificates, corporate bonds and other securities issued by the Company; and to exercise other powers conferred by the Board. The principal duties of General Manager are: to manage the production, operation and administration of the Company and report to the Board; to arrange for the implementation of the resolutions of the Board, the Company's annual operation plans and investment proposals; to formulate proposals for the establishment of the Company's internal management organs; to formulate the fundamental management system of the Company; to formulate the Company's specific rules and regulations; to recommend the appointment or dismissal of any deputy general manager and any financial officer of the Company by the Board; and to exercise any other authority granted by the Articles of Association or the Board.

CORPORATE GOVERNANCE REPORT

DIRECTORS AND THE BOARD

As at the date of this annual report, the Board consists of 9 Directors, in which there are 3 independent non-executive Directors. The number and the composition of the Board comply with the provisions of the relevant laws and regulations. The composition of professions of the members of the Board is reasonable. The members of the Board possess the necessary knowledge, skills and competence to discharge their duties. The Directors timely attended the Shareholders' general meeting and Board meetings, discharged their duties conscientiously, faithfully and diligently, proactively participated in the business trainings. They are familiar with the relevant laws and regulations and have clear sense of the rights, obligations and responsibilities as a director. There are four specialized committees under the Board including the remuneration and appraisal committee, strategy committee, audit committee and nomination committee to further enhance the decision-making mechanism of the Board.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for formulating the policies for the corporate governance of the Company and performing the corporate governance duties as below:

(i) To formulate and review the Group's policies and practices on corporate governance and make recommendations;

(ii) To review and monitor the training and continuous professional development of the Directors and senior management;

(iii) To review and monitor the Group's policies and practices on the compliance with all legal and regulatory requirements (where applicable);

(iv) To formulate, review and monitor the code of conduct and compliance manual (if any) applicable to the employees of the Group and the Directors; and

(v) To review the Group's compliance with the CG Code and disclosure requirements in the corporate governance report.

THE ATTENDANCE OF DIRECTORS AT THE BOARD MEETINGS AND GENERAL MEETINGS

The Board convened 11 Board meetings and 3 general meetings during the Reporting Period. The attendance of the Directors at the meetings was as follows:

		Board Meetings						Attendance of general meetings
Name of Director	Independent Director	No. of board meetings ought to be attended this year	Attended in person	Attended via telecommunication	Attended by proxy	Absent	Not attending in person for 2 consecutive meetings	Times of attendance at general meetings
Li Guohong	No	11	3	8	0	0	No	2
Chen Daojiang (resigned with effect from 27 November 2018)	No	9	0	8	1	0	No	1
Wang Lijun	No	11	3	8	0	0	No	2
Wang Peiyue	No	11	3	8	0	0	No	2
Wang Xiaoling	No	11	3	8	0	0	No	2
Tang Qi	No	11	3	8	0	0	No	3
Gao Yongtao	Yes	11	1	10	0	0	No	1
Lu Bin	Yes	11	3	8	0	0	No	0
Hui Wing	Yes	11	1	10	0	0	No	0

Number of Board meetings held this year	11
In which: Number of physical meetings	1
Meetings via telecommunication	8
Physical meetings with telecommunication	2

The Chairman also held a meeting with the independent non-executive Directors without the presence of the executive Directors from the Listing Date up to the date of this annual report.

PRACTICES AND CONDUCT OF MEETINGS

Board meetings include regular meetings and extraordinary meetings. Regular board meetings shall be held at least four times a year and shall be convened by the chairman. Notice of a regular board meeting shall be given to all directors and supervisors at least 14 days in advance. Regular board meetings shall not be convened by way of correspondence.

An extraordinary board meeting may be held by request of shareholders representing more than 10% of the voting rights or by request of more than one-third directors, supervisors or general managers. The chairman shall convene and preside over a board meeting within 10 days after receipt of the proposal. The time limit for the delivery of such notice is at least 5 days before the meeting.

For regular Board and committee meetings, all agendas, meeting papers, together with all applicable, complete and reliable statistics will be sent to all the Directors or committees members at least 5 days before a meeting is held.

The Board shall keep minutes of resolutions passed at meetings of the Board. The minutes shall be signed by the Directors present at the meeting. Minutes of the board meeting shall be kept as the Company's record for a period of 10 years.

If any Director has connection with the enterprise involved in the resolution made at a Board meeting, the said Director shall not vote on the said resolution for himself or on behalf of another Director.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

In accordance with the Articles of Association, Directors shall be elected or changed by the general meeting and serve a term of 3 years but may serve consecutive terms if re-elected. Any person appointed by the Board to fill a temporary vacancy on or as an addition to the Board shall hold office only until the next following general meeting of the Company, and shall then be eligible for re-election.

Any other appointment, resignation, removal or redesignation of Directors will be timely disclosed to the Shareholders by announcement and shall include in such announcement, the reasons given by the Director for his resignation.

Each of the non-executive Directors was engaged on a service contract or letter of appointment for a fixed term and shall be subject to retirement by rotation once every three years.

ANNUAL REMUNERATION OF THE SENIOR MANAGEMENT

Details of the remuneration paid to the senior management of the Group by band (excluding Directors), whose biographies are set out on pages 35 to 37 of this annual report, for the year are set out below:

Within RMB1,000,000	3

SHAREHOLDERS AND SHAREHOLDERS' GENERAL MEETING

During the period from the Listing Date to 31 December 2018, the Company convened three general meetings, details of which are stated in the table below. The Company will convene and hold the Shareholders' general meeting strictly in compliance with the regulations and requirements of the Articles of Association and the rules governing the procedures of the Shareholders' general meeting of the Company, to ensure all of the Shareholders, especially the minority Shareholders, could enjoy equal rights and fully exercise their voting rights.

DETAILS OF THE SHAREHOLDERS' GENERAL MEETING

Session of meeting	Convening date	Index of the designated website publishing the resolutions	Date of publishing the resolutions
2017 annual general meeting of the Company	28 March 2018	SSE Website	29 March 2018
2018 first extraordinary general meeting of the Company	8 February 2018	SSE Website	9 February 2018
2018 second extraordinary general meeting of the Company	13 August 2018	SSE Website	14 August 2018

Shareholders' Rights

The Articles of Association have stipulated the rights and obligations of all Shareholders. Shareholder(s) severally or jointly holding 10% or above shares of the Company shall be entitled to request the Board to convene an extraordinary general meeting, and shall put forward such request to the Board in writing. The Board shall, pursuant to laws, administrative regulations and these Articles of Association, give a written reply on whether to convene the extraordinary general meeting or not within 10 days after receipt of the proposal. If the Board agrees to convene the extraordinary general meeting, it shall serve a notice of such meeting within five days after the resolution is made by the Board.

When the Company convenes a general meeting, written notice of the meeting shall be given 45 days before the date of the meeting to notify all of the Shareholders whose names appear in the share register of the matters to be considered and the date and the place of the meeting. A Shareholder who intends to attend the meeting shall deliver his written reply concerning the attendance of the meeting to the Company 20 days before the date of the meeting.

Where the Company convenes a general meeting or meetings of the Board and the Supervisory Committee, Shareholder(s) severally or jointly holding 3% or above of the Shares may make proposals to the Company. Shareholder(s) severally or jointly holding 3% or above Shares may submit written provisional proposals to the convener 10 days before a general meeting is convened.

Voting in a Shareholders' general meeting is by way of poll.

The Group communicates with Shareholders through the issuance of annual reports, interim reports, quarterly reports, press and electronic announcements. All communications with Shareholders are also published on the website of the Group, http://www.sdhjgf.com.cn.

CONTINUOUS PROFESSIONAL DEVELOPMENT

Upon appointment of Director(s), each new Director receives an induction package covering business operations, policy and procedures of the Company as well as the general, statutory and regulatory obligations of being a director to ensure that he/she is sufficiently aware of his/her responsibilities under the Hong Kong Listing Rules and other relevant regulatory requirements.

The Directors, on an ongoing basis, will receive updates on the relevant laws, rules and regulations. The Company encourages the Directors to enroll in a wide range of professional development courses and seminars relating to the Hong Kong Listing Rules, Hong Kong Companies Ordinance and corporate governance practices so that they can continuously acquire their relevant knowledge and skills. Pursuant to Code Provision A.6.5 of the CG Code, the Company has also provided reading materials to the Directors to develop and refresh their professional knowledge.

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE

The Board established the Nomination Committee. It comprises of five directors, Mr. Gao Yongtao, Mr. Wang Peiyue, Mr. Wang Lijun, Mr. Lu Bin and Ms. Hui Wing. Mr. Gao Yongtao was duly appointed as the Chairman of the Nomination Committee. Detailed regulations for the Nomination Committee are amended pursuant to the CG Code. The terms of reference of the Nomination Committee are published on the website of the Company and the HKEx Website.

The primary responsibilities of the Nomination Committee include:

1. to make recommendations to the Board about the size and the composition of the Board according to operating activities, size of assets and shareholding structure of the Company; to review the structure, size, composition and relevant qualifications (including skill, expertise and experience) of the Board at least once annually, make recommendations on any adjustment to the Board pursuant to the development strategy of the Company, and formulate a diversity policy for the Board;

2. to study the selection criteria, procedures and methods of Directors and managers and to make recommendations in this regard to the Board;

3. to identity for competent candidates of Directors and managers extensively;

4. to make recommendations to the Board on the candidates for Directors and managers, and provide advice to the Board on the appointment or re-appointment of Directors and succession plan for Directors, in particular the chairman of the Board and the general manager;

5. to screen the candidates for other management members and provide advice to the Board; to conduct a review and make recommendations on other senior management members who are subject to appointment by the Board;

6. to evaluate the overall skill, expertise and experience of Directors and senior management and assess the independence of the independent non-executive directors; and

7. all other matters delegated by the Board.

Procedure and Basis for Nomination

Pursuant to the Articles of Association and the terms of reference of the Nomination Committee, the Nomination Committee shall formulate selection requirements, procedures and term of office of Directors and management of the Company based on governing laws and regulations and the Articles of Association as well as the Company's actual conditions, and shall formulate resolutions and submit them to the Board for approval and implementation of such resolutions. It was stated in the terms of reference that the Nomination Committee should meet at least two times a year.

The selection process of Directors and managers is as follows:

1. The Nomination Committee should actively communicate with relevant departments and study the Company's demand for Directors and managers, and formulate written materials;

2. The Nomination Committee may search extensively for candidates for Directors and managers from the Company, its holding (associate) enterprises and the market;

3. Gather information about the occupation, academic qualifications, post title, detailed work experience and all the concurrent posts of the candidates and present such information in writing;

4. Seek the nominees' consent for nomination; otherwise, the nominees cannot be the candidates for Directors or managers;

5. Convene a Nomination Committee meeting to review the qualifications of the candidates on the criteria for Directors and managers;

6. Make suggestion to the Board regarding the candidates for Directors and new managers and submit the relevant information to the Board one to two months prior to the election of new Directors and appointment of new managers; and

7. Complete other follow-up work according to the decision and feedback from the Board.

During the Reporting Period, no Nomination Committee meeting was held.

BOARD DIVERSITY POLICY

The Company has adopted a board diversity policy (the "**Diversity Policy**") which sets out the approach to achieve diversity of the Board. The Company embraces the benefits of having a diverse Board to enhance the quality of its performance.

Pursuant to the Diversity Policy, the Company seeks to achieve Board diversity through the consideration of a number of aspects, including, but not limited to, gender, race, language, cultural background, educational background, industry experience and professional experience.

In identifying and selecting suitable candidates to serve as a Director, the Nomination Committee would consider the above criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendations to the Board.

The Board composition reflects various cultural and educational backgrounds, professional development, length of service, knowledge of the Company and a broad range of individual attributes, interests and values. The Board considers the current Board composition has provided the Company with a good balance and diversity of skills and experience appropriate to the requirements of its business. The Board will continue to review its composition from time to time, taking into consideration specific needs for the Group's business.

REMUNERATION AND APPRAISAL COMMITTEE

The Board established the remuneration and appraisal committee (the "**Remuneration and Appraisal Committee**"). It comprises of five directors, Ms. Hui Wing, Ms. Wang Xiaoling, Mr. Tang Qi, Mr. Gao Yongtao and Mr. Lu Bin. Ms. Hui Wing was duly 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 terms of reference of the Remuneration and Appraisal Committee are published on the website of the Company and the HKEx Website.

Responsibilities and authorities of the Remuneration and Appraisal Committee

The primary responsibilities and authorities of the Remuneration and Appraisal Committee include:

1. to make 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 remuneration plans or proposals include but not limited to performance appraisal criteria, procedures and key appraisal system, and major incentive and penalty plans and systems;

3. to determine the specific remuneration packages of executive Directors and senior management, including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment), and to make recommendations to the Board on the remuneration of non-executive Directors;

4. to review and approve the performance-based remuneration packages by making reference to the corporate objectives approved from time to time by the Board;

5. 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;

6. to examine and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that the compensation conforms to contractual terms or, in case the compensation does not conform to contractual terms, is fair and reasonable and no undue burden is placed on the Company;

7. to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such compensation arrangements are in accordance with the relevant contractual terms or are otherwise reasonable and appropriate; to ensure that no Director or any of his/her associates (as defined in the Hong Kong Listing Rules) is involved in deciding his/her own remuneration;

8. to supervise the implementation of the Company's remuneration system; and

9. to perform other duties as conferred by the laws and regulations, relevant regulatory requirements of the listing place(s) of the Company, such as the Hong Kong Listing Rules, rules of procedure and the Board.

During the Reporting Period, no Remuneration and Appraisal Committee meeting was held.

AUDIT COMMITTEE

The Board established the audit committee (the "**Audit Committee**"). It comprises of five directors, Mr. Lu Bin, Mr. Li Gouhong, Ms. Wang Xiaoling, Mr. Gao Yongtao and Ms. Hui Wing. Mr. Lu Bin was duly appointed as the Chairman of the Audit Committee. The terms of reference of the Audit Committee are published on the website of the Company and the HKEx Website.

The primary duties of the Audit Committee comprises of communication, supervision and verification work for internal and external auditing and internal control of the Company, including:

1. to make proposals to the Board regarding appointment, reappointment and dismissal of external auditors, make recommendations to the Board and approve the remuneration and terms of engagement of the external auditors, and deal with all matters of the resignation or dismissal of external auditors;

2. to review and monitor the independence and objectivity of external auditors and the effectiveness of the audit process in accordance with applicable standards;

3. to formulate and implement policies relating to the engagement of external auditors for non-audit services;

4. to supervise the internal audit system of the Company and its implementation, examine the truthfulness, completeness and accuracy of the financial statements, annual reports and accounts, half-year reports and quarterly reports (if any) of the Company, and review important opinions regarding financial reporting in such statements and reports;

5. to review financial information and its disclosure of the Company;

6. to review the financial control, internal control and risk management systems of the Company and conduct audits on material connected transactions;

7. to discuss with the management on risk management and internal control system to ensure that the management has performed its duty to maintain an effective risk management and internal control system;

8. to review major investigation findings on risk management and internal control and the management's response to these findings on its own initiative or as delegated by the board of directors; and

9. to review the financial and accounting policies and practices of the Group.

During the Reporting Period, the Audit Committee held six meetings to discharge its responsibilities and review the Group's annual and interim results, continuing connected transactions, reporting and compliance procedures, reports from the management on the Group's risk management and internal control systems, the effectiveness of the Group's internal control function and procedures and also the re-appointment of the external auditor. The particulars of the attendance of the members of Audit Committee are set forth as follows:

Name of the members of the Audit Committee	Number of meetings attended/ convened
Chairman:	
Mr. Lu Bin	6/6
Members:	
Mr. Li Guohong	6/6
Ms. Wang Xiaoling	6/6
Mr. Gao Yongtao	6/6
Ms. Hui Wing	6/6

STRATEGY COMMITTEE

The Board established the strategy committee (the "**Strategy Committee**"). It comprises of five directors, Mr. Li Guohong, Mr. Li Tao (who was appointed on 14 January 2019), Mr. Wang Peiyue, Mr. Gao Yongtao, Mr. Lu Bin and Mr. Chen Daojiang (who resigned on 27 November 2018). Mr. Li Guohong was duly appointed as the Chairman of the Strategy Committee. The terms of reference of the Strategy Committee are published on the website of the Company and the HKEx Website.

The primary duties of the Strategy Committee comprises of conducting research and making recommendations on significant decisions and strategic planning of the Company including:

1. to conduct research and make recommendation on strategic planning for long-term development of the Company;

2. to conduct research and make recommendation on significant investment and financing proposals;

3. to conduct research and make recommendation on significant capital operations and asset operation projects;

4. to conduct research and make recommendation on significant matters affecting the development of the Company; and

5. to perform other responsibilities required by laws, regulations, rules, regulatory documents, Articles of Association and assigned by the Board.

During the Reporting Period, no Strategy Committee meeting was held.

SUPERVISORS AND THE SUPERVISORY COMMITTEE

The Supervisory Committee consists of 3 members, comprising of Mr. Li Xiaoping, Mr. Liu Rujun and Ms. Duan Huijie, including representatives of the Shareholders and an appropriate proportion of representative of the Company's staff, including 2 Supervisors representing workers and staff, the number and composition of the members of the Supervisory Committee comply with the relevant laws and regulations. According to the authority and responsibility conferred by the Articles of Association, the Supervisory Committee regularly convenes Supervisory Committee meetings, conscientiously discharges its duties so as to be responsible to the Shareholders, supervises and inspects the performance of the Directors and senior management personnel in their performance of their duties and the legality and compliance of the Company's financial issues to fully safeguard the legitimate rights and interests of the Company and the Shareholders.

INTERNAL AUDIT FUNCTION

The Company has an internal audit function. The Audit Committee is responsible for overseeing the internal audit systems. The Audit Committee and the Board review the risk management and internal control systems at least annually, and the Company considers that the systems are effective and adequate.

RISK MANAGEMENT AND INTERNAL CONTROL

The risk management and internal control systems have been designed to safeguard the assets of the Group, to assure proper maintenance of accounting records, and to ensure the compliance with the relevant laws and regulations.

The Board's annual review has ensured the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions.

The Board has overall responsibility for maintaining sound and effective risk management and internal control systems throughout the Group which include a defined management structure with limits of authority, and are designed to ensure the proper application of accounting standard and the provision of reliable financial data for internal use and for publication, as well as to secure compliance with the relevant laws and regulations. The systems are developed to provide reasonable, but not absolute, assurance against material misstatement or omission and to manage, but not fully eliminate, the risks of operational systems failure and the risks of the Group's failure in meeting the standards. The Board will review the risk management and internal control systems on an ongoing basis.

The Audit Committee assists the Board in leading the management and oversight of the design, implementation and monitoring of the risk management and internal control systems. The management has reported and confirmed to the Board and the Audit Committee on the effectiveness of the risk management and internal control.

Further, during the Reporting Period, we have appointed an internal control consultant to review the effectiveness of our internal control measures related to our major business processes, to identify the deficiencies for improvement, advise on the rectification measures and review the implementation of such measures. The internal control consultant did not identity any material deficiencies in its review. We have adopted corresponding internal control measures to make improvement on certain ordinary internal control issues identified in relation to our IT system development and upgrade. As of 31 December 2018, our internal control consultant has completed the follow-up procedures on our internal control system with regard to those actions in relation to our IT system development and did not identify any material deficiencies in our internal control system.

Review of Risk Management and Internal Control Effectiveness

Through the Audit Committee, the Board has conducted annual review of the effectiveness of the Group's risk management and internal control systems for the year ended 31 December 2018, covering all material financial, operational and compliance controls, and it has considered the Group's risk management and internal control systems to be effective and adequate. There were no suspected material irregularities found or significant areas of concern identified during the year that might affect the Shareholders.

Beijing TianYuanQuan Certified Public Accountants (Special General Partnership) had audited the effectiveness of the Company's internal control system in relation to financial reports and provided an auditor's report with unqualified opinions.

WORK ON INTERNAL CONTROL EVALUATION

Scope of internal control evaluation

The Company followed the risk-oriented principle to determine the major business units, operations, matters and high-risk areas for inclusion into the scope of evaluation.

