SD-GOLD

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

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

(Stock Code: 1787)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

SUMMARY OF RESULTS (prepared in accordance with IFRS)

- Revenue is RMB54,787,877,000
- Profit attributable to the equity holders of the Company is RMB816,048,000
- Basic earnings per share is RMB0.42
- The Board proposed the payment of a final dividend of RMB1 per ten (10) Shares (tax inclusive) for the year ended 2018 and the issue of four (4) bonus Shares for every ten (10) Shares to all Shareholders by way of conversion of capital reserve.
- The financial information contained in this announcement is extracted from the Company's consolidated financial statements prepared in accordance with the International Financial Reporting Standards

The Board of Directors of Shandong Gold Mining Co., Ltd. is pleased to announce the audited consolidated annual results of the Company and its subsidiaries for the year ended 31 December 2018.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2018

		Year ended 31 December	
		2018	2017
	Note	***RMB'000***	*RMB'000*
Revenue	*3*	**54,787,877**	51,041,303
Cost of sales		**(50,856,661)**	(47,398,660)
Gross profit		**3,931,216**	3,642,643
Selling expenses		**(37,227)**	(31,152)
General and administrative expenses		**(1,383,702)**	(1,214,344)
Research and development costs		**(321,041)**	(273,559)
Other income	*4*	**12,275**	15,979
Other losses, net	*5*	**(218,258)**	(30,625)
Operating profit		**1,983,263**	2,108,942
Finance income	*6*	**36,796**	37,445
Finance costs	*6*	**(697,855)**	(575,966)
Finance costs, net	*6*	**(661,059)**	(538,521)
Share of profit of an associate		**37,985**	34,024
Profit before income tax		**1,360,189**	1,604,445
Income tax expenses	*7*	**(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)*	*8*	**0.42**	0.60

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

		Year ended 31 December	
		2018	2017
	Note	***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 income 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

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2018

		As at 31 December	
		2018	2017
	Note	***RMB'000***	*RMB'000*
Assets			
Non-current assets			
Property, plant and equipment		**23,082,902**	21,110,946
Investment properties		**216,570**	226,684
Land use rights		**340,242**	339,824
Intangible assets		**12,234,123**	12,014,845
Goodwill		**1,177,325**	1,126,673
Investment in an associate		**1,037,144**	399,208
Available-for-sale financial assets		**–**	2,015
Financial assets at fair value through other comprehensive income		**2,000**	–
Inventories		**269,223**	143,896
Deferred income tax assets		**142,704**	152,421
Restricted bank deposits		**–**	520,198
Other non-current assets		**528,820**	832,017
		39,031,053	36,868,727
Current assets			
Inventories		**3,352,927**	2,958,398
Trade and other receivables	*9*	**1,058,192**	720,841
Prepaid income tax		**30,284**	31,197
Restricted bank deposits		**201,515**	149,744
Cash and cash equivalents		**1,937,718**	2,402,814
		6,580,636	6,262,994
Total assets		**45,611,689**	43,131,721

CONSOLIDATED BALANCE SHEET *(Continued)*
AS AT 31 DECEMBER 2018

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital		**2,214,008**	1,857,119
Treasury shares		**(6,385)**	(6,385)
Reserves		**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
Liabilities			
Non-current liabilities			
Borrowings		**2,746,822**	8,091,819
Deferred income tax liabilities		**4,097,447**	4,135,396
Deferred revenue		**12,186**	17,526
Provision for asset retirement obligations		**779,061**	570,586
Other non-current liabilities		**62,013**	70,443
		7,697,529	12,885,770
Current liabilities			
Trade and other payables	*10*	**3,883,042**	3,927,444
Current income tax liabilities		**258,449**	177,231
Borrowings		**3,685,352**	2,883,107
Current portion of other non-current liabilities		**11,913**	12,992
Financial liabilities at fair value through profit or loss		**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

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.

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 327,730,000 H shares were issued. On 26 October 2018, an additional 29,159,500 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 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

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 and available-for-sale financial assets, which are carried at fair value.

The preparation of financial information 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.