Major business units included in the scope of evaluation were:

Shandong Gold Mining Co., Ltd., Shandong Gold Mining Co., Ltd. Xincheng Gold Mine (山東黃金礦業股份有限公司新城金礦), Shandong Gold Mining (LaiZhou) Co., Ltd., Shandong Gold Mining (LaiZhou) Co., Ltd. Sanshandao Gold Mine, Shandong Gold Mining (LaiZhou) Co., Ltd. Jiaojia Gold Mine, Shandong Gold Smelting Co., Ltd., Shandong Jinzhou Mining Group Co., Ltd., Shandong Jinzhou Group, Qianling Mining Co., Ltd., Shandong Jinzhou Group, Fuling Mining Co., Ltd., Shandong Gold Mining (Xinhui) Co., Ltd., Shandong Gold Mining (Linglong) Co., Ltd., Shandong Gold Mining (Yinan) Co., Ltd. (山東黃金礦業（沂南）有限公司), Chifeng Chaihulanzi Gold Mining Co., Ltd., Shandong Goldstone Mining Ltd., Shandong Gold Mining (Laixi) Co., Ltd., Gansu Xihe Zhongbao Mining Co., Ltd. (甘肅西和縣中寶礦業有限公司), Fujian Zhenghe Yuanxin Mining Co., Ltd. (福建政和源鑫礦業有限公司), Shandong Gold Guilaizhuang Mining Co., Ltd., Shandong Gold Group, Penglai Mining Co., Ltd., and Shandong Gold Mining (HongKong) Co., Limited.

Key operations and matters which were included in the scope of evaluation include:

Organizational structure, development strategy, human resources, social responsibility, enterprise culture, funding activities, purchase, assets management, sales, research and development, engineering project, financial reporting, comprehensive budget, contract management, internal message transfer and information system.

High-risk areas which were given special attention include:

Capital management risk, asset management risk, safety and environmental protection risk, purchase risk, sales business management risk, contract management risk, engineering project management risk, information system and general controlling risk and etc.

INFORMATION DISCLOSURE AND TRANSPARENCY

In 2018, the Company actively responded to new changes in the securities market supervision policy, and constantly adapted to the new requirements of the regulatory agencies for information disclosure. The Company continue to adhere to complying with both statutory information disclosure and independent information disclosure, enhance the relevance and effectiveness of the content of regular reports, and effectively improve the quality of corporate information disclosure. In accordance with the "Administrative Measures for the Disclosure of Information", the SSE Listing Rules and the Hong Kong Listing Rules, the Company has truly, accurately, promptly and fully disclosed the relevant information to ensure that all Shareholders have equal access to information and effectively prevent insider trading. The Company was evaluated and awarded grade A for its information disclosure work on the SSE for the year 2017–2018.

DISSEMINATION OF INSIDE INFORMATION

The Company attaches great importance to the management of inside information. Based on the requirements under the Regulation on the Establishment of Registration System for Persons with Inside Information by Listed Companies (《關於上市公司建立內幕信息知情人登記管理制度的規定》) and the Regulatory Circular on Further and Better Implementation of Insider Registration Management (《關於進一步做好內幕信息知情人登記管理工作的監管通函》), as considered and approved at the 54th meeting of the third session of the Board convened on 22 April 2010, the 69th meeting of the third session of the Board convened on 13 December 2011, and the 44th meeting of the fourth session of the Board convened on 21 November 2017, the Company has prepared and properly amended the Insider Management System (《內幕信息知情人管理制度》) to further regulate the Company's management of insiders, and earnestly implemented the system.

The Company registered insiders during the continuation of material events during the Reporting Period including regular reports, profit distribution, overseas merger and acquisition projects, H Shares offering, etc. Over 200 insiders were registered in 5 batches throughout the year and the Company filed with the regulatory authorities in a timely manner. We earnestly organized relevant personnel to attend the trainings held by securities regulatory authorities, strictly controlled the scope of insiders and registered the information on insiders in a prompt manner. Upon self-inspection for the execution of insider management system in 2018, the Board was of the view that the insider management system was well executed and insider files were subject to sound management. The discussion, transmission, review, disclosure, etc. of inside information were standard and legal and rigorous and appropriate confidentiality was ensured for inside information. There was no dealing in shares of the Company in violation of rules by the relevant insiders and the interests of the Company and all Shareholders were not damaged.

The Board is of the view that the Company and its Directors, supervisors or senior management have not been criticized or punished by the CSRC, the Hong Kong Stock Exchange and Shanghai Stock Exchange or other regulatory authorities, and the actual corporate governance structure is in line with the PRC Company Law and relevant requirements of the CSRC.

JOINT COMPANY SECRETARIES

Mr. Tang Qi, the joint company secretary, is responsible for advising the Board on corporate governance matters and ensuring that Board policy and procedures, and applicable laws, rules and regulations are followed.

In order to uphold good corporate governance and ensure compliance with the Hong Kong Listing Rules and applicable Hong Kong laws, the Company also engages Ms. Ng Sau Mei, an associate director of TMF Hong Kong Limited, a company secretarial service provider, as the joint company secretary to assist Mr. Tang in discharging the duties of a company secretary of the Company. Her primary contact person at the Company is Mr. Tang. During the year ended 31 December 2018, Mr. Tang and Ms. Ng have undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Hong Kong Listing Rules.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

During the Reporting Period, there was no change in the Company's constitutional document. However, on 14 January 2019, the Shareholders approved the amendments to the Articles of Association at the extraordinary general meeting of the Company to improve the level of standardized operation of the Company. For details, please refer to the circular of the Company dated 29 November 2018.

INVESTOR RELATIONS

The Board fully recognises that effective communication with investors is the key to building investors' confidence and attracting new investors.

According to the Investor Relations Management System (《投資者關係管理制度》), the Company has further broadened the channels of communication with investors and fully respects and safeguards the legitimate rights and interests of relevant stakeholders. The Company has increased its communication with investors and relevant stakeholders by setting up consultation through the phone, faxes and e-mails, and on-site receptions. The Company also communicated, within the premise of complying with the regulatory requirements, with international and domestic potential investors, analysts and media. In 2018, the Company received more than 300 calls from investors, and received more than 30 batches of investors and more than 100 people in the field. During the H-share issuance process, it organized several international and domestic roadshows to further deepen the investors and markets' understanding of the Company.

Shareholders are also encouraged to access the corporate communication including results announcement of the Company posted on the Company's website (http://www.sdhjgf.com.cn), SSE Website and HKEx Website for better understanding of the Company.

INQUIRY TO THE BOARD

For putting forward any enquiries to the Board, Shareholders may send written enquiries to the Company. Shareholders may send their enquiries or requests as mentioned above to the following:

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

Telephone: (+86) 0531-67710382
Fax: (+86) 0531-67710380
Email: ir@sd-gold.com

DIRECTORS' RESPONSIBILITIES IN RESPECT OF FINANCIAL REPORTS

All Directors have acknowledged their responsibilities for preparing the financial reports of the Group. The Directors ensure that the preparation of financial reports of the Group is in compliance with relevant laws, regulations and applicable accounting standards and that financial reports of the Group are issued in a timely manner.

The responsibility statement made by the auditor of the Company in respect of financial reports of the Group is set out in the Independent Auditor's Report in this annual report.

DIRECTORS' AND OFFICERS' LIABILITIES

The Company has purchased and maintained Directors', Supervisors' and senior management's liability insurance throughout the Reporting Period, which provides appropriate protection over certain legal actions brought against its Directors, Supervisors and senior management. Such insurance coverage is reviewed on an annual basis.

RELATIONS WITH THE CONTROLLING SHAREHOLDER

The controlling shareholder exercises its rights as a Shareholder through the general meeting and does not interfere with the decision-making and operation of the Company, achieving independence in terms of personnel, assets, finance, organization and business. Thus the Board, the Supervisory Committee and the internal management organization can operate independently. The controlling shareholder strictly abides by its non-competition undertaking to the Company and is able to strictly abide by the voting abstention mechanism when it comes to connected transactions with the Company to ensure the transaction is just and fair. During the Reporting Period, there was no behavior in which the controlling shareholder used its special status to encroach on and prejudice the interests of the Company and other Shareholders.

REMUNERATION OF EXTERNAL AUDITORS

Beijing TianYuanQuan Certified Public Accountants (Special General Partnership) ("**Beijing TianYuanQuan**") and PricewaterhouseCoopers, respectively, were the domestic and international auditors of the Company for 2018.

The fees in respect of audit and non audit services (including ESG report advisory service) provided to the Group by PricewaterhouseCoopers for the year 2018 amounted to RMB4.47 million and RMB 0.09 million respectively. The fees in respect of audit service and internal control and auditing service provided to the Group by Beijing TianYuanQuan for the year 2018 amounted to RMB2.60 million and RMB 1.00 million respectively.

On 28 March 2019, the 18th meeting of the fifth Board of Directors considered and approved that the fees in respect of audit service and internal control and auditing service provided to the Group by Beijing Tian Yuan Quan for the year 2018 will be increased to RMB 3.00 million and RMB 1.40 million respectively. An ordinary resolution will be proposed at the AGM to seek for approval of the said increase in fees.

SHAREHOLDING INTERESTS OF SENIOR MANAGEMENT

The details of shareholding interests of the Directors, Supervisors and chief executive of the Company are set out in "Disclosure of Interests and Short Positions of the Directors, Supervisors and Chief Executive of the Company" in Report of the Directors in this annual report.

THE IMPORTANT OPINION AND SUGGESTIONS FROM THE SPECIALISED COMMITTEES UNDER THE BOARD DURING THE DISCHARGE OF DUTIES FOR THE REPORTING PERIOD AND IF THERE ARE ANY OBJECTIONS, THE DISCLOSURE OF SUCH DETAILS

The Board has four special committees: the Strategy Committee, the Audit Committee, the Nomination Committee, the Remuneration and Appraisal Committee and each special committees has implemented its respective terms of reference. Each special committee can perform its duties in accordance with relevant requirements, conduct strict pre-conference audits on major matters such as Company strategic planning, financial report review, nomination of Directors, Supervisors and senior management, related transactions, and make its independent judgments from professional perspectives before deciding on submitting the resolution to be considered by the Board. The composition of the said committees of the Company are reasonable and there is a clear division in labor. They allow each committee to perform their respective functions and play a positive role in improving the corporate governance structure and promoting the Company's development. There are no objections raised.

EXPLANATION ON THE RISKS IN THE COMPANY DISCOVERED BY THE SUPERVISORY COMMITTEE

During the Reporting Period, all Supervisors of the Supervisory Committee are diligent, efficient, and strictly perform their supervisory duties, in accordance with the PRC Company Law, the SSE Listing Rules, the Hong Kong Listing Rules, the Hong Kong Companies Ordinance (Chapter 622) and other relevant regulations. The Supervisory Committee have issued opinions on the preparation of the Company's periodic reports, financial status, internal control evaluation report, and major asset restructuring matters. They have also supervised the duties of the Directors and senior management personnel in performing duties and related transactions. The Supervisory Committee believes that the above actions of the Company are strictly in accordance with the PRC Company Law, the Articles of Association and its relevant laws and regulations, the decision-making procedures are in compliance with the requirements of laws and regulations, and there is no damage to the Company and Shareholders' rights. Accordingly, the Supervisory Committee did not find any risk.

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

To the Shareholders of Shandong Gold Mining Co., Ltd.
(incorporated in the People's Republic of China with limited liability)

OPINION

What we have audited

The consolidated financial statements of Shandong Gold Mining Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 126 to 233, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENCE

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit is the "Impairment assessment of goodwill".

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of goodwill Refer to Notes 4(a) and 19 to the consolidated financial statements. As at 31 December 2018, the Group's goodwill amounted to approximately RMB1,177.3 million, relating to the Group's investments in mines. Management has performed impairment assessments to determine the recoverable amounts of the goodwill at the balance sheet date. The recoverable amounts of the goodwill is determined based on value-in-use calculations or fair value less costs of disposal calculations (whichever is the higher) using the discounted cash flow model. These calculations involved significant management judgements, estimates and assumptions on the production plan and useful lives of the underlying mines, sales price, operating costs, taxes and capital expenditures of the respective cash generating units to which the goodwill was allocated (the "respective CGUs" which are mines operating independently) and also the applicable pre-tax discount rates. We focused on this matter due to the significance of goodwill and also given the relevant key assumptions applied in the goodwill assessment involved significant management estimates and judgements.	Our procedures performed in relation to the impairment assessment of goodwill included: • Evaluated the methodology used in the discounted cash flow models and tested the mathematical accuracy; • Checked, on sample basis, the accuracy of the input data used by management in the impairment assessment by agreeing to the underlying supporting documentation; • Assessed the reasonableness of the key assumptions used in the discounted cash flow models (mainly including production plan and useful lives of mines, sales price, operating costs, taxes and capital expenditures of the respective CGUs) with reference to relevant technical reports provided by third party reserves experts (the competence, capabilities and objectivity of which have also been evaluated) and comparing with market and historical data and approved budgets for the respective CGUs; • Assessed the reasonableness of the discount rates used in the discounted cash flow models by comparing to the applicable range of discount rates being developed based on the financial information of certain comparable peer companies; and • Evaluated the sensitivity analysis prepared by the Group on the key assumptions, and assessed the potential impact of a range of possible outcomes. We considered the key judgements, estimates and assumptions adopted by management in the impairment assessment of goodwill are supportable by the evidence as obtained from our procedures performed.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee of the Company are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee of the Company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee of the Company with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee of the Company, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chong Heng Hon.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Revenue	5	**54,787,877**	51,041,303
Cost of sales	8	**(50,856,661)**	(47,398,660)
Gross profit		**3,931,216**	3,642,643
Selling expenses	8	**(37,227)**	(31,152)
General and administrative expenses	8	**(1,383,702)**	(1,214,344)
Research and development costs	8	**(321,041)**	(273,559)
Other income	6	**12,275**	15,979
Other losses, net	7	**(218,258)**	(30,625)
Operating profit		**1,983,263**	2,108,942
Finance income	10	**36,796**	37,445
Finance costs	10	**(697,855)**	(575,966)
Finance costs, net	10	**(661,059)**	(538,521)
Share of profit of an associate	12	**37,985**	34,024
Profit before income tax		**1,360,189**	1,604,445
Income tax expenses	13	**(487,946)**	(431,452)
Profit for the year		**872,243**	1,172,993
Profit attributable to:			
Equity holders of the Company		**816,048**	1,118,920
Non-controlling interests		**56,195**	54,073
		872,243	1,172,993
Basic and diluted earnings per share for the profit attributable to the equity holders of the Company (RMB)	14	**0.42**	0.60

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	Year ended 31 December	
		2018	2017
		RMB'000	RMB'000
Profit for the year		**872,243**	1,172,993
Other comprehensive income:			
Items that may be reclassified to profit or loss			
Share of other comprehensive loss of the associate		**(49)**	(56)
Currency translation differences		**(23,094)**	(2,482)
Other comprehensive losses for the year, net of tax		**(23,143)**	(2,538)
Total comprehensive income for the year		**849,100**	1,170,455
Total comprehensive income attributable to:			
– Equity holders of the Company		**792,905**	1,116,382
– Non-controlling interests		**56,195**	54,073
		849,100	1,170,455

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET

As at 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	15	**23,082,902**	21,110,946
Investment properties	16	**216,570**	226,684
Land use rights	17	**340,242**	339,824
Intangible assets	18	**12,234,123**	12,014,845
Goodwill	19	**1,177,325**	1,126,673
Investment in an associate	12	**1,037,144**	399,208
Available-for-sale financial assets	21	**–**	2,015
Financial assets at fair value through other comprehensive income	21	**2,000**	–
Inventories	24	**269,223**	143,896
Deferred income tax assets	31	**142,704**	152,421
Restricted bank deposits	25	**–**	520,198
Other non-current assets	22	**528,820**	832,017
		39,031,053	36,868,727
Current assets			
Inventories	24	**3,352,927**	2,958,398
Trade and other receivables	23	**1,058,192**	720,841
Prepaid income tax		**30,284**	31,197
Restricted bank deposits	25	**201,515**	149,744
Cash and cash equivalents	25	**1,937,718**	2,402,814
		6,580,636	6,262,994
Total assets		**45,611,689**	43,131,721
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	26(a)	**2,214,008**	1,857,119
Treasury shares	26(b)	**(6,385)**	(6,385)
Reserves	27	**9,080,984**	4,905,879
Retained earnings		**10,424,278**	9,710,812
		21,712,885	16,467,425
Non-controlling interests		**1,923,793**	1,026,341
Total equity		**23,636,678**	17,493,766

CONSOLIDATED BALANCE SHEET

As at 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Liabilities			
Non-current liabilities			
Borrowings	30	**2,746,822**	8,091,819
Deferred income tax liabilities	31	**4,097,447**	4,135,396
Deferred revenue		**12,186**	17,526
Provision for asset retirement obligations	32	**779,061**	570,586
Other non-current liabilities	33	**62,013**	70,443
		7,697,529	12,885,770
Current liabilities			
Trade and other payables	28	**3,883,042**	3,927,444
Current income tax liabilities		**258,449**	177,231
Borrowings	30	**3,685,352**	2,883,107
Current portion of other non-current liabilities	33	**11,913**	12,992
Financial liabilities at fair value through profit or loss	29	**6,438,726**	5,751,411
		14,277,482	12,752,185
Total liabilities		**21,975,011**	25,637,955
Total equity and liabilities		**45,611,689**	43,131,721
Net current liabilities		**(7,696,846)**	(6,489,191)
Total assets less current liabilities		**31,334,207**	30,379,536

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The financial statements on pages 126 to 233 were approved by the Board of Directors on 28 March 2019 and were signed on its behalf:

Li Guohong
Chairman

Wang Peiyue
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company						
	Share capital RMB'000	Treasury shares RMB'000	Reserves RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
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 year	–	–	–	816,048	816,048	56,195	872,243
Other comprehensive losses							
Share of other comprehensive loss of the associate	–	–	(49)	–	(49)	–	(49)
Currency translation differences	–	–	(23,094)	–	(23,094)	–	(23,094)
Total other comprehensive losses, net of tax	–	–	(23,143)	–	(23,143)	–	(23,143)
Total comprehensive income/(losses)	–	–	(23,143)	816,048	792,905	56,195	849,100
Transactions with owners in their capacity as owners							
Appropriations	–	–	12,243	(12,243)	–	–	–
Capital injection from non-controlling interests (Note 27(a)(ii))	–	–	135,281	–	135,281	864,719	1,000,000
Change in ownership interests in subsidiaries without change of control (Note 39)	–	–	(1,536)	–	(1,536)	(2,222)	(3,758)
Dividends to shareholders of the Company (Note 34)	–	–	–	(73,764)	(73,764)	–	(73,764)
Dividends paid by subsidiaries to non-controlling interests	–	–	–	–	–	(20,609)	(20,609)
Net proceeds from issuance of H shares (Notes 26(a) and 27(a))	356,889	–	4,052,576	–	4,409,465	–	4,409,465
Others (Note 15(a))	–	–	(316)	(16,575)	(16,891)	(631)	(17,522)
Total transactions with owners in their capacity as owners	356,889	–	4,198,248	(102,582)	4,452,555	841,257	5,293,812
Balance at 31 December 2018	2,214,008	(6,385)	9,080,984	10,424,278	21,712,885	1,923,793	23,636,678

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company						
	Share capital RMB'000	Treasury shares RMB'000	Reserves RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
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 year	–	–	–	1,118,920	1,118,920	54,073	1,172,993
Other comprehensive losses							
Share of other comprehensive loss of the associate	–	–	(56)	–	(56)	–	(56)
Currency translation differences	–	–	(2,482)	–	(2,482)	–	(2,482)
Total other comprehensive losses, net of tax	–	–	(2,538)	–	(2,538)	–	(2,538)
Total comprehensive income/(losses)	–	–	(2,538)	1,118,920	1,116,382	54,073	1,170,455
Transactions with owners in their capacity as owners							
Appropriations	–	–	81,488	(81,488)	–	–	–
Change in ownership interests in subsidiaries without change of control (Note 39)	–	–	1,312	–	1,312	(13,368)	(12,056)
Dividends to shareholders of the Company (Note 34)	–	–	–	(331,938)	(331,938)	–	(331,938)
Dividends paid by subsidiaries to non-controlling interests	–	–	–	–	–	(23,190)	(23,190)
Others	–	–	605	249	854	(80)	774
Total transactions with owners in their capacity as owners	–	–	83,405	(413,177)	(329,772)	(36,638)	(366,410)
Balance at 31 December 2017	1,857,119	(6,385)	4,905,879	9,710,812	16,467,425	1,026,341	17,493,766

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

		Year ended 31 December	
		2018	2017
	Note	**RMB'000**	RMB'000
Cash flows from operating activities			
Cash generated from operations	35(a)	**3,377,848**	4,230,525
Interest received		**36,796**	37,445
Income tax paid		**(543,906)**	(417,496)
Net cash generated from operating activities		**2,870,738**	3,850,474
Cash flows from investing activities			
Capital injection to the associate		**(600,000)**	–
Payment for acquisition of joint operation		**–**	(6,704,624)
Purchases of intangible assets		**(95,235)**	(1,620,576)
Purchases of property, plant and equipment		**(3,540,012)**	(2,269,474)
Proceeds from disposal of property, plant and equipment, land use rights and intangible assets		**21,715**	10,556
Purchase of investment properties		**(518)**	(329)
Purchase of land use rights		**(12,529)**	(36,115)
Dividends received from the associate		**6,221**	–
(Payment for)/proceeds from settlement of gold future/forward contracts		**(84,651)**	11,305
Decrease/(increase) in restricted bank deposits		**520,198**	(526,087)
Net cash used in investing activities		**(3,784,811)**	(11,135,344)
Cash flows from financing activities			
Proceeds from issue of H shares		**4,618,818**	–
Payments for listing expenses		**(136,581)**	–
Capital injection from a non-controlling interest	27(a)(ii)	**1,000,000**	–
Payments for acquisition of additional interests in subsidiary		**(3,758)**	(12,056)
Proceeds from bank borrowings		**4,801,952**	10,015,896
Repayments of bank borrowings		**(7,406,336)**	(3,090,712)
Interest paid		**(459,776)**	(296,090)
Proceeds from borrowings due to related parties		**2,156,000**	1,579,300
Repayments of borrowings due to related parties		**(1,826,900)**	(1,410,000)
Proceeds derived from gold leasing arrangements		**8,684,341**	6,467,964
Settlement of gold leasing arrangements		**(7,975,172)**	(3,956,193)
Repayments of corporate bonds		**(2,611,004)**	(400,000)
Dividends paid to non-controlling interests		**(19,723)**	(16,390)
Dividends paid to shareholders		**(227,184)**	(184,160)
Payments for finance costs associated with gold leasing contracts		**(139,380)**	(134,246)
Payments of guarantee and arrangement fee for borrowings		**(29,765)**	(64,897)
Net cash from financing activities		**425,532**	8,498,416
Net (decrease)/increase in cash and cash equivalents		**(488,541)**	1,213,546
Cash and cash equivalents at beginning of the year		**2,402,814**	1,159,795
Exchange gains on cash and cash equivalents		**23,445**	29,473
Cash and cash equivalents at end of the year		**1,937,718**	2,402,814

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

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.

On 28 September 2018, the Company completed the global offering of its H shares on the Main Board of The Stock Exchange of Hong Kong Limited and 327.73 million H shares were issued. On 26 October 2018, an additional 29.16 million H shares were issued upon the exercise of the over-allotment options by the international underwriters of the global offering. All newly issued H shares were issued at an offer price of HKD14.70 per share and net proceeds from the new share issuance amounted to approximately RMB4,409.47 million, after netting off underwriting commissions and other capitalised listing expenses.

The Company and its subsidiaries are hereinafter collectively referred to as the "Group". The Group is principally engaged in mining and processing of gold, sale of gold products and 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.

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (the "IASB"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Going concern

As at 31 December 2018, the Group's current liabilities exceeded its current assets by approximately RMB7,696,846,000. 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 operating cash inflows from its future business operations;

(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 RMB13,763,860,000 to the Group whenever it has any financing needs in the next twelve months from 31 December 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 31 December 2018. Accordingly, the Company's directors have prepared the consolidated financial statements on a going concern basis.

2.1.2 Changes in accounting policy and disclosures

(a) New or amended standards and interpretations not yet adopted

New standards and amendments to standards and interpretations are not yet effective for the financial period commencing on 1 January 2018 and have not been applied in preparing the consolidated financial statements

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
Amendments to IAS 19	Employee benefits on plan amendment, curtailment or settlement	February 2018	Annual periods beginning on or after 1 January 2019
Amendments to IAS 28	Long term interests in associates and joint ventures	October 2017	Annual periods beginning on or after 1 January 2019
Amendments to IAS 1 and IAS 8	Definition of material	October 2018	Annual periods beginning on or after 1 January 2020
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 3	Definition of a business	October 2018	Annual periods beginning on or after 1 January 2020
Amendments to IFRS 9	Prepayment features with negative compensation	October 2017	Annual periods beginning on or after 1 January 2019
Amendments to IFRS	Annual Improvements to IFRSs 2015-2017 Cycle	December 2017	Annual periods beginning on or after 1 January 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Changes in accounting policy and disclosures *(Continued)*

(a) New or amended standards and interpretations not yet adopted (Continued)

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

IFRS 16 – Leases

Nature of change

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the lessee's 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.

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at 31 December 2018, the Group's future aggregate minimum lease payments under non-cancellable operating leases is approximately RMB92,467,000 (Note 37(b)). IFRS 16 provides new provisions for the accounting treatment of leases and all non-current leases, including future operating lease commitments, must be recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Short-term leases of less than twelve months and leases of low-value assets are exempt from the reporting obligation. The new standard will therefore result in an increase in assets and financial liabilities in the consolidated balance sheet. Operating expenses under otherwise identical circumstances will decrease, and depreciation, amortisation and interest expense will increase. The Group also 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.

Date of adoption by Group

Mandatory for financial years commencing on or after 1 January 2019. Management expects the adoption of such new standard should have no material impact to the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Changes in accounting policy and disclosures *(Continued)*

(b) 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 these consolidated financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior year.

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.

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

The impact to the Group upon the adoption of IFRS 9 in the current year are primarily with respect to the changes in the Group's accounting policies on the financial instruments and the classification of certain financial assets with effect from 1 January 2018. No restatement of the comparative information has been made in accordance with the transitional provisions as set out in IFRS 9. The adoption of IFRS 9 has no impact on the Group's profit or loss for the year ended 31 December 2017.

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.

Balance sheet (extract)	1 January 2018 As originally presented RMB'000	IFRS 9 RMB'000	1 January 2018 Restated RMB'000
Non-current assets			
Available-for-sale financial assets	2,015	(2,015)	–
Trade and other receivables	19,066	(19,066)	–
Financial assets at fair value through other comprehensive income	–	21,081	21,081
Total	21,081	–	21,081

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Changes in accounting policy and disclosures *(Continued)*

(b) Changes in accounting policies (Continued)

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

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 (as applicable).

The main effects resulting from these reclassifications are as follows:

As at 1 January 2018	Available-for-sale financial assets RMB'000	Notes receivables at amortised cost RMB'000	FVOCI RMB'000
Opening balance – IAS 39	2,015	19,066	–
Reclassify non-trading unlisted equity securities from AFS to FVOCI (note a)	(2,015)	–	2,015
Reclassify notes receivable from trade and other receivables to FVOCI (note b)	–	(19,066)	19,066
Opening balance – IFRS 9	–	–	21,081

Notes:

(a) 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.

(b) Notes receivable where the contractual cash flow were solely principal and interest were reclassified from financial assets at amortised cost to FVOCI as the Group's business model is achieved both by collecting contractual cash flows and selling of these assets. The amounts of the Group's notes receivable which should be reclassified from financial assets at amortised cost to FVOCI amounted to approximately RMB19,066,000 as of 31 December 2017. The Group has adopted the IFRS 9 by using the modified retrospective approach and hence the related comparative financial information has not been restated accordingly.

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

The impact to the Group upon the adoption of IFRS 15 in the current year are primarily with respect to the changes in the Group's accounting policies on revenue recognition (details of which have been set out in Note 2.24) and the reclassification the certain non-refundable receipts in advance from customers as "contract liabilities" (Note 28(c)) with effect from 1 January 2018. The Group has adopted the IFRS 15 by using the modified retrospective approach and hence the related comparative financial information has not been restated accordingly. The adoption of IFRS 15 has no impact on the Group's profit or loss for the year ended 31 December 2017.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations not under common control

The Group applies the acquisition method to account for business combinations not under common control. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation *(Continued)*

(b) Business combination under common control

For business combination under common control, the consolidated financial statements of the Group incorporates the financial information of the combining entities or businesses as if they had been combined from the earliest date presented or since the date when the combining entities or businesses first came under the control of the controlling party, whichever is shorter.

The assets acquired and liabilities assumed of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. The difference between the carrying amount of the net assets acquired and the consideration paid for the combination is adjusted against the equity.

Any cost in relation to the combination is recognised as an expense when incurred.

(c) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(d) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting in both of the consolidated financial statements and separate financial statements of the Company. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the statement of profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit of an associate' in the statement of profit or loss.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognised in the statement of profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Joint arrangements

The Group has applied IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint operations. Joint operations are accounted for by recognising the operator's relevant share of assets, liabilities, revenues and expenses.

Where a joint operator acquires an interest in a joint operation, the accounting treatment depends on whether the activity of the acquired joint operation constitutes a business. The joint operator should apply business combination accounting to the extent of its share, where the activity of the joint operation constitutes a business. This applies to the acquisition of both the initial interest and additional interests in a joint operation in which the activity of the joint operation constitutes a business.

Where the entity is involved in a joint operation, the investors account for their rights and obligations by recognising:

a) its assets, including its share of any assets held jointly;

b) its liabilities, including its share of any liabilities incurred jointly;

c) its revenue from the sale of its share of the output arising from the joint operation;

d) its share of the revenue from the sale of the output by the joint operation; and

e) its expenses, including its share of any expenses incurred jointly.

Management should classify and measure the recognised asset, liability and items of revenue or expense, or the share of an asset, liability or item of revenue or expense, according to the applicable standard for each item.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional currency and the Group's presentation currency.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Foreign currency translation *(Continued)*

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of profit or loss within 'finance income or costs'. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within 'other gains/(losses), net'.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as fair value through other comprehensive income are recognised in other comprehensive income.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting currency translation differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Foreign currency translation *(Continued)*

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the group losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

2.7 Property, plant and equipment

Property, plant and equipment comprise building, mining structures, plant, machinery and equipment and construction in progress.

Buildings comprise mainly factories. Other property, plant and equipment are stated at historical cost, less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of profit or loss during the financial period in which they are incurred.

Other than mining structures, depreciation of each asset is calculated using the straight-line method to allocate its cost less its residual value over its estimated useful life as follows:

– Buildings	5–50 years
– Plant, machinery and equipment	2–20 years

Mining structures include the main and auxiliary mine shafts and underground tunnels and capitalised open pit mine development costs. Mining Structures are depreciated on the unit of production method ("UOP"), based on the proven and probable reserves and where appropriate the portion of mineral resources considered to be probable of economic extraction based on the current Life of Mine ("LOM") Plans.

In open pit mining operations, it is necessary to remove overburden and other waste materials to access ore from which minerals can be extracted economically. The process of mining overburden and waste materials is referred to as stripping. Stripping costs incurred in order to provide initial access to the ore body (referred to as pre-production stripping) are capitalised as open pit mine development costs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Property, plant and equipment *(Continued)*

Stripping costs incurred during the production stage of a pit are accounted for as costs of the inventory produced during the period that the stripping costs are incurred, unless these costs are expected to provide a future economic benefit to an identifiable component of the ore body. Components of the ore body are based on the distinct development phases identified by the mine planning engineers when determining the optimal development plan for the open pit. Production phase stripping costs generate a future economic benefit when the related stripping activity: (i) improves access to a component of the ore body to be mined in the future; (ii) increases the fair value of the mine (or pit) as access to future mineral reserves becomes less costly; and (iii) increases the productive capacity or extends the productive life of the mine (or pit). Production phase stripping costs that are expected to generate a future economic benefit are capitalised as open pit mine development costs.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Construction in progress represents property, plant and equipment under construction or pending installation, and is stated at cost less impairment losses. Cost comprises direct costs of construction including borrowing costs attributable to the construction during the period of construction. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.11).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other gains/(losses), net' in the statement of profit or loss.

2.8 Investment properties

Investment properties include those portions of office buildings that are held for long-term rental yields or for capital appreciation.

Investment properties are initially measured at cost and subsequently accounted for under the cost model in accordance with the requirements of IAS 16 Property, Plant and Equipment.

Depreciation of the investment properties is calculated using the straight-line method to allocate its cost less its residual value over its estimated useful life. The estimated useful life of these investment properties is estimated to be 13 to 42 years.

Investment properties are subject to renovations or improvements at regular intervals. The cost of major renovations and improvements is capitalised and the carrying amounts of the replaced components are written off to the profit or loss. The cost of maintenance, repairs and minor improvements is charged to the profit or loss when incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Land use rights

Land use rights are stated at cost less accumulated amortisation and impairment losses. Cost represents prepaid operating lease payments for leasehold land located in the PRC with lease periods of 50 years. Amortisation of land use rights is calculated on a straight-line basis over the period of the land use rights.

2.10 Intangible assets

(a) Mining and exploration rights

Mining rights are stated at cost less accumulated amortisation and impairment losses and are amortised based on the UOP method whereby the denominator is the proven and probable reserves and where appropriate the portion of mineral resources considered to be probable of economic extraction.

Exploration rights are stated at cost less impairment losses. Cost of the exploration rights are transferred to mining rights upon the government's approval of the mining license.

(b) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(c) Patent rights

Patent rights are capitalised on the basis of the costs incurred to acquire and bring to use the patent rights. These costs are amortised over estimated useful life of 20 years, which are restricted by the period for which the legal rights are held.

(d) Trademarks and licences

Separately acquired trademarks and licences are shown at historical cost. Trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of 15 to 20 years. The useful lives of trademarks and licences are restricted by the period for which contractual or other legal rights are held.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 3 to 5 years.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment, or more frequently if events or damages in circumstances indicate that they might be impaired. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.12 Financial assets

2.12.1 Classification

For the year ended 31 December 2017

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'restricted bank deposits' and 'cash and cash equivalents' in the balance sheet (Notes 2.14 and 2.15).

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Financial assets *(Continued)*

2.12.1 Classification *(Continued)*

For the year ended 31 December 2018

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, 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 debt instruments, this will depend on the business model in which the investment is held. 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).

See Note 20 for details of each type of financial assets.

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

2.12.2 Recognition and measurement

For the year ended 31 December 2017

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of profit or loss within 'Other gains/(losses), net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the statement of profit or loss as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the statement of profit or loss as 'Other gains/(losses), net'.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Financial assets *(Continued)*

2.12.2 Recognition and measurement *(Continued)*

For the year ended 31 December 2018

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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Financial assets *(Continued)*

2.12.2 Recognition and measurement *(Continued)*

For the year ended 31 December 2018 (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.

2.12.3 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.12.4 Impairment of financial assets

For the year ended 31 December 2017

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Financial assets *(Continued)*

2.12.4 Impairment of financial assets *(Continued)*

For the year ended 31 December 2017 (Continued)

(b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from equity and recognised in profit or loss. Impairment losses recognised in the consolidated statement of profit or loss on equity instruments are not reversed through the consolidated statement of profit or loss.

For the year ended 31 December 2018

The Group has types of financial assets 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 3.1(b) only results in an insignificant incremental amount of provision to be made.

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.14 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. See Note 2.12.2 for further information about the Group's accounting for trade receivables and Note 2.12.4 for a description of the Group's impairment policies.

2.15 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

2.16 Share capital and treasury shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Where any Group's entity purchases the Group's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Group's equity owners. Where such shares are subsequently sold or reissued, the cost of the treasury shares is reversed from the treasury share account and the realised gain or loss on sales or reissue, net of any directly attributable incremental transaction costs and the related income tax effects, is recognised in the capital reserve of the Company.

2.17 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.20 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company, the subsidiaries and associate operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences a losses can be utilised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Current and deferred income tax *(Continued)*

(b) Deferred income tax *(Continued)*

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally, the Group is unable to control the reversal of the temporary difference for associate. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.21 Employee benefits

(a) Short term compensation

Short term compensation includes salaries, bonuses, allowances and subsidies, employee benefits, medical insurance premiums, work-related injury insurance premium, maternity insurance premium, contributions to housing fund, unions and education fund and short-term absence with payment etc. When an employee has rendered service to the Group during an accounting period, the Group shall recognise the short term compensation actually incurred as a liability and charged to the cost of an asset or to profit or loss in the same period, and non-monetary benefits are valued with the fair value.

(b) Post-employment benefits

The Group classifies post-employment benefits into either Defined Contribution Plan ("DC plan") or Defined Benefit Plan ("DB plan"). DC plan means the Group only contributes a fixed amount to an independent fund and no longer bears other payment obligation; DB plan is post-employment benefits other than DC plan. The post-employment benefits of the Group primarily comprise basic pension insurance and unemployment insurance and both of them are DC plans.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Employee benefits *(Continued)*

(b) Post-employment benefits *(Continued)*

Basic pension insurance

Employees of the Group participate in the social insurance system established and managed by local labor and social security department. The Group makes basic pension insurance to the local social insurance agencies every month, at the applicable benchmarks and rates stipulated by the government for the benefits of its employees. After the employees retire, the local labor and social security department has obligations to pay them the basic pension. When an employee has rendered service to the Group during an accounting period, the Group shall recognise the accrued amount according to the above social security provisions as a liability and charged to the cost of an asset or to profit or loss in the same period.

Employees of the subsidiary as incorporated in Hong Kong participate in a statutory defined contribution pension plan (the "Mandatory Provident Fund Scheme") under which the Group pays contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund under the Mandatory Provident Fund Scheme does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Contributions to defined contribution plans including the Mandatory Provident Fund Scheme and employee pension schemes established by municipal government in the PRC are expensed as incurred. Contributions are reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions, where applicable.

(c) Termination benefits

When the Group terminates the employment relationship with employees before the employment contracts expire, or provides compensation as an offer to encourage employees to accept voluntary redundancy, a provision for the termination benefits provided is recognised in profit or loss under the conditions of both the Group has a formal plan for the termination of employment or has made an offer to employees for voluntary redundancy, which will be implemented shortly; and the Group is not allowed to withdraw from termination plan or redundancy offer unilaterally.

2.22 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Provision for future decommissioning and restoration is recognised in full on the installation of mining properties. The amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding addition to the related mining properties of an amount equivalent to the provision is also created. This is subsequently depreciated as part of the costs of the mining properties. Any change in the present value of the estimated expenditure other than due to passage of time, which is regarded as interest expense, is reflected as an adjustment to the provision and mining properties.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Provisions *(Continued)*

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.23 Exploration and evaluation

Exploration expenditures are the costs incurred in the initial search for mineral deposits with economic potential or in the process of obtaining more information about existing mineral deposits. Exploration expenditures typically include costs associated with prospecting, sampling, mapping, diamond drilling and other work involved in searching for ore.

Evaluation expenditures are the costs incurred to establish the technical and commercial viability of developing mineral deposits identified through exploration activities or by acquisition. Evaluation expenditures include the cost of (i) establishing the volume and grade of deposits through drilling of core samples, trenching and sampling activities in an ore body that is classified as either a mineral resource or a proven and probable reserve; (ii) determining the optimal methods of extraction and metallurgical and treatment processes; (iii) studies related to surveying, transportation and infrastructure requirements; (iv) permitting activities; and (v) economic evaluations to determine whether development of the mineralised material is commercially justified, including scoping, prefeasibility and final feasibility studies.

Once the technical feasibility and commercial viability of a program or project has been demonstrated with a prefeasibility study and recognised reserves in accordance with the Canadian Securities Administrators' National Instrument 43-101, future expenditures incurred in the development of that program or project are accounted for in accordance with the Group's policies for property, plant and equipment, as described in Note 2.7.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.24 Revenue recognition

For the year ended 31 December 2017

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

(a) *Sale of goods*

Revenue is recorded when evidence exists that all of the following criteria are met:

- The significant risks and rewards of ownership of the product have been transferred to the buyer;
- Neither continuing managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold, has been retained;
- The amount of revenue can be reliably measured;
- It is probable that the economic benefits associated with the sale will flow to the Group; and
- The costs incurred or to be incurred in respect of the sale can be reliably measured. These conditions are generally satisfied when title passes 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.24 Revenue recognition *(Continued)*

For the year ended 31 December 2018

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

(a) *Sale of goods*

Revenue is recognised when control over the goods has been transferred to the customers. 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.