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 long business relationship with its principal bankers and the principal bankers have confirmed 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	**Effective date**
IFRS 16	Leases	Annual periods beginning on or after 1 January 2019
IFRS 17	Insurance contracts	Annual periods beginning on or after 1 January 2021
IFRIC 23	Uncertainty over income tax treatments	Annual periods beginning on or after 1 January 2019
Amendments to IAS 19	Employee benefits on plan amendment, curtailment or settlement	Annual periods beginning on or after 1 January 2019
Amendments to IAS 28	Long term interests in associates and joint ventures	Annual periods beginning on or after 1 January 2019
Amendments to IAS 1 and IAS 8	Definition of material	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	To be determined
Amendments to IFRS 3	Definition of a business	Annual periods beginning on or after 1 January 2020
Amendments to IFRS 9	Prepayment features with negative compensation	Annual periods beginning on or after 1 January 2019
Amendments to IFRS	Annual Improvements to IFRSs 2015-2017 Cycle	Annual periods beginning on or after 1 January 2019

The Group has already commenced an assessment of the impact of these new or amended standards and interpretations, certain of which are relevant to the Group's operation. 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.

3 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.

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**

	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

Analysis of revenue

	Year ended 31 December	
	2018 **RMB'000**	2017 *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.

Gold sold through the Shanghai Gold Exchange were as follows:

	Year ended 31 December	
	2018 **RMB'000**	2017 *RMB'000*
Gold refining segment	**35,105,167**	37,178,200

Analysis of non-current assets

	As at 31 December	
	2018 **RMB'000**	2017 *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.

4 OTHER INCOME

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Government grants	**12,275**	15,979

5 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)

6 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	**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

7 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	**(138,091)**	(123,936)
	487,946	431,452

Notes:

(a) The provision for PRC enterprise income tax ("EIT") is calculated based on the statutory income tax rate of 25% (2017: 25%). The EIT is calculated based on the applicable income tax rate of 25% and 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 calculated 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 Shandong Gold Mining (Hong Kong) Co., Limited (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 SDG Hong Kong as it has no estimated taxable profits in any financial year/period since the date of its incorporation.

8 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
	RMB'000	*RMB'000*
Profit attributable to equity holders of the Company (RMB'000)	**816,048**	1,118,920
Weighted average 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.

9 TRADE AND OTHER RECEIVABLES

Group

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Trade receivables *(Note a)*		
– related parties	**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 *(Note d)*	**1,777**	2,171
– third parties	**162,376**	173,133
	164,153	175,304
Amounts due from related parties *(Note 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

Notes:

(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

(d) Prepayments to related parties comprise mainly prepayments for raw materials and services.

(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(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

10 TRADE AND OTHER PAYABLES

Group

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Trade payables *(Note a)*		
– third parties	**822,583**	949,419
– related parties	**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 *(Note 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

Notes:

(a) Aging analysis of trade payable of the Group on 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

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

	As at 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 of the Group mainly represented payables for purchases of property, plant and equipment and mining rights.

(e) The carrying amounts of trade and other payables of the Group 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 of the Group 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	**98,973**	63,417
Notes payable being secured	**403,052**	320,788

11 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 of RMB0.08 per ordinary share	**–**	147,528
Final dividend for the year ended 31 December 2017 of 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 of RMB0.1 per ordinary Share to the shareholders for the year ended 31 December 2018, 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

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 the Mineral Resources Development and Utilisation Project of Sanshandao Gold Mine, the Resources Development Plan for Jiaojia Gold Mining Belt and other plans, 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 for international operation. Through mergers and acquisitions of mines in production, it is expected that the Company's gold production is expected to reach above 50 tonnes by the end of the "13th Five-Year" period.

Analysis on the core competitiveness during the Reporting Period

Strategic Advantage

The Company adheres to strategy-led development and continues to enhance strategic practice, to maintain strategic willpower. 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 green 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 strengthening tapping corporate internal potentials; the 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 new and old drivers and adhered to the improvement of traditional drivers through management improvement and innovation and transformation of mechanism, striving to build more powerful 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 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 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 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 the 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 the 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 "fairness, openness, integrity, responsibility, tolerance and harmony", 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 inducted 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.

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 proactively 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.

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 turnover 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 always adhered to the requirements of high-quality development and made great 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. Besides, activities were carried out thoroughly with the focus placed on diagnosis 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, to stimulate development vitality. The functions of the departments at the headquarters were optimised and integrated, whilst the trading center and information center were successively set up; by giving full play to the location advantages, the powers are thus concentrated on building 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.

Highlight conversion of drivers to increase development impetus. Relying on the major projects of conversion of new and old drivers, we concentrated our efforts on engineering construction, scientific and technological research, etc. The full launch of major projects of conversion of new and old drivers 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 the listing. As of 31 December 2018, Hong Kong Heng 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%, 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%.

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.