Contract asset and liability

When either party to a contract has performed, the Group presents the contract in the balance sheet as a contract asset or a contract liability, depending on the relationship between the Group's performance and the customer's payment.

If a customer pays consideration or the Group has a right to an amount of consideration that is unconditional, before the Group transfers goods or provide services to the customer, the Group presents the contract as a contract liability when the payment is received or a receivable is recorded (whichever is earlier). A contract liability is the Group's obligation to transfer services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. This has been classified under 'Trade and other payables'.

Incremental costs incurred to obtain a contract, if recoverable, are capitalised as contract assets and subsequently amortised when the related revenue is recognised.

2.25 Interest income

Interest income from financial assets at FVPL is included in the net fair value gains/(losses) on these assets.

Interest income on financial assets at amortised cost and financial assets at FVOCI (2017: available-for-sale securities, loans and receivables) is calculated using the effective interest method and recognised in the statement of profit or loss. Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.26 Dividend income

Dividend income is recognised when the right to receive payment is established.

2.27 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred revenue and are credited to the statement of comprehensive income on a straight-line basis over the expected useful lives of the related assets.

2.28 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of profit or loss on a straight-line basis over the period of the lease.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the statement of profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

2.29 Research and development costs

Research expenditure is recognised as an expense as incurred.

Costs incurred on development projects (relating to the design and testing of new or improved software) are capitalised as intangible assets when recognition criteria are fulfilled and tests for impairment are performed annually. Other development expenditures that do not meet those criteria are recognised as expenses as incurred.

Development costs previously recognised as expenses are not recognised as assets in subsequent periods. Capitalised development costs are amortised from the point at which the assets are ready for use on a straight-line basis over their estimated useful lives.

2.30 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.31 Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity owners of the Group by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Group and held as treasury shares.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

3 FINANCIAL RISK MANAGEMENT

3.1 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 and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury department (group treasury) under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Group's operations (such as export sales, imports of machinery and equipment, foreign currency deposits, trade and other receivables) expose it to foreign exchange risk arising from various currency exposures primarily with respect to the US Dollar ("USD"). In addition, the RMB is not freely convertible into other foreign currencies and conversion of the RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government.

Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. The group companies are required to hedge their entire foreign exchange risk exposure through the group treasury. To manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, entities in the group may use forward contracts as transacted through the group treasury. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(i) Foreign exchange risk (Continued)

The Group historically has not used any derivative instruments to hedge exchange rate of USD and currently does not have a fixed policy to do so in the foreseeable future. The Group mainly operates in the PRC with most of the transactions settled in RMB, which is also the functional currency of the Company and the presentation currency of the Group. In 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"), whereby together with its newly acquired joint operation, have their functional currency in USD. Foreign exchange rate risk arises when recognised assets and liabilities are denominated in a currency that is not the functional currency of SDHK or the newly acquired joint operation. As at 31 December 2018 an 2017, the Group's assets and liabilities are primarily denominated in their functional currencies.

The Group will constantly review the economic situation and its foreign exchange risk profile, and will consider appropriate hedging measures in the future, as may be necessary.

(ii) Cash flow and fair value interest rate risk

The Group's exposure to cash flow interest rate risks arises from the Group's interest bearing bank deposits, bank borrowings and long-term bonds, whose interest rates may subject to adjustments by the PRC government. Borrowings at variable rates expose the Group to cash flow interest-rate risk while borrowings and long-term bonds at fixed rates expose the Group to fair value interest-rate risk. The Group historically has not used any financial instruments to hedge potential fluctuations in interest rates.

Other than those mentioned above, the Group's income and operating cash flows are substantially independent of changes in the market interest rates.

If interest rates on long-term borrowings at variable rates had been 50 basis point higher/lower with all other variables held constant, the impact on post-tax profit were as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Impact on post-tax profit at 50 basis point higher	**(7,841)**	(25,813)
Impact on post-tax profit at 50 basis point lower	**7,841**	25,813

(iii) Price risk

The Group engages in gold mining and refining operations and is exposed to commodity price risk related to price volatility of gold products. The fluctuations in prices of gold products could have significant impact on the Group. The Group uses derivative financial instruments, including commodity futures and swaps, to manage a portion of this risk.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk

Credit risk is managed on a group basis. Credit risk mainly arises from cash and cash equivalents, restricted bank deposits, trade and other receivables and other non-current assets.

The Group expects that there is no significant credit risk associated with cash at banks since they are deposited at state-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

The Group is exposed to credit risk if counterparties fail to make payments as they fall due. For financial assets, 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 year. 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.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) 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", with a carrying amount of other receivables of RMB65,430,000, and the allowance provision of other receivables from related parties was RMB8,302,000. No further provision was deemed required to restate the impairment provision at 1 January 2018.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) 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).

The loss allowance provision for the remaining balances was determined and the expected credit losses below also incorporated forward looking information. The loss allowance provision as of 1 January 2018 and 31 December 2018 are determined as follows:

	Up to 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Trade receivables					
As at 1 January 2018					
Expected loss rate	0.3%	10%	20%	75%	
Gross carrying amount (RMB'000)	114,775	77	82	7,198	122,132
Loss allowance provision (RMB'000)	(316)	(8)	(16)	(5,405)	(5,745)
As at 31 December 2018					
Expected loss rate	**0.1%**	**10%**	**23%**	**98%**	
Gross carrying amount (RMB'000)	**567,539**	**4,577**	**69**	**7,245**	**579,430**
Loss allowance provision (RMB'000)	**(788)**	**(458)**	**(16)**	**(7,079)**	**(8,341)**

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

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

	Up to 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
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)	92,383	22,523	2,880	81,535	199,321
Loss allowance provision (RMB'000)	(1,797)	(3,764)	(1,831)	(73,699)	(81,091)
As at 31 December 2018					
Expected loss rate	**0.2%**	**19%**	**65%**	**92%**	
Gross carrying amount (RMB'000)	**11,744**	**20,812**	**4,675**	**80,639**	**117,870**
Loss allowance provision (RMB'000)	**(25)**	**(3,954)**	**(3,039)**	**(74,020)**	**(81,038)**

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of borrowing facilities. Due to the dynamic nature of the underlying businesses, the Group maintains a reasonable level of cash and cash equivalents, and further supplements this by keeping committed credit lines available.

The Group's primary cash requirements have been for purchases of materials, machinery and equipment and payment of related debts. The Group finances its working capital requirements through a combination of funds generated from operations, bank loans, short-term and long-term bonds and the net proceeds from the initial public offering.

Management monitors rolling forecasts of the Group's liquidity reserve (comprises undrawn borrowing facility and cash and cash equivalents (Note 25(b)) on the basis of expected cash flow.

The table below analyses the undiscounted cash outflow relating to the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

	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
As at 31 December 2018					
Borrowings	**3,885,172**	**2,714,228**	**–**	**–**	**6,599,400**
Trade and other payables	**3,598,165**	**–**	**–**	**–**	**3,598,165**
Other non-current liabilities	**11,913**	**23,649**	**18,518**	**19,846**	**73,926**
Financial liabilities at fair value through profit or loss	**6,438,726**	**–**	**–**	**–**	**6,438,726**
	13,933,976	**2,737,877**	**18,518**	**19,846**	**16,710,217**
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	5,751,411	–	–	–	5,751,411
	12,423,921	293,306	8,294,257	27,990	21,039,474

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less restricted bank deposits and cash and cash equivalents. Total capital is calculated as 'equity' plus net debt.

As at 31 December 2018 and 2017, the net debt to total capital ratios were as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Total borrowings (Note 30)	**6,432,174**	10,974,926
Less: restricted bank deposits (Note 25(a))	**(201,515)**	(669,942)
Less: cash and cash equivalents (Note 25(b))	**(1,937,718)**	(2,402,814)
Net debt	**4,292,941**	7,902,170
Total equity	**23,636,678**	17,493,766
Total capital	**27,929,619**	25,395,936
Net debt to total capital ratio	**15%**	31%

The decrease in the gearing ratio during 2018 was primarily due to the repayments of the Group's bank borrowings and corporate bonds (Notes 30(a)(i) and 30(b)) which reduced the Group's net debt and also the increase in the Group's total equity resulting from the Group's profit for the current year.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value as at 31 December 2018 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy 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).

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2018.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Liabilities				
Financial liabilities at fair value through profit or loss				
– Gold leasing contracts	6,438,726	–	–	6,438,726

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
Liabilities				
Financial liabilities at fair value through profit or loss				
– Gold leasing contracts	5,751,411	–	–	5,751,411

The fair value of financial instruments traded in active market is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Impairment assessment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.11. The recoverable amounts of cash-generating units have been determined based on the higher of value-in-use calculations and fair value less cost of disposal calculations. These calculations require the use of estimates and judgement (Note 19).

(b) Proved and probable mineral reserves and resources

Proved and probable mineral reserves and resources are estimated based on professional knowledge, experience and industrial practice. Most of the time, the estimation basis on probing and estimation may not be very accurate. The estimation is updated in accordance with new technologies and new information. This forms the basis for the Life of Mine ("LOM") plans, and any changes in estimation will have impacts on amounts of mining assets' depreciation and mining rights' amortisation using the unit-of-production method. That may result in changes of or impacts on the Group's development and operation programme, and the Group's operation and operating results.

(c) Business combination

The recognition of business combinations requires the excess of the purchase price of acquisitions over the net book value of assets acquired to be allocated to the assets and liabilities of the acquired entity. The Group makes judgements and estimates in relation to the fair value allocation of the purchase price. If any unallocated portion is positive it is recognised as goodwill and if negative, it is recognised in the consolidated statement of comprehensive income.

(d) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charges where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(e) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(f) Estimation of asset retirement obligations

Provisions are recognised for the future decommissioning and restoration of mines. The amounts of the provision recognised are the present values of the estimated future expenditures that the Group is expected to incur. The estimation of the future expenditures is based on current local conditions and requirements, including legal requirements, technology, price level, etc. In addition to these factors, the present values of these estimated future expenditures are also impacted by the estimation of the economic lives of mining properties. Changes in any of these estimates will impact the operating results and the financial position of the Group over the remaining economic lives of the mining properties.

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.

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.

	Year ended 31 December 2018			
	Gold Mining RMB'000	Gold Refining RMB'000	Inter-segment elimination RMB'000	Total RMB'000
Revenue from customers and recognised at a point in time				
Revenue from customers (other than rental income)	10,661,701	52,118,705	(8,009,326)	54,771,080
Rental income	16,764	33	–	16,797
Inter-segment revenue	(8,009,326)	–	8,009,326	–
Revenue from external customers	2,669,139	52,118,738	–	54,787,877
Operating profit	1,970,475	1,873	10,915	1,983,263
Finance income	34,039	2,757	–	36,796
Finance costs	(693,459)	(4,396)	–	(697,855)
Share of profit of an associate	37,985	–	–	37,985
Profit before income tax	1,349,040	234	10,915	1,360,189
Income tax expenses	(486,980)	(966)	–	(487,946)
Profit for the year	862,060	(732)	10,915	872,243
Other material non-cash items				
Depreciation and amortisation	2,421,875	43,364	–	2,465,239
Provision for impairment of inventories	556	–	–	556
Provision for/(reversal of) impairment of trade and other receivables, net	2,218	(689)	–	1,529

	As at 31 December 2018			
	Gold Mining RMB'000	Gold Refining RMB'000	Inter-segment elimination RMB'000	Total RMB'000
Segment assets and liabilities				
Total assets	44,918,141	2,520,733	(1,827,185)	45,611,689
Include: investment in an associate	1,037,144	–	–	1,037,144
Addition to non-current assets	4,811,257	28,608	–	4,839,865
Total liabilities	21,826,261	1,965,020	(1,816,270)	21,975,011

5 SEGMENT INFORMATION *(Continued)*

	Year ended 31 December 2017			
	Gold Mining RMB'000	Gold Refining RMB'000	Inter-segment elimination RMB'000	Total RMB'000
Revenue from customers and recognised at a point in time				
Revenue from customers (other than rental income)	9,791,566	49,048,579	(7,818,574)	51,021,571
Rental income	19,732	–	–	19,732
Inter-segment revenue	(7,818,574)	–	7,818,574	–
Revenue from external customers	1,992,724	49,048,579	–	51,041,303
Operating profit	1,981,275	127,667	–	2,108,942
Finance income	34,216	3,229	–	37,445
Finance costs	(569,979)	(5,987)	–	(575,966)
Share of profit of an associate	34,024	–	–	34,024
Profit before income tax	1,479,536	124,909	–	1,604,445
Income tax expenses	(400,257)	(31,195)	–	(431,452)
Profit for the year	1,079,279	93,714	–	1,172,993
Other material non-cash items				
Depreciation and amortisation	2,206,722	49,238	–	2,255,960
Provision for impairment of property, plant and equipment	5,832	–	–	5,832
(Reversal of)/provision for impairment of trade and other receivables, net	(9,159)	454	–	(8,705)

	As at 31 December 2017			
	Gold Mining RMB'000	Gold Refining RMB'000	Inter-segment elimination RMB'000	Total 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
Addition to non-current assets	11,413,472	21,423	–	11,434,895
Total liabilities	25,470,360	1,713,851	(1,546,256)	25,637,955

5 SEGMENT INFORMATION *(Continued)*

Analysis of revenue

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
The PRC	**52,412,139**	49,312,459
Outside the PRC	**2,375,738**	1,728,844
	54,787,877	51,041,303

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

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Gold sold through the Shanghai Gold Exchange	**35,105,167**	37,178,200

Analysis of non-current assets

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
The PRC	**30,595,353**	28,960,854
Outside the PRC	**8,290,996**	7,753,437
	38,886,349	36,714,291

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.

6 OTHER INCOME

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Government grants	**12,275**	15,979

7 OTHER LOSSES, NET

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Fair value (losses)/gains on gold future/forward contracts	**(84,651)**	11,305
Net losses on disposal/write-off of property, plant and equipment, land use rights and intangible assets	**(27,005)**	(22,267)
Net foreign exchange losses	**(106,623)**	(17,547)
Others	**21**	(2,116)
	(218,258)	(30,625)

8 EXPENSES BY NATURE

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

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Changes in inventories of finished goods and work in progress	**78,342**	(1,154,533)
Raw materials and consumables used	**45,608,375**	43,715,441
Employee benefit expenses (including directors' emoluments) (Note 9)	**2,291,517**	1,906,718
Depreciation	**1,932,846**	1,607,282
Amortisation	**532,393**	648,678
Labor outsourcing expenses	**769,779**	859,218
Outsourcing stripping costs	**121,548**	150,171
Mining resource compensation fees	**56,543**	85,667
Mining resource tax	**204,847**	189,200
Repairs and maintenance costs	**96,666**	98,760
Transportation costs and port expenses	**89,300**	73,375
Auditor's remuneration	**8,870**	3,600
Operating lease rental expenses	**50,818**	40,452
Provision for/(reversal of) impairment of trade and other receivables, net (Note 23)	**1,529**	(8,705)
Provision for impairment of property, plant and equipment	**–**	5,832
Others	**755,258**	696,559
Total cost of sales, selling expenses, general and administrative expenses and research and development costs	**52,598,631**	48,917,715

8 EXPENSES BY NATURE *(Continued)*

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

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Depreciation for the year		
– Property, plant and equipment (Note 15)	**1,961,996**	1,645,585
– Investment properties (Note 16)	**10,984**	11,017
	1,972,980	1,656,602
Less: capitalised in construction in progress	**(40,134)**	(49,320)
Amount charged to profit or loss	**1,932,846**	1,607,282
Charged to:		
– Cost of sales	**1,796,571**	1,484,483
– General and administrative expenses	**136,275**	122,799
	1,932,846	1,607,282

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

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Amortisation for the year		
– Land use rights (Note 17)	**12,111**	10,500
– Intangible assets (Note 18)	**508,056**	615,271
– Long-term rental prepayments	**12,427**	23,110
	532,594	648,881
Less: capitalised in construction in progress	**(201)**	(203)
Amount charged to profit or loss	**532,393**	648,678
Charged to:		
– Cost of sales	**503,335**	609,371
– General and administrative expenses	**29,058**	39,307
	532,393	648,678

9 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Wages, salaries, bonuses and allowances	**1,567,345**	1,322,977
Housing subsidies (note (a))	**120,537**	103,617
Contributions to pension plans (note (b))	**257,350**	198,482
Welfare and other expenses	**346,285**	281,642
	2,291,517	1,906,718

(a) These mainly include the Group's contributions to government-sponsored housing funds in the PRC at rates ranging from 5% to 12% (2017: 5% to 12%) of the employees' basic salaries.

(b) Pensions – defined contribution plans

The Group participates in various pension plans organised by the relevant municipal and provincial governments in the PRC under which the Group is required to make monthly defined contributions to these plans at rates ranging from 18% to 20% (2017: 18% to 20%) of the employees' basic salaries depending on the applicable local regulations; while the AGBII Group is required to contribute approximately 28% (2017: 28%) of the employees' basic salaries to the applicable pension plan in Argentina.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year are as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Director	**1**	2
Non-director	**4**	3
	5	5

The emoluments payable to the non-directors are as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Wages, salaries, bonuses and allowances	**3,970**	2,268
Contributions to pension plans and welfare expenses	**250**	283
	4,220	2,551

9 EMPLOYEE BENEFIT EXPENSES *(Continued)*

(c) Five highest paid individuals *(Continued)*

The emoluments to the non-directors fell within the following bands:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Emolument bands (in HK dollar)		
Less than HK$1,000,000	**–**	3
HK$1,000,000 to HK$1,500,000	**4**	–

All of the analysis on the highest paid individuals above did not take into account the emoluments paid to the employees of the joint operation, the AGBII Group.

10 FINANCE COSTS, NET

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Interest expenses:		
– bank borrowings	**285,520**	131,770
– borrowings from related parties	**7,671**	9,908
– corporate bonds	**114,583**	169,685
– provisions: unwinding of discount from asset retirement obligations (Note 32)	**10,346**	5,021
Finance costs for arranging gold leasing contracts	**139,380**	134,246
Realised and unrealised fair value losses on gold leasing contracts	**115,186**	69,851
Guarantee and arrangement fees for borrowings	**29,765**	64,897
Finance costs	**702,451**	585,378
Less: amounts capitalised on qualifying assets	**(4,596)**	(9,412)
Total finance costs	**697,855**	575,966
Interest income:		
– bank deposits	**29,046**	34,766
– deposits with an associate	**7,750**	2,679
Total finance income	**36,796**	37,445
Finance costs, net	**661,059**	538,521

11A SUBSIDIARIES

The following is a list of the principal subsidiaries at each balance date:

Company name	Place of incorporation	Principal activities and place of operation	Type of legal entity	Registered capital (RMB)	As at 31 December 2018 Attributable equity interest held by the Company	Group	Held by non-controlling interests
Shandong Gold Mining (Laizhou) Co., Ltd. ("Shandong Laizhou")	The PRC	Gold mining in the PRC	Limited liability company	410,000,000	100%	100%	–
Shandong Gold Smelting Co., Ltd.	The PRC	Gold and silver smelting in the PRC	Limited liability company	350,000,000	100%	100%	–
Shandong Gold Mining (Xinhui) Co., Ltd. ("Shandong Xinhui")	The PRC	Gold mining in the PRC	Limited liability company	257,000,000	100%	100%	–
Shandong Gold Mining (Linglong) Co., Ltd. (Note (a)(i))	The PRC	Gold mining in the PRC	Limited liability company	300,000,000	74.57%	74.57%	25.43%
Shandong Jinshi Mining Co., Ltd.	The PRC	Mining investment in the PRC	Limited liability company	26,800,000	100%	100%	–
Xihe Zhongbao Mining Co., Ltd.	The PRC	Exploration of Gold Mine in the PRC	Limited liability company	200,000,000	70%	70%	30%
Shandong Gold Group Penglai Mining Co., Ltd.	The PRC	Gold mining in the PRC	Limited liability company	50,000,000	100%	100%	–
Shandong Gold Guilaizhuang Mining Co., Ltd.	The PRC	Gold mining in the PRC	Limited liability company	621,670,000	70.65%	70.65%	29.35%
Shandong Jinzhou Mining Group Co., Ltd.	The PRC	Gold mining in the PRC	Limited liability company	80,172,426	60.78%	60.78%	39.22%

Company name	Place of incorporation	Principal activities and place of operation	Type of legal entity	Registered capital (RMB)	As at 31 December 2017 Attributable equity interest held by the Company	Group	Held by non-controlling interests
Shandong Gold Mining (Laizhou) Co., Ltd. ("Shandong Laizhou")	The PRC	Gold mining in the PRC	Limited liability company	410,000,000	100%	100%	–
Shandong Gold Smelting Co., Ltd.	The PRC	Gold and silver smelting in the PRC	Limited liability company	350,000,000	100%	100%	–
Shandong Gold Mining (Xinhui) Co., Ltd. ("Shandong Xinhui")	The PRC	Gold mining in the PRC	Limited liability company	257,000,000	100%	100%	–
Shandong Gold Mining (Linglong) Co., Ltd.	The PRC	Gold mining in the PRC	Limited liability company	300,000,000	100%	100%	–
Shandong Jinshi Mining Co., Ltd.	The PRC	Mining investment in the PRC	Limited liability company	26,800,000	100%	100%	–
Xihe Zhongbao Mining Co., Ltd.	The PRC	Exploration of Gold Mine in the PRC	Limited liability company	200,000,000	70%	70%	30%
Shandong Gold Group Penglai Mining Co., Ltd.	The PRC	Gold mining in the PRC	Limited liability company	50,000,000	100%	100%	–
Shandong Gold Guilaizhuang Mining Co., Ltd.	The PRC	Gold mining in the PRC	Limited liability company	621,670,000	70.65%	70.65%	29.35%
Shandong Jinzhou Mining Group Co., Ltd.	The PRC	Gold mining in the PRC	Limited liability company	80,172,426	60.43%	60.43%	39.57%

11A SUBSIDIARIES *(Continued)*

(a) Material non-controlling interests

The carrying amount of non-controlling interests in respective subsidiaries with material non-controlling interest are analysed as below.

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Subsidiaries with material non-controlling interest		
Shandong Jinzhou Mining Group Co., Ltd. ("Shandong Jinzhou")	**297,569**	297,324
Xihe Zhongbao Mining Co., Ltd. ("Xihe Zhongbao")	**355,184**	353,602
Shandong Gold Guilaizhuang Mining Co., Ltd. ("Guilaizhuang")	**262,811**	240,698
Shandong Gold Mining (Linglong) Co., Ltd. ("Linglong") (note i)	**864,719**	–
	1,780,283	891,624

Notes:

(i) As detailed in Note 27(a)(ii), ICBC Financial Asset Investment Co., Ltd. ("ICBC Investment") has approximately invested RMB1 billion as the capital injection to Shandong Gold Mining (Linglong) Co., Ltd. ("Linglong") on 25 December 2018. After the capital injection, ICBC Investment owned 25.43% equity interest in Linglong. The amendment of the register of Administration for Industrial and Commerce is still in progress. Upon the said amendment, the registered capital of Linglong will be RMB402,306,600.

(ii) The non-controlling interests in respect of Chifeng Chaihu Gold Mining Co., Ltd., Fujian Yuanxin Mining Co., Ltd., Jinzhou Qianlin Co., Ltd. and Shenzheng Shanjin Co., Ltd. are not material.

(b) Summarised financial information on subsidiaries with material non-controlling interests

There are no significant restrictions on the ability of subsidiaries to transfer funds to the Company or any of its other subsidiaries.

Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the Group. See Note 39 for transactions with non-controlling interests.

11A SUBSIDIARIES *(Continued)*

(b) Summarised financial information on subsidiaries with material non-controlling interests *(Continued)*

Summarised balance sheets

	Shandong Jinzhou As at 31 December		Xihe Zhongbao As at 31 December	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
Current assets	**170,220**	161,868	**12,235**	12,365
Non-current assets	**883,076**	873,749	**1,839,908**	1,831,940
	1,053,296	1,035,617	**1,852,143**	1,844,305
Current liabilities	**(206,758)**	(188,262)	**(305,240)**	(265,244)
Non-current liabilities	**(30,384)**	(31,445)	**(362,958)**	(400,390)
	(237,142)	(219,707)	**(668,198)**	(665,634)
Net assets	**816,154**	815,910	**1,183,945**	1,178,671

	Guilaizhuang Year ended 31 December		Linglong Year ended 31 December	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
Current assets	**211,236**	111,472	**1,343,897**	189,787
Non-current assets	**762,852**	788,364	**3,115,213**	2,783,303
	974,088	899,836	**4,459,110**	2,973,090
Current liabilities	**(63,248)**	(64,373)	**(1,015,229)**	(774,137)
Non-current liabilities	**(15,402)**	(15,368)	**(43,494)**	(41,452)
	(78,650)	(79,741)	**(1,058,723)**	(815,589)
Net assets	**895,438**	820,095	**3,400,387**	2,157,501

11A SUBSIDIARIES *(Continued)*

(b) Summarised financial information on subsidiaries with material non-controlling interests *(Continued)*

Summarised statements of comprehensive income

	Shandong Jinzhou Year ended 31 December		Xihe Zhongbao Year ended 31 December	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
Revenue	**287,831**	331,201	**152,880**	123,922
Profit before income tax	**37,726**	65,369	**(198)**	(21,243)
Income tax expenses	**(8,010)**	(15,246)	**5,471**	10,124
Profit for the year	**29,716**	50,123	**5,273**	(11,119)
Other comprehensive income for the year	**–**	–	**–**	–
Total comprehensive income for the year	**29,716**	50,123	**5,273**	(11,119)
Total comprehensive income allocated to non-controlling interests	**11,722**	20,500	**1,582**	(3,336)
Dividends paid to non-controlling interests	**9,399**	9,964	**–**	–

	Guilaizhuang Year ended 31 December		Linglong Year ended 31 December	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
Revenue	**339,902**	414,422	**1,189,676**	1,102,896
Profit before income tax	**90,290**	112,661	**332,021**	247,613
Income tax expenses	**(12,757)**	(28,304)	**(77,441)**	(61,077)
Profit for the year	**77,533**	84,357	**254,580**	186,536
Other comprehensive income for the year	**–**	–	**–**	–
Total comprehensive income for the year	**77,533**	84,357	**254,580**	186,536
Total comprehensive income allocated to non-controlling interests	**22,756**	24,759	**–**	–
Dividends paid to non-controlling interests	**–**	4,388	**–**	–

11A SUBSIDIARIES *(Continued)*

(b) Summarised financial information on subsidiaries with material non-controlling interests *(Continued)*

Summarised cash flows

	Shandong Jinzhou Year ended 31 December		Xihe Zhongbao Year ended 31 December	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash flows from operating activities				
Cash generated from operations	**75,040**	122,353	**53,172**	51,548
Interest received	**249**	735	**113**	79
Income tax paid	**(7,708)**	(19,596)	**–**	–
Net cash generated from operating activities	**67,581**	103,492	**53,285**	51,627
Net cash used in investing activities	**(50,189)**	(56,771)	**(37,501)**	(28,212)
Net cash used in financing activities	**(11,067)**	(46,557)	**(15,644)**	(23,326)
Net increase in cash and cash equivalents	**6,325**	164	**140**	89
Cash and cash equivalents at beginning of the year	**775**	611	**155**	66
Cash and cash equivalents at end of the year	**7,100**	775	**295**	155

	Guilaizhuang Year ended 31 December		Linglong Year ended 31 December	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash flows from operating activities				
Cash generated from operations	**15,441**	163,876	**458,775**	415,757
Interest received	**554**	883	**672**	290
Income tax paid	**(8,221)**	–	**(66,270)**	(53,199)
Net cash generated from operating activities	**7,774**	164,759	**393,177**	362,848
Net cash used in investing activities	**(21,180)**	(94,058)	**(1,475,444)**	(332,548)
Net cash from/(used in) financing activities	**500**	(68,518)	**1,175,173**	(7,649)
Net (decrease)/increase in cash and cash equivalents	**(12,906)**	2,183	**92,906**	22,651
Cash and cash equivalents at beginning of the year	**19,641**	17,458	**23,276**	624
Cash and cash equivalents at end of the year	**6,735**	19,641	**116,182**	23,275

Note: The information above is the amount before inter-company eliminations.

11B JOINT OPERATION

On 30 June 2017, the Company, through its wholly-owned subsidiary, SDHK, completed the acquisition of a 50% interest in AGBII from Barrick Cayman, the subscription of 2.155% interest in Minera Andina del Sol SRL. ("MAS") (formerly, Minera Argentina Gold SRL, a non-wholly owned subsidiary of AGBII) and the purchase of 50% of MAS's shareholder's loan, pursuant to a purchase agreement dated 6 April 2017 (the "Share Purchase Agreement") entered into amongst the Company, SDHK, Barrick Gold Corporation ("Barrick Gold") and Barrick Cayman at a consideration of approximately US$960 million (which was adjusted in November 2017 to approximately US$990 million, equivalent to approximately RMB6,705 million, pursuant to the Share Purchase Agreement based on certain financial metrics), out of which, consideration of US$141 million (equivalent to approximately RMB935 million) is for the purchase of 50% of MAS's shareholders' loan.

After completion of the Share Purchase Agreement, AGBII, SDHK and other shareholders owned 95.69%, 2.155% and 2.155% equity interests in MAS respectively and MAS remained as a non-wholly owned subsidiary of AGBII. The Group and Barrick Gold then jointly operate the Veladero gold mine in Argentina (the "Veladero mine") held by MAS as joint operators. Both the Group and Barrick Gold have the right to the assets and obligations for the liabilities of the AGBII and MAS (collectively the "AGBII Group") and are eligible to the products produced by the Veladero mine and recognise expenses as incurred by the AGBII Group in the proportion of 50% each.

The Group has accounted for its investment in the AGBII Group as a joint operation and consolidated its proportionate share of the assets and liabilities, as well as its share of the revenue and expenses of the AGBII Group starting from 1 July 2017.

12 INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Beginning of the year	**399,208**	371,461
Capital injection	**600,000**	–
Share of profit	**37,985**	34,024
Share of other comprehensive income	**(49)**	(56)
Dividends	**–**	(6,221)
End of the year	**1,037,144**	399,208

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

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 Group.

Name of entity	Place of business/ country of incorporation	% of ownership interest 2018	% of ownership interest 2017	Measurement method
Shandong Gold Group Finance Co., Ltd. ("Group Finance")	The PRC	**30%**	30%	Equity

In September 2018, the Group has contributed cash of RMB600,000,000 (2017: Nil) as further capital injection to the associate.

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.

Summarised balance sheets

	Shandong Gold Group Finance Co., Ltd. As at 31 December 2018 RMB'000	2017 RMB'000
Current		
Cash and cash equivalents	**3,987,002**	1,107,864
Other current assets (excluding cash)	**4,303,813**	1,308,008
Total current assets	**8,290,815**	2,415,872
Financial liabilities (excluding trade payables)	**5,237,429**	4,436,235
Other current liabilities (including trade payables)	**62,404**	57,779
Total current liabilities	**5,299,833**	4,494,014
Non-current		
Assets	**466,165**	3,408,836
Liabilities	**–**	–
Net assets	**3,457,147**	1,330,694

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

Summarised statements of comprehensive income

	Shandong Gold Group Finance Co., Ltd. Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Revenue	**213,317**	197,631
Profit before income tax	**168,284**	150,920
Profit for the year	**126,618**	113,414
Other comprehensive loss	**(164)**	(187)
Total comprehensive income for the year	**126,454**	113,227

Reconciliation of summarised financial information

	Shandong Gold Group Finance Co., Ltd. Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Opening net assets attributable to equity holder of the associate at beginning of the year	**1,330,694**	1,238,204
Capital injection	**2,000,000**	–
Profit for the year	**126,618**	113,414
Other comprehensive loss	**(164)**	(187)
Dividends paid	**–**	(20,737)
Closing net assets attributable to equity holder of the associate at end of the year	**3,457,148**	1,330,694
Interest in associate (30%)	**1,037,144**	399,208
Carrying value	**1,037,144**	399,208

13 INCOME TAX EXPENSES

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Current income tax:		
– The PRC (note (a))	**406,851**	368,250
– Outside the PRC (note (b))	**219,186**	187,138
	626,037	555,388
Deferred income tax credit (Note 31)	**(138,091)**	(123,936)
	487,946	431,452

(a) The provision for PRC enterprise income tax ("EIT") is calculated based on the statutory income tax rate of 25% (2017: 25%). The applicable income tax rate is 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% (2017: 15%) based on the relevant PRC tax laws and regulations.

(b) The estimated tax assessable profit of the Group's overseas joint operation (i.e. the AGBII Group) is taxed at the statutory income tax rate in Argentina of 30% (2017: 35%) in accordance with the Argentina income tax law. In addition, the joint operation has paid withholding tax of approximately RMB19,577,000 (2017: RMB9,909,000) during the year ended 31 December 2018 on certain inter-company interest expenses paid to SDHK (a subsidiary incorporated in Hong Kong in February 2017) which were eliminated upon the proportional consolidation.

(c) No provision for income tax has been made by SDHK as it has no estimated taxable profits in any financial year/period since the date of its incorporation.

13 INCOME TAX EXPENSES *(Continued)*

(d) The taxation of the Group's profit before income tax differs from the theoretical amount that would arise using the rates prevailing in the jurisdictions in which the Group operates as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Profit before income tax	**1,360,189**	1,604,445
Tax calculated at applicable tax rates (25%)	**340,047**	401,111
Different tax rates applicable to certain subsidiaries and the overseas joint operation	**18,388**	18,439
Income not subject to tax	**(15,889)**	(9,918)
Expenses not deductible for tax purposes	**52,854**	32,069
Utilisation of previously unrecognised tax losses	**(7,085)**	(5,281)
Tax losses for which no deferred income tax asset has been recognised	**4,100**	14,261
Additional expenses allowable for tax deduction	**(30,985)**	(28,420)
Withholding tax on interest income from the joint operation	**19,577**	9,909
Adjustment in respect of prior years	**(2,309)**	(718)
Recognition of deferred income tax assets on previously unrecognised tax losses	**(5,646)**	–
Impact of foreign exchange rate changes on the net deferred income tax liabilities as recognised by the joint operation	**114,894**	–
Income tax expense	**487,946**	431,452
Weighted average applicable tax rate	**36%**	27%

14 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.

	Year ended 31 December	
	2018	2017
Profit attributable to equity holders of the Company (RMB'000)	**816,048**	1,118,920
Weighted number of ordinary shares in issue (thousands)	**1,943,911**	1,850,734
Basic earnings per share (RMB per share)	**0.42**	0.60

As the Company did not have any dilutive instruments during the years ended 31 December 2018 and 2017, the Group's diluted earnings per share equals to its basic earnings per share.

15 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Mining structures RMB'000	Plant machinery and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
As at 1 January 2017					
Cost	4,434,122	8,310,892	4,520,910	2,298,968	19,564,892
Accumulated depreciation	(1,357,499)	(2,262,234)	(2,376,130)	–	(5,995,863)
Impairment provision	(16,435)	(32,110)	(7,566)	–	(56,111)
Net book amount	3,060,188	6,016,548	2,137,214	2,298,968	13,512,918
Year ended 31 December 2017					
Opening net book amount	3,060,188	6,016,548	2,137,214	2,298,968	13,512,918
Additions	10,823	182,265	201,151	2,109,298	2,503,537
Acquisition of a joint operation (Note 38)	1,235,928	3,589,350	1,939,333	256,580	7,021,191
Transfers upon completion of construction	595,898	1,138,544	313,941	(2,048,383)	–
Transfer to construction in progress	(87)	–	(57,725)	57,812	–
Transfer to investment properties (Note 16)	(2,902)	–	–	–	(2,902)
Disposals/write-off	(7,524)	(64)	(16,820)	(8,415)	(32,823)
Depreciation charges	(396,093)	(526,305)	(723,187)	–	(1,645,585)
Provision for impairment	(5,715)	–	(117)	–	(5,832)
Currency translation differences	(41,196)	(124,689)	(64,575)	(9,098)	(239,558)
Closing net book amount	4,449,320	10,275,649	3,729,215	2,656,762	21,110,946

15 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Buildings RMB'000	Mining structures RMB'000	Plant machinery and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
As at 31 December 2017					
Cost	6,259,115	13,216,013	6,910,080	2,665,860	29,051,068
Accumulated depreciation	(1,746,449)	(2,783,565)	(3,108,656)	–	(7,638,670)
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	4,449,320	10,275,649	3,729,215	2,656,762	21,110,946
Year ended 31 December 2018					
Opening net book amount	**4,449,320**	**10,275,649**	**3,729,215**	**2,656,762**	**21,110,946**
Additions	**5,934**	**471,343**	**354,916**	**2,834,049**	**3,666,242**
Transfers upon completion of construction	**517,486**	**1,571,524**	**276,575**	**(2,365,585)**	**–**
Transfer to construction in progress	**–**	**–**	**(29,902)**	**29,902**	**–**
Transfer to investment properties (Note 16)	**(352)**	**–**	**–**	**–**	**(352)**
Disposals/write-off (note a)	**(42,525)**	**–**	**(13,550)**	**(9,220)**	**(65,295)**
Depreciation charges	**(542,361)**	**(671,787)**	**(747,848)**	**–**	**(1,961,996)**
Currency translation differences	**57,830**	**182,951**	**79,735**	**12,841**	**333,357**
Closing net book amount	**4,445,332**	**11,829,680**	**3,649,141**	**3,158,749**	**23,082,902**
As at 31 December 2018					
Cost	**6,726,374**	**15,257,871**	**7,462,338**	**3,155,006**	**32,601,589**
Accumulated depreciation	**(2,275,526)**	**(3,454,343)**	**(3,820,723)**	**–**	**(9,550,592)**
Impairment provision	**(22,150)**	**(32,110)**	**(7,634)**	**–**	**(61,894)**
Currency translation differences	**16,634**	**58,262**	**15,160**	**3,743**	**93,799**
Net book amount	**4,445,332**	**11,829,680**	**3,649,141**	**3,158,749**	**23,082,902**

(a) The disposals/write-off for the year ended 31 December 2018 included an amount of approximately RMB29,591,000 (2017: Nil) which was arisen from the change in the discount rate used for the asset retirement obligations as disclosed in Note 32.

In addition, the disposal/write-off for the year ended 31 December 2018 also included the disposal of certain staff dormitories and related infrastructures/facilities with carrying amounts of approximately RMB24,445,000 (2017: Nil) to the PRC Government in accordance with a notice as issued by the Ministry of Finance of the People's Republic of China which is applicable to state-owned enterprises. The loss on the disposal of approximately RMB16,575,000 (2017: Not applicable) has been debited to Group's total equity as a distribution to a shareholder.

15 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(b) Depreciation charged to profit or loss and capitalised as construction in progress is analysed as follows:

	Year ended 31 December 2018 RMB'000	2017 RMB'000
Cost of sales	**1,785,587**	1,473,466
General and administrative expenses	**136,275**	122,799
Capitalised as construction in progress	**40,134**	49,320
	1,961,996	1,645,585

(c) The Group has capitalised borrowing costs and weighted average rate of its general borrowings were as follows:

	Year ended 31 December 2018	2017
Capitalised borrowing costs (RMB'000)	**4,596**	9,412
Weighted average rate (%)	**4.58**	3.91

(d) The Group was in the process of applying the ownership certificates for certain buildings as follows:

	As at 31 December 2018 RMB'000	2017 RMB'000
Net book value	**898,927**	993,571

16 INVESTMENT PROPERTIES

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Opening net book amount	**226,684**	234,470
Additions	**518**	329
Transfer from property, plant and equipment (Note 15)	**352**	2,902
Depreciation charges	**(10,984)**	(11,017)
Closing net book amount	**216,570**	226,684

An independent valuation of the Group's investment properties was performed by an independent valuer to determine the fair value of the investment properties as at each balance sheet date and details of which are summarised as below.

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Fair value of investment properties	**295,266**	295,921

Amounts recognised in profit and loss for investment properties

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Rental income	**16,797**	19,732
Direct operating expenses from properties that generated rental income	**(971)**	(760)
	15,826	18,972

17 LAND USE RIGHTS

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Opening net book amount	**339,824**	305,079
Additions	**12,529**	45,245
Amortisation charge	**(12,111)**	(10,500)
Closing net book amount	**340,242**	339,824
Cost	**433,992**	421,463
Accumulated amortisation	**(85,713)**	(73,602)
Impairment provision	**(8,037)**	(8,037)
Net book amount	**340,242**	339,824

The Group's land use rights represent prepaid operating lease payments for leasehold land located in the PRC with lease periods of 50 years.