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	(697,855)	(575,966)	21.2
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*

	Status of the main businesses by industry					
By industry	Operating Income	Operating costs	Gross profit margin *(%)*	Changes in operating income compared with last year *(%)*	Changes in operating costs compared with last year *(%)*	Changes in gross profit margin compared with last year *(%)*
Mining segment	10,678,464,332	6,942,624,266	35.0%	8.8%	8.5%	0.6%
Smelting segment	44,109,413,017	43,914,037,139	0.4%	7.0%	7.2%	-21.3%
	54,787,877,349	50,856,661,405	7.2%	7.3%	7.3%	0.5%

Status of the main businesses by region

By region	Operating Income	Operating costs	Gross profit margin (%)	Changes in operating income compared with last year (%)	Changes in operating costs compared with last year (%)	Changes in gross profit margin compared with last year (%)
The PRC	52,412,139,508	48,844,611,072	6.8%	6.3%	6.1%	2.4%
Outside the PRC	2,375,737,841	2,012,050,333	15.3%	37.4%	47.5%	-27.4%
	54,787,877,349	50,856,661,405	7.2%	7.3%	7.3%	0.5%

Table of cost analysis

Unit: *RMB*

	Amount for the current period	Proportion to total cost during the current period	Amount for the same period last year	Proportion to total cost during the same period last year
Materials costs	45,604,851,900	89.7%	42,245,053,680	89.1%
Employee benefit expenses	1,353,703,567	2.7%	1,167,569,365	2.5%
Depreciation	2,299,907,514	4.5%	1,484,483,000	3.1%
Amortization	–	0.0%	609,371,000	1.3%
Outsourcing expenses	891,326,365	1.8%	1,009,389,643	2.1%
Mining resource compensation fees	56,542,589	0.1%	85,666,721	0.2%
Mining resource tax	204,847,489	0.4%	189,200,374	0.4%
Transportation costs and port expenses	85,137,523	0.2%	66,671,192	0.1%
Repairs and maintainance costs	16,325,367	0.0%	21,999,320	0.0%
Operating lease rental expenses	23,605,998	0.0%	23,836,164	0.1%
Other expenses	320,413,093	0.6%	495,419,414	1.0%
Sub-total	50,856,661,405		47,398,659,872	

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 RMB41.9 billion, representing 72.1% 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.

Research and development expenditure

Table of research and development expenditure

Unit: *RMB*

	2018	2017
Expensed research and development expenditure for the year	**321,041,044**	285,717,528
Total research and development expenditure	**432,589,464**	389,394,434
Percentage of total research and development expenditure to operating income *(%)*	**0.79**	0.76
Number of research and development staff	**768**	396
Number of research and development staff to total number of staff of the Company *(%)*	**36.71**	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 RMB6,432,174,044 (RMB10,974,925,951 as at 31 December 2017), and the Group's consolidated total equity was RMB23,636,677,684 (RMB17,493,765,727 as at 31 December 2017). As at 31 December 2018, the Group's gearing ratio was 27.2%.

Items measured at fair value

Unit: *RMB*

	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
Financial liabilities at fair value through profit or loss	5,751,410,580	8,684,341,000	(8,725,536)	(7,988,299,850)	6,438,726,194
Total	5,751,410,580	8,684,341,000	(8,725,536)	(7,988,299,850)	6,438,726,194

Analysis of assets and liabilities

Status of assets and liabilities

Unit: *RMB*

Item	31 December 2018	Proportion	31 December 2017	Proportion	Change	Reasons for the change
Cash and cash equivalents	1,937,718,458	4.2%	2,402,813,999	5.6%	(465,095,541)	Mainly due to the decrease in security deposits
Trade and other receivables	1,058,192,336	2.3%	720,841,326	1.7%	337,351,009	Mainly due to the increase in receivables from sales of gold
Investment in an associate	1,037,144,379	2.3%	399,208,132	0.9%	637,936,247	Mainly due to capital injection to SDG Group Finance
Short-term borrowings	3,623,352,000	7.9%	796,878,892	1.8%	2,826,473,108	Mainly due to the increase in short-term borrowings by SDG Hong Kong during the year
Current portion of Long-term borrowings	62,000,000	0.1%	2,086,227,500	4.8%	(2,024,227,500)	Mainly due to the repayment of long-term borrowings by SDG Hong Kong during the year
Long-term bonds	687,862,044	1.5%	1,296,252,200	3.0%	(608,390,156)	Mainly due to the repayment of part of the bonds by the parent company during the year
Long-term Borrowings	2,058,960,000	4.5%	6,795,567,359	15.8%	(4,736,607,359)	Mainly due to the repayment of long-term borrowings by SDG Hong Kong during the year
Reserves	9,080,983,725	19.9%	4,905,878,879	11.4%	4,175,104,846	Mainly due to the capital stock premium resulting from Company's issurance of H shares

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

Unit: *RMB*

Item	**Carrying amount as at the end of the Reporting Period**	**Reasons for restrictions**
Other monetary funds	98,973,315.20	Security deposits for issuance of notes
Other monetary funds	102,541,581.72	Security deposits for environmental restoration and governance
Total	201,514,896.92	

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 global tense 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.

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 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 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

Profitability of respective region during the Reporting Period

Unit: *RMB'0000*

Regions	Operating income	Proportion of operating income *(%)*	Increase/ decrease in operating income from last year *(%)*
PRC	5,241,214	95.7%	6.3%
Overseas	237,574	4.3%	37.4%
Total	5,478,788	100%	7.3%

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:

	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)*		
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);	
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);	

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
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.
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 reserves 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.

ANALYSIS ON INVESTMENT STATUS

Overall analysis on external equity investment

During the Reporting Period, the Company made capital contribution to Shandong Gold Group Finance Co., Ltd., 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 the finance company, 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 above mentioned 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 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 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 through debt settlement.

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 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.

ANALYSIS OF MAJOR SUBSIDIARIES, ASSOCIATES AND JOINT OPERATION

Unit: *RMB*

Name of Key Subsidiary	Type of Business	Main Product	Registered Capital *(RMB)*	Total Assets *(RMB)*	Net Profit *(RMB)*
Shandong Gold Mining (Linglong) Co., Ltd.	Mining	Gold	402,306,600	4,459,109,523	254,579,858
Shandong Jinzhou Mining Group Co., Ltd.	Mining	Gold	80,172,426	1,053,295,921	29,716,083
Xihe Zhongbao Mining Co., Ltd.	Mining	Gold	200,000,000	1,852,143,707	5,273,511
Shandong Gold Guilaizhuang Mining Co., Ltd.	Mining	Gold	621,670,000	974,088,324	77,533,075
Shandong Gold Group Finance Co., Ltd.	Finance		3,000,000,000	8,756,981,157	126,617,734

Subsidiaries attributable to more than 10% of net profit

Unit: *RMB*

Name of Subsidiary	Revenue *(RMB)*	Profit *(RMB)*	Net profit *(RMB)*	Percentage of net profit in consolidated net profit *(%)*
Shandong Gold Mining (Laizhou) Co., Ltd.	3,812,929,411	1,034,039,098	788,817,811	90.4%
Shandong Gold Mining (Linglong) Co., Ltd.	1,189,676,375	332,020,617	254,579,858	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.

LISTING EXPENSES

The Group has paid listing expenses of RMB136.58 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$5,245.73 million after deducting relevant listing expenses. As of the date of this results announcement, 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 RMB4,506.09 million was used to repay the three-year Syndicated Term Loan and the unutilized net proceeds of approximately RMB91.87 million from the global offering are deposited in the bank accounts.

THE WORK IN THE ACTIVE FULFILLMENT OF SOCIAL RESPONSIBILITIES

Poverty Alleviation Work of the Company

In 2018, Shandong Gold continued to implement CPC Central Committee's strategy to "fight a key battle of poverty alleviation", implemented the deployment and requirements regarding rural revitalization strategy promoted by Shandong Provincial Committee, People's Government of Shandong Province and Shandong Provincial State-Owned Assets Supervision and Administration Commission, upheld its strategies regarding poverty alleviation and elimination, enhanced the construction of party branch of the lower rank, made breakthroughs by focusing on one village one product and one household one plan initiatives, fostered the construction of infrastructure and beautiful villages in rural areas, continuously optimized the interests of the village as a whole and household in poverty, effectively overcome the problem of returning to poverty and facilitated poverty elimination of household in poverty.

In 2019, Shandong Gold will actively respond to the call of the provincial party committee and the provincial government, continue to select outstanding party members and cadres to serve the people in poverty-stricken areas in various ways. The policy of "No Worry About Food and Clothing with Compulsory Education, Basic Medical Care, and Housing Guaranteed" will be implemented, and rural collective economy will be developed to generate more incomes for villages. Shandong Gold will also foster economic cooperation organizations and social service organizations and develop characteristic industries to generate more incomes for villagers, aiming to prevent the occurrence of returning to poverty.

Social Responsibility Work

In 2018, the Group earnestly fulfilled social responsibilities and enthusiastically participated in public welfare activities by (i) proactively carrying out community co-construction and building a harmonious relationship between enterprise and the local government; (ii) carrying out charitable donation activities continuously; (iii) discharging the responsibilities as a state-owned enterprise in alleviating poverty with precision; (iv) participating in volunteer service activities on a variety of matters.