All of the amortisation has been charged to profit or loss as general and administrative expenses.

The Group was in the process of applying the ownership certificates for certain land use rights as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Net book value	**21,628**	43,878

18 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 2017					
Cost	14,503,816	13,361	43,524	3,220	14,563,921
Accumulated amortisation	(3,412,376)	(9,910)	(22,886)	(882)	(3,446,054)
Net book amount	11,091,440	3,451	20,638	2,338	11,117,867
Year ended 31 December 2017					
Opening net book amount	11,091,440	3,451	20,638	2,338	11,117,867
Additions	1,507,860	–	4,262	127	1,512,249
Amortisation charges	(609,349)	(1,337)	(4,583)	(2)	(615,271)
Closing net book amount	11,989,951	2,114	20,317	2,463	12,014,845
As at 31 December 2017					
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	11,989,951	2,114	20,317	2,463	12,014,845
Year ended 31 December 2018					
Opening net book amount	**11,989,951**	**2,114**	**20,317**	**2,463**	**12,014,845**
Additions	**688,783**	**22,680**	**8,068**	**7,803**	**727,334**
Amortisation charges	**(500,343)**	**(3,036)**	**(4,615)**	**(62)**	**(508,056)**
Closing net book amount	**12,178,391**	**21,758**	**23,770**	**10,204**	**12,234,123**
As at 31 December 2018					
Cost	**16,700,459**	**36,041**	**55,854**	**11,150**	**16,803,504**
Accumulated amortisation	**(4,522,068)**	**(14,283)**	**(32,084)**	**(946)**	**(4,569,381)**
Net book amount	**12,178,391**	**21,758**	**23,770**	**10,204**	**12,234,123**

Amortisation charged to profit or loss is analysed as follows:

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Cost of sales	**500,369**	609,349
General and administrative expenses	**7,687**	5,922
	508,056	615,271

19 GOODWILL

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
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	**13,672**	(36,980)
	1,177,325	1,126,673

(a) This balance comprised of the goodwill arose on the Group's acquisition of a non-wholly owned subsidiary, Chifeng Chaihulanzi Gold Mining Co., Ltd. ("Chifeng Chai Gold") in December 2008 of approximately RMB65,340,000 and the goodwill as taken up upon the acquisition of Guilaizhuang in October 2016 (an acquisition which has been accounted for as a business combination under common control) of approximately RMB55,354,000.

The Directors of the Company have performed impairment assessments on the aforesaid goodwill and concluded that no impairment charge has to be recognised. The recoverable amount of each cash-generating unit has been determined based on a value-in-use calculation using cash flow projection based on a financial budget covering a five-year period approved by management. The pre-tax discount rates applied to the cash flow projections for each year are in a range of 11% to 13%. The key assumptions as adopted by the Directors in the impairment assessment are summarised as below:

- Gold output – The values assigned to the future revenues are estimated based on the annual gold production, which is in line with the processing capacity of each cash-generating unit, taking into consideration the expected future capital expenditure and capacity expansion.

- Mining costs – The basis used to determine the values assigned to the mining costs is the input requirements in accordance with the long-term mining plan at real unit costs.

- Commodity price – Future commodity prices in the valuation model are estimated by management based on their industry experience, historic price trends and independent expert reports and commentaries.

- Discount rates – The discount rates used are based on a weighted average cost of capital, and are real rates, before tax reflecting specific risks relating to the cash-generating units.

19 GOODWILL *(Continued)*

(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 the AGBII Group (Notes 11B and 38) 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 MAS, the subsidiary of AGBII. The acquisition was completed on 30 June 2017 and the Directors have determined the goodwill on the acquisition based on a purchase price allocation ("PPA") as performed by an independent valuer.

The Directors of the Company have performed impairment assessments on the aforesaid goodwill and conclude that no impairment charge has to be recognised. The recoverable amount has been determined based on the fair value less costs of disposal ("FVLCD") of the Veladero mine. The valuation is considered to be level 3 in the fair value hierarchy due to unobservable inputs used in the valuation. The key assumptions and estimates used in determining the FVLCD are related to commodity prices, discount rates, net asset value multiples for gold assets, operating costs, exchange rates, capital expenditures, the life of mine ("LOM") production profile and continued license to operate. In addition, assumptions are related to observable market evaluation metrics, including identification of comparable entities, and associated market values per ounce and per pound of reserves and/or resource as well as the valuation of resources beyond what is included in LOM plans.

The approach and the key assumptions as adopted by the Direction in determining the FVLCD of the Veladero mine were as follows:

	Approach to determining key assumption
Gold price per ounce	Estimated based on observable market or publicly available data.
Post-tax discount rate (%)	Reflects specific risks relating to the Veladero mine and the country in which it operates.
Net asset value ("NAV") multiples for gold assets (range)	Based on the NAV multiples observed in the market transactions in recent years, adjusted for factors applicable to the Veladero mine.
LOM years	Base on life of mine plans prepared by management of the Veladero mine.

The impairment assessment as conducted by the Directors of the Company reveals that the recoverable amount of the goodwill is estimated to be above its carrying amount by approximately US$84,500,000 (approximately RMB579,940,000) as of 31 December 2018.

19 GOODWILL *(Continued)*

The recoverable amount of the Veladero mine would equal its carrying amount if the key assumptions were to change as follows:

	2018		2017	
	From	To	From	To
Gold price per ounce	**US$1,325**	US$1,270	**US$1,300**	US$1,234
Post-tax discount rate (%)	**6.74**	8.47	**6.60**	9.08
Net asset value multiples for gold assets	**1.15**	1.045	**1.2**	1.065
LOM years	**10**	9.1	**11**	9.7

20 FINANCIAL INSTRUMENTS BY CATEGORY

	Financial assets at amortised cost RMB'000	Assets at FVOCI RMB'000	Total RMB'000
As at 31 December 2018			
Assets as per balance sheet			
Financial assets at fair value through other comprehensive income	–	2,000	2,000
Trade and other receivables excluding non-financial assets	621,734	–	621,734
Restricted bank deposits	201,515	–	201,515
Cash and cash equivalents	1,937,718	–	1,937,718
Total	2,760,967	2,000	2,762,967

	Liabilities at FVPL RMB'000	Liabilities at amortised cost RMB'000	Total RMB'000
Liabilities as per balance sheet			
Borrowings	–	6,432,174	6,432,174
Trade and other payables excluding non-financial liabilities	–	3,598,165	3,598,165
Other non-current liabilities	–	73,926	73,926
Financial liabilities at fair value through profit or loss	6,438,726	–	6,438,726
Total	6,438,726	10,104,265	16,542,991

20 FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

	Loans and receivables RMB'000	Assets at FVOCI RMB'000	Total RMB'000
As at 31 December 2017			
Assets as per balance sheet			
Available-for-sale financial assets	–	2,015	2,015
Trade and other receivables excluding non-financial assets	317,032	–	317,032
Restricted bank deposits	669,942	–	669,942
Cash and cash equivalents	2,402,814	–	2,402,814
Total	3,389,788	2,015	3,391,803

	Liabilities at FVPL RMB'000	Liabilities at amortised cost RMB'000	Total RMB'000
Liabilities as per balance sheet			
Borrowings	–	10,974,926	10,974,926
Trade and other payables excluding non-financial liabilities	–	3,515,273	3,515,273
Other non-current liabilities	–	83,435	83,435
Financial liabilities at fair value through profit or loss	5,751,411	–	5,751,411
Total	5,751,411	14,573,634	20,325,045

21 AVAILABLE-FOR-SALE FINANCIAL ASSETS/FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Available-for-sale financial assets

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Beginning of the year	**2,015**	2,015
Disposals	**(15)**	–
Reclassified to financial assets at fair value through other comprehensive income	**(2,000)**	–
End of the year	**–**	2,015

21 AVAILABLE-FOR-SALE FINANCIAL ASSETS/FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME *(Continued)*

Financial assets at fair value through other comprehensive income

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Beginning of the year	**–**	–
Reclassified from available-for-sale financial assets	**2,000**	–
Addition	**–**	–
End of the year	**2,000**	–

Available-for-sale financial assets/financial assets at fair value through other comprehensive income include the following:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Unlisted equity securities, at cost (note b)	**2,000**	2,015

(a) Available-for-sale financial assets/financial assets at fair value through other comprehensive income are all denominated in RMB.

(b) These investments carried at cost represented investments in equity shares of unlisted entities that do not have a quoted market price in an active market and the fair value of which cannot be reliably measured.

(c) None of these financial assets is either past due or impaired.

22 OTHER NON-CURRENT ASSETS

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Prepayments for:		
– construction in progress and equipment	**145,461**	120,402
– mining and exploration rights	**93,900**	496,672
– land use rights	**136,909**	125,573
Value-added tax recoverable	**110,407**	54,540
Others	**42,143**	34,830
Total	**528,820**	832,017

23 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Trade receivables (note a)		
– related parties (Note 40(d))	**25,212**	5,722
– third parties	**554,218**	116,410
	579,430	122,132
Less: provision for impairment of trade receivables	**(8,341)**	(5,745)
Trade receivables – net	**571,089**	116,387
Notes receivable (note h)	**522**	19,066
Prepayments		
– related parties (Notes d and 40(d))	**1,777**	2,171
– third parties	**162,376**	173,133
	164,153	175,304
Amounts due from related parties (Notes e and 40(d))	**19,396**	65,430
Deposits	**26,319**	78,257
Payments on behalf of third parties	**39,599**	37,078
Advances to staff	**1,703**	9,065
Others	**50,249**	74,921
	137,266	264,751
Less: provision for impairment of other receivables	**(87,143)**	(89,393)
Other receivables – net	**50,123**	175,358
Value-added tax recoverable	**272,305**	228,505
Dividends receivable from the associate	**–**	6,221
Total	**1,058,192**	720,841

23 TRADE AND OTHER RECEIVABLES *(Continued)*

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

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Within 1 year	**567,539**	114,775
1–2 years	**4,577**	77
2–3 years	**69**	82
Over 3 years	**7,245**	7,198
	579,430	122,132

(b) There is no trade receivables that are past due but not impaired as at each balance sheet date.

(c) Trade receivables that are impaired

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Trade receivables – impaired	**33,496**	14,120
Provision	**(8,341)**	(5,745)
	25,155	8,375

The individually impaired receivables mainly relate to customers which are in unexpectedly difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Within 1 year	**21,605**	6,763
1–2 years	**4,577**	77
2–3 years	**69**	82
Over 3 years	**7,245**	7,198
	33,496	14,120

23 TRADE AND OTHER RECEIVABLES *(Continued)*

(d) Prepayments to related parties comprise mainly prepayments for raw materials and services (Note 40(d)).

(e) Amounts due from related parties mainly represented payments on behalf of related parties and these amounts are unsecured, interest free and repayable on demand.

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

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
At beginning of the year	**95,138**	103,452
Provision	**5,132**	8,428
Reversal	**(3,603)**	(17,133)
Written-off	**(1,183)**	–
Others	**–**	391
At the end of the year	**95,484**	95,138

(g) There are no collaterals for trade and other receivables.

(h) With effect from 1 January 2018, notes receivable should be reclassified from financial assets at amortised cost to FVOCI in accordance with IFRS 9 (Note 2.1.2(b)). As of 31 December 2018, the Group's notes receivable amounted to RMB522,000 only and such reclassification has not been made in view of immateriality.

(i) The carrying amounts of trade and other receivables are denominated in the following currencies:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
RMB	**337,444**	400,926
USD	**543,823**	163,578
HKD	**1,941**	1,848
ARS	**174,984**	154,489
	1,058,192	720,841

24 INVENTORIES

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Raw materials	**2,262,398**	1,817,902
Work in progress	**37,295**	37,532
Finished goods	**1,138,650**	1,216,755
Others	**183,807**	30,105
	3,622,150	3,102,294
Less: non-current portion (note a)	**(269,223)**	(143,896)
	3,352,927	2,958,398

(a) The non-current portion of inventories represent ore that the Group does not expect to process in the next 12 months.

(b) The cost of inventories recognised as expense and included in 'cost of sales' is as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Cost of inventories	**45,686,717**	42,560,908

(c) Movement of the provision for impairment of inventory is as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
At beginning of the year	**129**	129
Provision	**556**	–
Written-off	**(25)**	–
At the end of the year	**660**	129

25 CASH AND BANK BALANCES

(a) Restricted bank deposits

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Restricted bank deposits		
– current	**201,515**	149,744
– non-current	**–**	520,198
	201,515	669,942

The analysis of restricted bank deposits on each balance sheet date is as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Security deposits for a syndicated bank borrowing	**–**	520,198
Security deposits for issuance of notes	**98,973**	63,417
Security deposits for environmental restoration and governance	**102,542**	85,827
Others	**–**	500
	201,515	669,942

(b) Cash and cash equivalents

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Cash on hand	**473**	477
Short-term deposits of original maturity within 3 months with banks	**1,523,124**	1,803,805
Short-term deposits with a financial institution (Note 40(d))	**414,121**	598,532
	1,937,718	2,402,814

25 CASH AND BANK BALANCES *(Continued)*

(c) Cash and bank deposits (including restricted bank deposits of the Group) are denominated in the following currencies:

	As at 31 December 2018 RMB'000	2017 RMB'000
RMB	**1,621,420**	2,309,617
USD	**424,833**	761,275
Other currencies	**92,980**	1,864
	2,139,233	3,072,756

Cash and bank deposits mainly represent RMB-denominated deposits placed with banks and the associate in the PRC. The conversion of RMB-denominated deposits into foreign currencies and remittance out of the PRC are subject to certain PRC rules and regulations of foreign exchange control promulgated by the PRC government.

The carrying amount of bank deposits approximates their fair value.

26 SHARE CAPITAL AND TREASURY SHARES

(a) Share capital

Ordinary shares, issued and fully paid:

	As at 31 December 2018		As at 31 December 2017	
	Number of shares (thousands)	Share capital RMB'000	Number of shares (thousands)	Share capital RMB'000
Domestic shares ("A shares") of RMB1.00 each				
– held by Shandong Gold Group	**831,934**	**831,934**	831,934	831,934
– held by other shareholders	**1,025,185**	**1,025,185**	1,025,185	1,025,185
	1,857,119	**1,857,119**	1,857,119	1,857,119
H shares of RMB1.00 each (note)	**356,889**	**356,889**	–	–
– held by other shareholders	**2,214,008**	**2,214,008**	1,857,119	1,857,119

Note:

On 28 September 2018, the Company completed the global offering of its H shares on the Main Board of The Stock Exchange of Hong Kong Limited and issued a total of 327.73 million H shares.

On 26 October 2018, an additional 29.16 million H shares were issued upon the exercise of the over-allotment options by the international underwriters of the global offering.

26 SHARE CAPITAL AND TREASURY SHARES *(Continued)*

(b) Treasury shares

	Year ended 31 December 2018		Year ended 31 December 2017	
	Number of shares (thousands)	Treasury capital RMB'000	Number of shares (thousands)	Treasury capital RMB'000
At beginning and end of the year	**2,491**	**6,385**	2,491	6,385

The treasury shares represented the shares of the Company as acquired by the Company's subsidiary, Shandong Jinzhou, which remained unsold as of the respective balance sheet dates.

27 RESERVES

	Capital reserve (Note a) RMB'000	Statutory and other reserve funds (Note b) RMB'000	Transactions with non-controlling interests RMB'000	Foreign currency translation RMB'000	Others RMB'000	Total RMB'000
Balance at 1 January 2018	**4,579,406**	**552,643**	**(227,129)**	**(2,482)**	**3,441**	**4,905,879**
Share of other comprehensive loss of the associate	**–**	**–**	**–**	**–**	**(49)**	**(49)**
Currency translation differences	**–**	**–**	**–**	**(23,094)**	**–**	**(23,094)**
Other comprehensive loss	**–**	**–**	**–**	**(23,094)**	**(49)**	**(23,143)**
Appropriations from retained earnings	**–**	**12,243**	**–**	**–**	**–**	**12,243**
Acquisition of non-controlling interests (Note 39)	**–**	**–**	**(1,536)**	**–**	**–**	**(1,536)**
Capital injection from non-controlling interests (Note a(ii))	**135,281**	**–**	**–**	**–**	**–**	**135,281**
Issuance of H shares (Note a(i))	**4,052,576**	**–**	**–**	**–**	**–**	**4,052,576**
Others	**–**	**–**	**–**	**–**	**(316)**	**(316)**
Transactions with owners in their capacity as owners	**4,187,857**	**12,243**	**(1,536)**	**–**	**(316)**	**4,198,248**
Balance at 31 December 2018	**8,767,263**	**564,886**	**(228,665)**	**(25,576)**	**3,076**	**9,080,984**

27 RESERVES *(Continued)*

	Capital reserve RMB'000	Statutory and other reserve funds RMB'000	Transactions with non-controlling interests RMB'000	Foreign currency translation RMB'000	Others RMB'000	Total RMB'000
Balance at 1 January 2017	4,579,406	471,155	(228,441)	–	2,892	4,825,012
Share of other comprehensive loss of the associate	–	–	–	–	(56)	(56)
Currency translation differences	–	–	–	(2,482)	–	(2,482)
Other comprehensive loss	–	–	–	(2,482)	(56)	(2,538)
Appropriations from retained earnings (Note b)	–	81,488	–	–	–	81,488
Acquisition of non-controlling interests (Note 39)	–	–	1,312	–	–	1,312
Others	–	–	–	–	605	605
Transactions with owners in their capacity as owners	–	81,488	1,312	–	605	83,405
Balance at 31 December 2017	4,579,406	552,643	(227,129)	(2,482)	3,441	4,905,879

(a) Capital reserve

(i) The increase in capital reserve of approximately RMB4,052,576,000 during the year ended 31 December 2018 is arisen from the issuance of the Company's H shares. The aforesaid amount represents the proceeds as received from the initial public offering of the Company's H shares, net of the nominal value of the H shares issued and the listing expenses as capitalised.

(ii) On 25 December 2018, the ICBC Financial Asset Investment Co., Ltd. ("ICBC Investment") has invested RMB1 billion as the capital inject to a subsidiary of the Group, Shandong Gold Mining (Linglong) Co., Ltd.("Linglong"). After the capital injection, ICBC Investment owned 25.43% equity interest in Linglong and the Company continues to be the controlling shareholder of Linglong. The premium arising from the aforesaid capital injection from ICBC investment of approximately RMB135,281,000 has been credited to capital reserve during the year ended 31 December 2018.

(b) Statutory and other reserve funds

In accordance with the PRC Company Law and the Company's articles of association, the Company is required to set aside 10% of its profit after tax as determined in accordance with the relevant accounting principles and financial regulations applicable to PRC companies ("PRC GAAP") and regulations applicable to the Company, to the statutory reserve funds until such reserve reaches 50% of the registered capital of the Company. The appropriation to the reserve must be made before any distribution of dividends to equity holders before reaching 50% threshold mentioned above. The statutory surplus reserve can be used to offset previous years' losses, if any, and part of the statutory surplus reserve can be capitalised as the Company's share capital provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the share capital of the Company.

28 TRADE AND OTHER PAYABLES

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Trade payables (note a)		
– third parties	**822,583**	949,419
– related parties (Note 40(d))	**31,171**	12,662
	853,754	962,081
Notes payable (note b)	**631,643**	388,878
Payable for purchases of property, plant and equipment and mining rights	**832,471**	800,143
Deposits received from contractors	**302,977**	267,631
Purchase consideration payable	**179,418**	191,827
Customer deposits and receipts in advance	**–**	127,219
Contract liabilities (note c)	**79,118**	–
Other taxes payable	**82,895**	135,563
Dividends payable	**36,329**	188,863
Amounts due to related parties (Notes d and 40(d))	**551,908**	517,147
Salaries and staff welfare payable	**122,864**	149,389
Interest payable	**57,484**	110,576
Payable for underwriting and service fees in connection with the initial public offerings of the Company's H shares	**72,772**	–
Others	**79,409**	88,127
Total	**3,883,042**	3,927,444

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

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Less than 1 year	**823,115**	942,330
1–2 years	**25,943**	8,365
2–3 years	**1,509**	1,714
Over 3 years	**3,187**	9,672
	853,754	962,081

28 TRADE AND OTHER PAYABLES *(Continued)*

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

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Less than 1 year	**631,643**	388,878

(c) With effective from 1 January 2018, receipts in advance from customers have been classified as 'contract liabilities' in accordance with IFRS 15.