With respect to employee relationship, the Group will continue to wholeheartedly support our employees by sharing the corporate development success with them. The Company will continue to advocate the people-oriented employment philosophy to build a harmonious and stable labor relationship. In addition, the Company will improve the remuneration and welfare mechanism and attach importance to career development and training of employees. The Company is dedicated to show care for employees in order for them to work at ease.

Regarding work safety and environmental protection, the Group has been adhered to the concept of "guarding the clear waters and green hills diligently and creating benefits for the Earth with love" and promoted construction of mines in an orderly and green manner. We have set up corporate eco-environmental governance and specifically managed the discharge of the "three wastes" to meet the standards to ensure that there were no environmental problem found in the "follow-up" inspection by the Central Environmental Protection Inspectorate and the environmental protection inspections. Due to our vigorous promotion of the safety production standardization and strategy of enhancement of safety through science and technology, no major production safety accidents or work-related casualties occurred in 2018.

INFORMATION OF CORPORATE BONDS

Overview of corporate bonds

Unit: *RMB*

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	0.00	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	687,862,043.76	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

1. 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 by way of once or many times 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 SSE through open market of the SSE through one or more transactions with no more than US$300 million in funds and purchased the Company 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.

2. 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.

3. Gold Mining Properties of SDG Group, the Controlling Shareholder

SDG Group, the controlling shareholder of the Company, 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 are mainly located in the PRC. As of 31 December 2018, 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.

SHAREHOLDERS AND SHAREHOLDERS’ GENERAL MEETING

During the period from the Listing Date to 31 December 2018, the Company did not hold any Shareholders’ general meeting. The Company shall convene and hold general meeting of Shareholders in strict accordance with the Articles of Association and the rules and requirements of the Shareholders’ meeting of the Company to ensure that all Shareholders (especially minority Shareholders) can enjoy equal rights and fully exercise their voting rights.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Save as disclosed in this results announcement, 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.

FINAL DIVIDEND AND ANNUAL GENERAL MEETING

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 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 (tax inclusive) (the “**Proposed Issue**”), based on the total issued share of the Company as of 31 December 2018 of 2,214,008,309. 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.

CORPORATE GOVERNANCE

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 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 the 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 the provisions of the Model Code during the period from the Listing Date to 31 December 2018.

AUDIT COMMITTEE

The Audit Committee currently comprises of two non-executive Directors, Mr. Li Guohong and Ms. Wang Xiaoling and three independent non-executive Directors, Mr. Lu Bin, Ms. Hui Wing and Mr. Gao Yongtao. The Chairman of the Audit Committee is Mr. Lu Bin.

The Audit Committee has reviewed the annual results for the year ended 31 December 2018 and further discussed the auditing, internal control and financial reporting matters. The Audit Committee considers that the annual results 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.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2018 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with International Standards on Auditing, International Standards on Review Engagements or International Standards on Assurance Engagements and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

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 (Note 11) 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 21 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. The bonds are fully repayable on 21 March 2022 when they become due. These bonds carry a coupon rate of 3.85% per annum.

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.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company (www.sdhjgf.com.cn), and the 2018 annual report of the Company containing all the information required by the Hong Kong Listing Rules will be dispatched to the Shareholders and made available on the above websites in due course.

DEFINITIONS

In this results announcement, 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;
"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;
"China" or the "PRC"	The People's Republic of China but for the purpose of this results announcement, excludes Hong Kong SAR, Macau SAR and Taiwan;
"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);
"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);
"IPEEM"	the Provincial Institute of Mining and Exploration ("*Instituto Provincial de Explorations y Exokotaciones Mineras*"), the provincial mining entity 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 provinces by way of concession through tender;
"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 s*ociedad 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;
"Prospectus"	the prospectus issued by the Company in connection with the Hong Kong public offering dated 14 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;
"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 Hong Kong"	Shandong Gold Mining (Hong Kong) 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 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);
"SFC"	The Securities and Futures Commission 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"	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);
"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;
"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.

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

Jinan, the PRC, 28 March 2019

As at the date of this announcement, the executive directors of the Company are Mr. Wang Peiyue, Mr. Tang Qi and Mr. Li Tao; the non-executive directors of the Company are Mr. Li Guohong, Mr. Wang Lijun and Ms. Wang Xiaoling; and the independent non-executive directors of the Company are Mr. Gao Yongtao, Ms. Hui Wing and Mr. Lu Bin.