(d) Amounts due to related parties mainly represented payables for purchases of property, plant and equipment and mining rights.

(e) The carrying amounts of trade and other payables are denominated in the following currencies:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
RMB	**3,331,812**	3,242,226
USD	**397,392**	472,298
ARS	**109,841**	212,559
EUR	**43,060**	–
HKD	**937**	361
	3,883,042	3,927,444

(f) The carrying amounts of trade and other payables approximate their fair values.

(g) Certain of the Group's bank deposits have been secured to banks for the issue of certain notes payable, as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Bank deposits secured to banks for issuance of notes (Note 25(a))	**98,973**	63,417
Notes payable being secured	**403,052**	320,788

29 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
At beginning of the year	**5,751,411**	3,169,789
Proceeds received during the year	**8,684,341**	6,467,964
Changes in fair value of the obligations associated with outstanding gold leasing contracts	**(8,726)**	26,799
Settlement during the year	**(7,988,300)**	(3,913,141)
At end of the year	**6,438,726**	5,751,411

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 10). 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 7).

30 BORROWINGS

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Non-current		
Long-term bank borrowings		
– secured (note a(i))	**–**	4,835,308
– unsecured (note a(ii))	**2,058,960**	1,960,259
Corporate bonds (note b)	**687,862**	3,294,480
	2,746,822	10,090,047
Less: borrowings due within one year	**–**	(1,998,228)
	2,746,822	8,091,819
Current		
Short-term bank borrowings		
– unsecured (note a(ii))	**3,076,952**	598,000
Borrowings from related parties (Note 40(c))		
– secured (note a(iii))	**12,400**	49,300
– unsecured	**596,000**	237,579
Corporate bonds (note b)	**–**	1,998,228
	3,685,352	2,883,107
Total	**6,432,174**	10,974,926

(a) Secured borrowings pledged as security and guaranteed borrowings

(i) In November 2018, the Group has early repaid the bank borrowings of US$740 million (approximately RMB4,835,308,000) which were secured by the 50% equity interest in AGBII and 2.155% equity interest in MAS as held by SDHK.

(ii) As at 31 December 2018, bank borrowings of US$410 million (equivalent to approximately RMB2,813,912,000) are guaranteed by the Company and these borrowings of RMB2,058,960,000 and RMB754,952,000 are repayable in March 2020 and June 2019 respectively.

(iii) As at 31 December 2018, the bank borrowing of a subsidiary of RMB12,400,000 (2017: RMB49,300,000) is secured by the subsidiary's shares as held by the minority shareholders and is repayable by installments prior to September 2019.

30 BORROWINGS *(Continued)*

(b) Corporate bonds

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Non-current		
Corporate bonds payable	**688,996**	1,300,000
Less: commission payable	**(1,134)**	(3,748)
	687,862	1,296,252
Current		
Corporate bonds payable	**–**	2,000,000
Less: commission payable	**–**	(1,772)
	–	1,998,228
Total	**687,862**	3,294,480

On 3 September 2013, the Company issued 20,000,000 corporate bonds with a par value of RMB100 each and received total proceeds of RMB2,000,000,000. These bonds carried a coupon rate of 5.16% per annum and the interest charges were paid on 3 September annually in each of the following five years. The effective interest rate was 5.30% per annum. The underwriting commission for the issue of the bond amounted to RMB12,000,000 and was settled by the Company. The bonds were fully repaid on 3 September 2018 when they become due.

On 30 March 2015, the Company issued 13,000,000 corporate bonds with a par value of RMB100 each and received a total proceeds of RMB1,300,000,000. The bonds are fully repayable on 30 March 2020 when they become due. These bonds carry a coupon rate of 4.80% per annum and the interest charge will be paid on 30 March annually in each of the following five years. The effective interest rate is 4.94% per annum. The underwriting commission for the issue of the bond amounted to RMB7,800,000 and was settled by the Company. On 28 March 2018, the Company partially redeemed 6,110,040 corporate bonds with carrying amount of RMB611,004,000.

The aforesaid corporate bonds are initially recognised at the amount of the total proceeds net of the commission paid on the dates of issuance.

30 BORROWINGS *(Continued)*

(b) Corporate bonds *(Continued)*

Accrued interests for the corporate bonds are recorded in interest payable as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Interest payable for current bonds	**–**	34,400
Interest payable for non-current bonds	**27,388**	46,800

The fair values of non-current bonds are as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Non-current bonds	**699,955**	1,310,400

(c) The Group's borrowings were repayable as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Within one year	**3,685,352**	2,883,107
Between one and two years	**2,746,822**	–
Between two and five years	**–**	8,091,819
	6,432,174	10,974,926

30 BORROWINGS *(Continued)*

(d) The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the end of the year are as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Less than 6 months	**1,491,952**	854,879
6–12 months	**2,193,400**	30,000
1–5 years	**2,058,960**	6,795,567
	5,744,312	7,680,446

(e) The carrying amount of bank borrowings are not materially different from their fair value as at each balance date. The fair value are based on cash flows discounted using a market rate and are within level 2 of the fair value hierarchy.

(f) The Group's borrowings are denominated in the following currencies:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
RMB	**3,618,262**	4,179,359
USD	**2,813,912**	6,795,567
	6,432,174	10,974,926

(g) The average coupon rates of the Group's borrowings for the year are summarised as below.

	As at 31 December	
	2018	2017
Average coupon rates	**3.37%**	2.89%

31 DEFERRED INCOME TAX

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

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Deferred income tax assets	**142,704**	152,421
Deferred income tax liabilities	**(4,097,447)**	(4,135,396)
Deferred income tax liabilities (net)	**(3,954,743)**	(3,982,975)

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

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Beginning of the year	**(3,982,975)**	(1,831,028)
Credited to profit or loss (Note 13)	**138,091**	123,936
Acquisition of a joint operation (Note 38)	**–**	(2,358,331)
Currency translation differences	**(109,859)**	82,448
End of the year	**(3,954,743)**	(3,982,975)

31 DEFERRED INCOME TAX *(Continued)*

The movement in deferred income tax assets during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets

	Property, plant and equipment RMB'000	Unrealised profit RMB'000	Financial liabilities at fair value through profit or loss RMB'000	Provision for impairment RMB'000	Tax losses RMB'000	Provisions for asset retirement obligations RMB'000	Inter-company interest payable and withholding tax RMB'000	Others RMB'000	Total RMB'000
At 1 January 2017	141,706	–	12,256	44,844	29,281	–	–	–	228,087
Credited/(charged) to profit or loss	21,474	–	16,359	(2,223)	(29,281)	(20,972)	(38,617)	13,006	(40,254)
Acquisition of a joint operation	–	–	–	–	–	71,995	40,282	3,822	116,099
Currency translation differences	–	–	–	–	–	(2,220)	(816)	(342)	(3,378)
At 31 December 2017	163,180	–	28,615	42,621	–	48,803	849	16,486	300,554
At 1 January 2018	**163,180**	**–**	**28,615**	**42,621**	**–**	**48,803**	**849**	**16,486**	**300,554**
Charged/(credited) to profit or loss	**6,057**	**2,729**	**(28,615)**	**200**	**50,409**	**63,834**	**72,327**	**(8,334)**	**158,607**
Currency translation differences	**–**	**–**	**–**	**–**	**–**	**4,884**	**3,045**	**254**	**8,183**
At 31 December 2018	**169,237**	**2,729**	**–**	**42,821**	**50,409**	**117,521**	**76,221**	**8,406**	**467,344**

31 DEFERRED INCOME TAX *(Continued)*

The movement in deferred income tax liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax liabilities

	Mining and exploration rights RMB'000	Financial liabilities at fair value through profit or loss RMB'000	Property, plant and equipment RMB'000	Inventories RMB'000	Total RMB'000
At 1 January 2017	(2,044,411)	(14,704)	–	–	(2,059,115)
Credited to profit or loss	42,352	1,427	99,840	20,571	164,190
Acquisition of a joint operation	–	–	(2,315,122)	(159,308)	(2,474,430)
Currency translation differences	–	–	80,504	5,322	85,826
At 31 December 2017	(2,002,059)	(13,277)	(2,134,778)	(133,415)	(4,283,529)
At 1 January 2018	**(2,002,059)**	**(13,277)**	**(2,134,778)**	**(133,415)**	**(4,283,529)**
Charged/(credited) to profit or loss	**67,324**	**13,277**	**(61,720)**	**(39,397)**	**(20,516)**
Currency translation differences	**–**	**–**	**(109,825)**	**(8,217)**	**(118,042)**
At 31 December 2018	**(1,934,735)**	**–**	**(2,306,323)**	**(181,029)**	**(4,422,087)**

Deferred income tax assets are recognised for tax losses carried-forward to the extent that realisation of the related tax benefit through future taxable profits is probable. The Group does not recognise the following deferred income tax assets as management believes that it is more likely than not that such tax losses would not be utilised before they expire, details of which are as follows:

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Deferred income tax assets not recognised	**59,268**	75,372
The corresponding accumulated tax losses of the subsidiaries which deferred income tax have not been recognised	**237,072**	321,621

31 DEFERRED INCOME TAX *(Continued)*

Deferred income tax liabilities *(Continued)*

The aforesaid tax losses that have not been recognised as deferred income tax assets will be expired in the following years:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
2018	**–**	25,916
2019	**20,755**	34,238
2020	**63,930**	87,472
2021	**98,804**	98,804
2022	**37,185**	75,191
2023	**16,398**	–
	237,072	321,621

32 PROVISION FOR ASSET RETIREMENT OBLIGATIONS

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Beginning of the year	**570,586**	29,965
Interest charge on unwinding of discounts	**10,346**	5,021
Additional provision	**203,875**	182,754
Acquisition of a joint operation (Note 38)	**–**	365,818
Change in discount rate (Note 15(a))	**(29,591)**	–
Currency translation differences	**23,845**	(12,972)
End of the year	**779,061**	570,586

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

33 OTHER NON-CURRENT LIABILITIES

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Consideration payable for acquisition of a portfolio of assets and liabilities (note a)	**53,260**	61,430
Payable for mining rights	**2,453**	10,094
Provision for legal claims (note b)	**9,744**	7,721
Others	**8,469**	4,190
	73,926	83,435
Less: current portion (note a)	**(11,913)**	(12,992)
	62,013	70,443

(a) On 26 September 2017, Shandong Xinhui, Qingdao Pingdu Jinxing Gold Mining Co. Ltd. ("Jinxing") and Dazhuangzi Villagers' Committee of Pingdu Xinhe Town (平度市新河鎮大莊子村民委員會), the former shareholder of Jinxing entered into an asset reorganisation agreement (the "Agreement"). Pursuant to the Agreement, Shandong Xinhui acquired a portfolio of assets and liabilities of Jinxing, including part of the receivables and payables, property, plant and equipment and exploration rights at a total consideration of RMB174 million. As of 31 December 2018, the Group has settled part of consideration of RMB111 million and the remaining non-interest bearing consideration of RMB63 million (the "Remaining Consideration") will be paid by instalments prior to 2026. As at 31 December 2018, the carrying amount of the Remaining Consideration (which was initially recognised at fair value and subsequently measured at amortised cost) as included as "other non-current liabilities" amounted to approximately RMB53 million (2017: RMB61 million) and the current portion of which to be settled within the next twelve months amounted to approximately RMB12 million (2017: RMB13 million).

(b) As at 31 December 2018, the provision for legal claim of US$1.42 million (equivalent to approximately RMB9.74 million) (2017: US$1.23 million (equivalent to approximately RMB7.72 million)) is recognised in connection with certain outstanding labour claims of MAS, a non-wholly owned subsidiary of the Group's joint operation.

34 DIVIDENDS

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Final dividend for the year ended 31 December 2016 of RMB0.1 per ordinary share	**–**	184,410
Interim dividend for the year ended 31 December 2017 RMB0.08 per ordinary share	**–**	147,528
Final dividend for the year ended 31 December 2017 RMB0.04 per ordinary share	**73,764**	–
	73,764	331,938

On 28 March 2019, the Board of Directors of the Company proposed the payment of a final dividend for the year ended 31 December 2018 of RMB0.1 per ordinary share to the shareholders, totaling approximately RMB221 million. As the final dividend is declared after the balance sheet date, such dividend is not recognised as liability as at 31 December 2018.

Dividends proposed after the balance sheet date and not being recognised are as below:

	2018	2017
	RMB'000	RMB'000
Proposed final dividend after the balance sheet date: RMB0.1 (2017: RMB0.04) per ordinary share	**221,401**	73,764

35 CASH FLOW INFORMATION

(a) Cash generated from operations

	Year ended 31 December 2018 RMB'000	2017 RMB'000
Profit before income tax	**1,360,189**	1,604,445
Adjustments for:		
– Depreciation of property, plant and equipment and investment properties	**1,932,846**	1,607,282
– Amortisation	**532,393**	648,678
– Net losses on disposals/write-off of property, plant and equipment, land use rights and intangible assets	**27,005**	22,267
– Provision for/(reversal of) impairment, net	**1,529**	(2,873)
– Net (decrease)/increase in deferred revenue	**(5,340)**	1,430
– Fair value losses/(gains) on gold future/forward contracts	**84,651**	(11,305)
– Share of profit of the associate	**(37,985)**	(34,024)
– Finance costs	**697,855**	575,966
– Finance income	**(36,796)**	(37,445)
	4,556,347	4,374,421
Changes in working capital (excluding the effects of acquisitions and exchange differences on consolidation):		
– Inventories	**(591,798)**	(58,446)
– Trade and other receivables	**(245,113)**	(331,224)
– Trade and other payables	**(214,445)**	182,643
– Restricted bank deposits	**(51,771)**	–
– Other non-current assets	**(75,372)**	63,131
Cash generated from operations	**3,377,848**	4,230,525

(b) Proceeds from sale of property, plant and equipment, land use rights and intangible assets comprise:

	Year ended 31 December 2018 RMB'000	2017 RMB'000
Net book amount	**65,295**	32,823
Net losses on disposal of property, plant and equipment, land use rights and intangible assets		
– recognised in profit or loss	**(27,005)**	(22,267)
– recognised in equity (Note 15(a))	**(16,575)**	–
Proceeds from disposal of property, plant and equipment, land use rights and intangible assets	**21,715**	10,556

35 CASH FLOW INFORMATION *(Continued)*

(c) Reconciliation for liabilities from financing activities

	Liabilities from financing activities					
	Bonds due within 1 year RMB'000	Bonds due after 1 year RMB'000	Borrowings due within 1 year RMB'000	Borrowings due after 1 year RMB'000	Financial liabilities at fair value through profit or loss RMB'000	Total RMB'000
As at 31 December 2017	400,000	3,290,394	628,697	88,000	3,169,789	7,576,880
Cash flows	(400,000)	–	189,300	6,905,184	2,554,823	9,249,307
Foreign exchange adjustments	–	–	–	(131,617)	–	(131,617)
Reclass to current liabilities	1,998,228	(1,998,228)	66,000	(66,000)	–	–
Interest charged by related companies	–	–	9,908	–	–	9,908
Interest paid to related companies	–	–	(9,026)	–	–	(9,026)
Other non-cash movements	–	4,086	–	–	26,799	30,885
As at 31 December 2017	1,998,228	1,296,252	884,879	6,795,567	5,751,411	16,726,337
As at 1 January 2018	**1,998,228**	**1,296,252**	**884,879**	**6,795,567**	**5,751,411**	**16,726,337**
Cash flows	**(2,000,000)**	**(611,004)**	**2,804,052**	**(5,079,336)**	**696,041**	**(4,190,247)**
Foreign exchange adjustments	**–**	**–**	**3,717**	**342,729**	**–**	**346,446**
Interest charged by related companies	**–**	**–**	**7,671**	**–**	**–**	**7,671**
Interest paid to related companies	**–**	**–**	**(14,967)**	**–**	**–**	**(14,967)**
Other non-cash movements	**1,772**	**2,614**	**–**	**–**	**(8,726)**	**(4,340)**
As at 31 December 2018	**–**	**687,862**	**3,685,352**	**2,058,960**	**6,438,726**	**12,870,900**

36 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 31 December 2018, MAS, 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.

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 MAS 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.

37 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 31 December	
	2018	2017
	RMB'000	RMB'000
Property, plant and equipment	**872,141**	355,692
Mining and exploration rights	**190,637**	366,465
	1,062,778	722,157

(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 years ended 31 December 2018 and 2017 were disclosed in Note 8.

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

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Land and buildings:		
– Within 1 year	**25,428**	14,640
– From 1 year to 5 years	**34,270**	31,294
– Over 5 years	**17,621**	30,906
	77,319	76,840
Machinery:		
– Within 1 year	**8,968**	14,445
– From 1 year to 5 years	**2,004**	18,989
– Over 5 years	**–**	–
	10,972	33,434
Others:		
– Within 1 year	**3,562**	2,663
– From 1 year to 5 years	**614**	575
	4,176	3,238
Total	**92,467**	113,512

38 BUSINESS COMBINATIONS

On 30 June 2017, the Group had completed the acquisition of 50% interest in the AGBII Group (Note 11B).

The following table summarises the consideration paid or, payable by the Group, the fair value of assets acquired and liabilities assumed at the acquisition date.

	USD'000	RMB'000
Consideration:		
At 30 June 2017		
Total consideration – in cash	**989,700**	6,704,624
Recognised amounts of identifiable assets acquired and liabilities assumed		
Trade and other receivables	**636**	4,309
Inventories	**225,342**	1,526,557
Other current assets	**4,440**	30,078
Non-current portion of inventories	**21,744**	147,303
Property, plant and equipment	**1,036,430**	7,021,191
Trade and other payables	**(50,445)**	(341,735)
Other non-current liabilities	**(279)**	(1,889)
Provisions	**(54,000)**	(365,818)
Deferred income tax liabilities (net)	**(348,124)**	(2,358,331)
Total identifiable net assets	**835,744**	5,661,665
Goodwill (Note 19(b))	**153,956**	1,042,959
	989,700	6,704,624

The goodwill arose from the deferred income tax liabilities that were resulted due to fair value adjustments on the net identifiable assets.

39 TRANSACTIONS WITH NON-CONTROLLING INTERESTS

Acquisition of additional interest in a subsidiary

During the years ended 31 December 2018 and 2017, Shandong Jinzhou repurchased its ordinary shares owned by its employees, which resulted in a decrease in non-controlling interests and the corresponding (loss)/gain have been recognised within equity. The effect of changes in the ownership interest in Shandong Jinzhou on the equity attributable to owners of the Company for the respective years are summarised as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Carrying amount of non-controlling interests acquired	**2,222**	13,368
Considerations paid for repurchases of shares	**(3,758)**	(12,056)
(Loss)/gain recognised within equity	**(1,536)**	1,312

40 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 consolidated financial statements, the Group had the following material transactions with related parties.

40 RELATED PARTY TRANSACTIONS *(Continued)*

(a) Transactions with Shandong Gold Group and fellow subsidiaries

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Purchases of electricity	**386,783**	367,944
Purchases of construction services	**114,463**	103,944
Purchases of processing services	**4,774**	3,162
Purchases of gold	**220,615**	48,597
Purchases of other services	**39,202**	29,565
Total purchases	**765,837**	553,212
Provision of processing services	**757**	738
Sales of gold	**114,597**	136,193
Sales of other metals	**394**	23,011
Interest income from deposits with a related party	**7,750**	2,679
Transfer of property, plant and equipment to a related party	**18,132**	–
Sales of other materials and services	**10,817**	4,428
Total sales	**152,447**	167,049
Acquisition of mining and exploration rights	**196,211**	464,058
Total acquisitions	**196,211**	464,058

(b) Property leasing

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Rental fees paid to Shandong Gold Group and fellow subsidiaries	**20,093**	4,209
Rental fees received from Shandong Gold Group and fellow subsidiaries	**6,079**	7,213

40 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Loans obtained from related parties and related interest payable

	Year ended 31 December 2018 RMB'000	2017 RMB'000
Loans obtained from Shandong Gold Group and fellow subsidiaries:		
At beginning of the year	7,579	76,697
Drawdown during the year	–	20,000
Repayments paid during the year	–	(90,000)
Interest charged	–	1,582
Interest paid	(7,579)	(700)
At end of the year	–	7,579
Loans obtained from the associate:		
At beginning of the year	279,300	40,000
Drawdown during the year	2,156,000	1,559,300
Repayments during the year	(1,826,900)	(1,320,000)
Interest charged	7,671	8,326
Interest paid	(7,388)	(8,326)
At end of the year	608,683	279,300

	Year ended 31 December 2018 RMB'000	2017 RMB'000
Total loans obtained from related parties:		
At beginning of the year	286,879	116,697
Drawdown during the year	2,156,000	1,579,300
Repayments during the year	(1,826,900)	(1,410,000)
Interest charged	7,671	9,908
Interest paid	(14,967)	(9,026)
At end of the year	608,683	286,879

The loans obtained from related parties are denominated in RMB and due within one year. The average interest ratio as charged by the related companies are as below:

	Year ended 31 December 2018	2017
Average interests rates	4.35%	4.42%

40 RELATED PARTY TRANSACTIONS *(Continued)*

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

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Receivables from related parties		
Trade receivables		
– Shandong Gold Group and fellow subsidiaries	**25,212**	5,722
Other receivables		
– Shandong Gold Group and fellow subsidiaries	**19,396**	65,430
Dividends receivable		
– Associate	**–**	6,221
Prepayments		
– Shandong Gold Group and fellow subsidiaries	**1,777**	2,171
Deposits with a financial institution		
– Associate	**414,121**	598,532
Other non-current assets		
– Shandong Gold Group and fellow subsidiaries	**56,719**	476,155
	517,225	1,154,231
Payables to related parties		
Trade payables		
– Shandong Gold Group and fellow subsidiaries	**31,171**	12,662
Other payables		
– Shandong Gold Group and fellow subsidiaries	**551,908**	517,147
Dividends payable		
– Shandong Gold Group and fellow subsidiaries	**22,506**	110,582
Contract liabilities/receipts in advance		
– Shandong Gold Group and fellow subsidiaries	**32,189**	37,849
Other non-current liabilities		
– Shandong Gold Group	**2,453**	10,094
	640,227	688,334

40 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:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Salaries and other short-term employee benefits		
– Directors and supervisors	**7,226**	7,962
– Other key management	**4,914**	3,198
	12,140	11,160

(f) Guarantee are provided by related party

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Shandong Gold Group	**688,996**	3,300,000

On 3 September 2013, the Company issued 20,000,000 corporate bonds with a par value of RMB100 each and received total proceeds of RMB2,000,000,000 (Note 30(b)). Shandong Gold Group had provided guarantee for the bonds. The bonds were fully repaid on 3 September 2018 when they become due and the guarantee was released accordingly.

On 30 March 2015, the Company issued 13,000,000 corporate bonds with a par value of RMB100 each and received a total proceeds of RMB1,300,000,000 (Note 30(b)). Shandong Gold Group has provided guarantee for the bonds. On 28 March 2018, the Company has partially redeemed part of corporate bonds of RMB611,004,000 and the corresponding portion of the aforesaid guarantee was released accordingly.

41 BENEFITS AND INTERESTS OF DIRECTORS

Directors' and chief executive's emoluments

The remuneration of every director and the chief executive is set out below:

For the year ended 31 December 2018:

Name	Salary RMB'000	Bonuses RMB'000	Contributions to pension plans, welfare and other expenses RMB'000	Total RMB'000
Chairman				
Li Guohong (李國紅)	300	301	78	679
Executive directors				
Chen Daojiang (陳道江)	113	360	54	527
Wang Lijun (王立君)	136	406	59	601
Wang Peiyue (王培月)	240	384	59	683
Wang Xiaoling (汪曉玲)	198	725	61	984
Tang Qi (湯琦)	144	437	61	642
Independent non-executive directors				
Gao Yongtao (高永濤)	180	–	–	180
Lu Bin (盧斌)	180	–	–	180
Hui Wing (許穎)	180	–	–	180
Total	1,671	2,613	372	4,656

41 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

For the year ended 31 December 2017:

Name	Salary RMB'000	Bonuses RMB'000	Contributions to pension plans, welfare and other expenses RMB'000	Total RMB'000
Chairman				
Li Guohong (李國紅)	305	400	99	804
Executive directors				
Chen Daojiang (陳道江)	133	335	81	549
Wang Lijun (王立君)	204	259	82	545
Wang Peiyue (王培月)	245	703	87	1,035
Wang Xiaoling (汪曉玲)	214	553	88	855
Qiu Ziyu (邱子裕)*	144	337	114	595
Tang Qi (湯琦)**	24	–	5	29
Independent non-executive directors				
Gao Yongtao (高永濤)	125	–	–	125
Bingsheng Teng ***	110	–	–	110
Jiang Jun (姜軍) ****	110	–	–	110
Lu Bin (盧斌)*****	15	–	–	15
Hui Wing (許穎)******	15	–	–	15
Total	1,644	2,587	556	4,787

* Qiu Ziyu ceased being an executive director from 21 November 2017.
** Tang Qi was elected as an executive director from 21 November 2017.
*** Bingsheng Teng ceased being an independent director from 8 December 2017.
**** Jiang Jun ceased being an independent director from 8 December 2017.
***** Lu Bin was elected as an independent director from 8 December 2017.
****** Hui Wing was elected as an independent director from 8 December 2017.

In addition to the directors' emoluments as disclosed above, certain directors who are also directors of the parent company and certain fellow subsidiaries received emoluments from different related companies during the years ended 31 December 2018 and 2017, part of which is in respect of their services rendered to the Group in respective years. No apportionment has been made as the directors consider that it is impracticable to apportion this amount between their services rendered to the Group and their services rendered to the parent company and the respective fellow subsidiaries.

42 EVENTS AFTER THE REPORTING PERIOD

Pursuant to a Board's resolution dated 28 March 2019, the Board of Directors of the Company has proposed a final dividend for the year ended 31 December 2018 (Note 34) and proposed the issue of bonus shares (on the basis of four bonus shares for every ten shares) to all of the Company's shareholders by way of the capitalisation of capital reserve (representing an increase of approximately 885,600,000 shares based on the Company's total share capital as at 31 December 2018).

On 22 March 2019, the Company has issued 10,000,000 corporate bonds with a par value of RMB100 each and received total proceeds of RMB1,000,000,000. These bonds carry a coupon rate of 3.85% per annum and are fully repayable on 22 March 2022 when they become due.

43 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANIES

(a) Balance sheet of the Company

	2018 RMB'000	2017 RMB'000
Assets		
Non-current assets		
Property, plant and equipment	2,133,114	1,816,116
Investment properties	193,371	201,707
Land use rights	6,850	6,996
Intangible assets	578,387	35,301
Investments in subsidiaries	13,204,631	13,097,045
Investment in an associate	1,029,559	399,208
Available-for-sale financial assets	–	500
Financial assets at fair value through other comprehensive income	500	–
Restricted bank deposits	–	520,198
Other non-current assets	121,100	442,139
	17,267,512	16,519,210
Current assets		
Inventories	46,845	37,532
Trade and other receivables	9,270,796	4,428,749
Prepaid income tax	10,928	10,941
Restricted bank deposits	14,996	15,601
Cash and cash equivalents	805,361	1,374,843
	10,148,926	5,867,666
Total assets	27,416,438	22,386,876

43 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

(a) Balance sheet of the Company *(Continued)*

	2018 RMB'000	2017 RMB'000
Equity and liabilities		
Equity attributable to owners of the company		
Share capital	2,214,008	1,857,119
Reserves	9,650,790	5,586,020
Retained earnings	4,210,543	4,175,859
Total equity	16,075,341	11,618,998
Liabilities		
Non-current liabilities		
Borrowings	687,862	1,296,252
Deferred income tax liabilities	13,204	43,134
Deferred revenue	1,290	757
Provision for asset retirement obligations	21,063	15,264
Other non-current liabilities	2,453	4,717
	725,872	1,360,124
Current liabilities		
Trade and other payables	1,496,499	1,302,735
Borrowings	2,680,000	2,668,228
Financial liabilities at fair value through profit or loss	6,438,726	5,436,791
	10,615,225	9,407,754
Total liabilities	11,341,097	10,767,878
Total equity and liabilities	27,416,438	22,386,876
Net current liabilities	(466,299)	(3,540,088)
Total assets less current liabilities	16,801,213	12,979,122

43 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

(b) Reserve movement of the Company

	Retained earnings RMB'000	Other reserves RMB'000
At 1 January 2017	3,764,279	5,505,066
Profit for the year	825,006	–
Dividends	(331,938)	–
Appropriations	(81,488)	81,488
Share of other comprehensive loss of the associate	–	(56)
Others	–	(478)
At 31 December 2017	4,175,859	5,586,020
At 1 January 2018	**4,175,859**	5,586,020
Profit for the year	**122,432**	–
Dividends	**(73,764)**	–
Appropriations	**(12,243)**	12,243
Issuance of ordinary shares	**–**	4,052,576
Share of other comprehensive loss of the associate	**–**	(49)
Others	**(1,741)**	–
At 31 December 2018	**4,210,543**	9,650,790

DEFINITIONS

DEFINITIONS

In this annual report, unless otherwise indicated in the context, the following expressions have the meanings set out below:

"AGBII Group"	Argentina Gold (Bermuda) II Ltd., a company incorporated in Bermuda on 6 October 1994 and registered by way of continuation into the Cayman Islands on 25 November 2015 which is owned as to 50% by SDG Hong Kong and 50% by Barrick Cayman (V) Ltd., an exempted company incorporated in the Cayman Islands on 29 March 2016;
"A Share(s)"	The domestic share(s) issued by the Company to domestic investors with a nominal value of RMB0.1 each, which are listed on the Shanghai Stock Exchange;
"Articles of Association"	The articles of association of the Company;
"Barrick Gold"	Barrick Gold Corporation, a corporation incorporated in Ontario, Canada on 14 July 1984 and holder as to 100% equity interest in Barrick Cayman (V) Ltd.;
"BAW Report"	The 2018 annual resources and reserves update report prepared by BAW (Beijing) Technical Consultancy Co., Ltd. (寶萬(北京)技術諮詢有限責任公司) ("BAW"), an independent third party qualified as a Competent Person as defined in the NI43-101 Code;
"Board" or "Board of Directors"	The board of Directors of the Company;
"CG Code"	the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Hong Kong Listing Rules;
"Chaihulanzi Gold"	Chifeng Chaihulanzi Gold Mining Co., Ltd. (赤峰柴胡欄子黃金礦業有限公司), a limited liability company incorporated in the PRC on 29 September 2003, which was held as to approximately 73.52% by the Company, and approximately 22.48% and 3.99% by two individuals, namely Ma Chunming (馬春明) and Li Jinglu (李景祿), respectively. Ma Chunming was also a director and Li Jinglu was a supervisor of Chifengchai Gold;
"China" or the "PRC"	The People's Republic of China but for the purpose of this annual report, excludes Hong Kong SAR, Macau SAR and Taiwan;
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
"Companies (Winding Up and Miscellaneous Provisions) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
"CSRC"	China Securities Regulatory Commission;
"Director(s)" or "our Directors"	The director(s) of the Company;

"Group","the Group", "our Group", "we" or "us"	our Company and all of our subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, the businesses operated by such subsidiaries or their predecessors (as the case may be);
"Guilaizhuang Mining"	Shandong Gold Guilaizhuang Mining Co., Ltd. (山東黃金歸來莊礦業有限公司), a limited liability company incorporated in the PRC on 27 August 1994 which was held as to approximately 70.65% by the Company and approximately 29.35% by Pingyi County Finance Bureau (平邑縣財政局);
"H Share(s)"	The overseas-listed foreign invested share(s) in the Company's share capital, with a nominal value of RMB0.10 each, which are listed on the Hong Kong Stock Exchange;
"HKEx Website"	http://www.hkexnews.hk, the website of the Hong Kong Stock Exchange;
"Hong Kong"	Hong Kong Special Administrative Region of the PRC;
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time;
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"IFRS"	the International Financial Reporting Standards, which include standards and interpretations promulgated by the International Accounting Standards Board (IASB);
"International Underwriters"	the group of international underwriters, led by the Joint Global Coordinators, that entered into the International Underwriting Agreement;
"International Underwriting Agreement"	the underwriting agreement entered into by, among others, our Company and the International Underwriters;
"IPEEM"	the Provincial Institute of Mining and Exploration ("*Instituto Provincial de Exploraciones y Explotaciones Mineras*"), the provincial mining entity in Argentina responsible for holding title to ceratin mineral licenses in the San Juan province and for soliciting bids for and granting exploration and mining rights in this province by way of concession through tender;
"Jinchuang Group"	Shandong Gold Jinchuang Group Co., Ltd. (山東黃金金創集團有限公司), a limited liability company incorporated in the PRC on 17 March 1987, which was held as to 65% by SDG Group Co. and as to 35% by Penglai State-owned Assets Administration Bureau (蓬萊市國有資產管理局);

DEFINITIONS

"Jinzhou Group"	Shandong Jinzhou Mining Group Co., Ltd. (山東金洲礦業集團有限公司), a limited liability company incorporated in the PRC on November 1, 1999, which was held as to approximately 60.43% by our Company, approximately 23.70% by Rushan Guoxin Asset Operation and Management Co., Ltd. (乳山市國鑫資產經營管理有限公司) and approximately 15.87% by 10 individuals who were employees of our Company;
"Joint Global Coordinators"	CCB International Capital Limited, China Securities (International) Corporate Finance Company Limited, ICBC International Capital Limited, Morgan Stanley Asia Limited (in relation to the Hong Kong Public Offering only) and Morgan Stanley & Co. International plc (in relation to the International Offering only)
"Laizhou Mining"	Shandong Gold Mining (Laizhou) Co., Ltd. (山東黃金礦業(萊州)有限公司), a limited liability company incorporated in the PRC on 27 May 2003 and a wholly-owned subsidiary of our Company;
"Linglong Mining"	Shandong Gold Mining (Linglong) Co., Ltd. (山東黃金礦業(玲瓏)有限公司), a limited liability company incorporated in the PRC on 23 February 2010 and a wholly-owned subsidiary of our Company;
"Listing Date"	28 September 2018, being the date the shares of the Company commenced trading on the Hong Kong Stock Exchange;
"MAS"	Minera Andina del Sol SRL (previously known as Minera Argentina Gold S.R.L, a sociedad de reponsabilidad limitada incorporated in Argentina on 31 January 1995, held as to 95.6906% by AGB II, 2.1547% by SDG Hong Kong, 1.9529% by Argentina Gold Corporation and 0.2018% by Compania Minera San Jose de Argentina;
"Over-allotment Option"	the option expected to be granted by our Company to the International Underwriters, exercisable by the Joint Global Coordinators (on behalf of the International Underwriters) pursuant to the International Underwriting Agreement. Further details of which are described in the section headed "Structure of the Global Offering" in the Prospectus;
"Prospectus"	the prospectus being issued by the Company in connection with the Hong Kong public offering dated 28 September 2018;
"PRC Company Law"	the Company Law of the PRC (中華人民共和國公司法), as amended and adopted by the Standing Committee of the Tenth National People's Congress on 27 October 2005 and effective on 1 January 2006, as amended, supplemented or otherwise modified from time to time;

"PRC Securities Law"	the Securities Law of the PRC (中華人民共和國證券法), as enacted by the 6th meeting of the 9th Standing Committee of the National People's Congress on 29 December 1998 and became effective on 1 July 1999, as amended, supplemented or otherwise modified from time to time;
"Reporting Period"	From 1 January 2018 to 31 December 2018;
"RPA Report"	the competent person report dated 31 December 2017 prepared by Roscoe Postle Associates Inc., an independent third party qualified as a competent person;
"RMB"	Renminbi, the lawful currency of China;
"SDG Beijing"	SDG (Beijing) Industry Investment Co., Ltd. (山東黃金(北京)產業投資有限公司), a limited liability company incorporated in the PRC on 8 July 2015 and a wholly-owned subsidiary of our Controlling Shareholder;
"SDG Capital Management"	SD Gold Capital Management Co., Ltd. (山金金控資本管理有限公司), a limited liability company incorporated in the PRC on 14 November 2012 and a wholly-owned subsidiary of SDG Group Co.;
"SDG Group"	SDG Group Co. and all of its subsidiaries;
"SDG Group Finance"	Shandong Gold Group Finance Co., Ltd. (山東黃金集團財務有限公司), a limited liability company incorporated in the PRC on 17 July 2013, which was held as to 30% by our Company and 70% by SDG Group Co.;
"SDG Group Co."	Shandong Gold Group Co., Ltd. (山東黃金集團有限公司), a limited liability company incorporated in the PRC on 16 July 1996, the Controlling Shareholder of our Company, and was held as to approximately 70% by Shandong SASAC, as to approximately 20% by Shandong Guohui Investment Co., Ltd. (山東國惠投資有限公司) and as to approximately 10% by Shandong Social Security Fund Committee (山東省社會保障基金理事會);
"SDG Hong Kong"	Shandong Gold Mining (HongKong) Co., Limited (山東黃金礦業(香港)有限公司), incorporated in Hong Kong on 27 February 2017 with limited liability and a wholly-owned subsidiary of our Company;
"SDG International"	Shandong Gold International Mining Co., Ltd. (山東黃金國際礦業有限公司), a limited liability company incorporated in Hong Kong on 1 November 1994 and a wholly owned subsidiary of SDG Group Co.;
"SDG Non-ferrous"	Shandong Gold Non-ferrous Metal Mine Group Co., Ltd. (山東黃金有色礦業集團有限公司), a limited liability company incorporated in the PRC on 19 August 2008 and was held as to approximately 95.65% by SDG Group Co. and approximately 4.35% by Jinan Jinsui Jincai Investment Partnership (Limited Partnership) (濟南金穗金財投資合夥企業(有限合夥));

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"SDG Smelting"	Shandong Gold Smelting Co., Ltd. (山東黃金冶煉有限公司), a limited liability company incorporated in the PRC on 19 July 2016 and a wholly-owned subsidiary of our Company, and its predecessor;
"SFC"	The Securities and Futures Commission of Hong Kong;
"SFO"	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
"Shandong Gold", "Company" or "our Company"	Shandong Gold Mining Co., Ltd. (山東黃金礦業股份有限公司), a joint stock company incorporated in the PRC under the laws of the People's Republic of China with limited liability on 31 January 2000;
"Shanghai Gold Exchange" or "SGE"	Shanghai Gold Exchange (上海黃金交易所);
"Shanghai Stock Exchange" or "SSE"	Shanghai Stock Exchange (上海證券交易所);
"Shenzhen SDG Precious Metal"	Shenzhen SD Gold Mining Precious Metal Co., Ltd. (深圳市山金礦業貴金屬有限公司), a limited liability company incorporated in the PRC on 10 August 2015, and was held as to 75% by Laizhou Mining and 25% by Guizhou Southwest Gold Operation Center Co., Ltd. (貴州西南黃金經營中心有限公司), which was held as to 92% by Chen Kaiyuan (陳開元), who was also a director of Guizhou Southwest Gold Operation Center Co., Ltd.;
"SSE Listing Rules"	the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange (上海證券交易所股票上市規則) as amended supplemented or otherwise modified from time to time;
"Share(s)"	shares in the share capital of our Company, with a nominal value of RMB1.00 each, comprising our A Shares and our H Shares;
"Shareholders"	Holder(s) of our Share(s);
"SSE Website"	http://www.sse.com.cn, the website of the Shanghai Stock Exchange;
"Supervisor(s)"	The supervisor(s) of the Company;
"Supervisory Committee"	The supervisory committee of the Company;
"Syndicated Term Loan(s)"	the loan available under the US$960 million term loan facilities agreement dated 20 June 2017 entered into by, among others, SDG Hong Kong and several financial institutions, for which China Merchants Bank Co., Ltd. New York Branch acted as the facility agent;
"Veladero Mine"	The Veladero Mine located in the high Andes Cordillers of central western Argentina. Details of which are set out in "Appendix IV-Competent Person's Report-RPA Report" to the Prospectus;
"Yinan Mining"	Shandong Gold Mining (Yinan) Co., Ltd. (山東黃金礦業(沂南)有限公司), a limited liability company incorporated in the PRC on 5 August 2008 and a wholly-owned subsidiary of our Company.