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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Shandong Gold Mining Co., Ltd. (山東黃金礦業股份有限公司) (the "Company"), you should at once hand this circular and the enclosed proxy form and reply slip to the purchaser or transferee or to licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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**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)**

- 1. 2018 WORK REPORT OF THE BOARD OF DIRECTORS**
- 2. 2018 WORK REPORT OF THE SUPERVISORY COMMITTEE**
- 3. 2018 WORK REPORT OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS**
- 4. 2018 FINAL FINANCIAL REPORT**
- 5. 2019 FINANCIAL BUDGET REPORT**
- 6. RESOLUTION REGARDING THE REVIEW OF THE ANNUAL REPORT AND ITS EXTRACTS OF THE COMPANY FOR THE YEAR 2018**
- 7. RESOLUTION REGARDING 2018 ANNUAL PROFIT DISTRIBUTION PLAN AND ISSUANCE OF BONUS SHARES BY WAY OF CONVERSION OF CAPITAL RESERVE**
- 8. RESOLUTION REGARDING THE EXPECTED CONNECTED TRANSACTIONS DURING THE ORDINARY COURSE OF BUSINESS IN 2019**
- 9. RESOLUTION REGARDING THE APPOINTMENT OF ACCOUNTING FIRMS AND INCREASING ANNUAL AUDITING SERVICE FEES**
- 10. RESOLUTION REGARDING THE RE-APPOINTMENT OF INTERNAL CONTROL AUDITOR AND INCREASING AUDITING SERVICE FEES**
- 11. RESOLUTION REGARDING THE 2018 APPRAISAL REPORT ON INTERNAL CONTROL**
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- 14. RESOLUTION REGARDING THE SIGNING OF THE FINANCIAL SERVICES FRAMEWORK AGREEMENT WITH SHANDONG GOLD GROUP FINANCE CO., LIMITED**
- 15. RESOLUTION REGARDING THE APPOINTMENT OF AUDITORS FOR 2019**
- 16. NOTICE OF 2018 ANNUAL GENERAL MEETING**
- 17. NOTICE OF 2019 FIRST CLASS MEETING FOR HOLDERS OF H SHARES**

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A notice convening the annual general meeting (the "AGM") and a notice convening the 2019 first class meeting for holders of H Shares (the "H Shares Class Meeting") of Shandong Gold Mining Co., Ltd. to be held at the conference room of the Company, Building No.3, Shuntai Plaza, Shunhua Road No. 2000, Jinan, Shandong Province, the PRC at 9:00 a.m. on Friday, 28 June 2019 and on Friday, 28 June 2019 immediately after the conclusion of the 2019 first class meeting for holders of A Shares of the Company are set out on pages 25 to 29 of this circular.

The proxy forms and the reply slips for use in connection with the AGM and the H Shares Class Meeting have been despatched by the Company on 10 May 2019. The said proxy forms and reply slips are also published on the website of The Stock Exchange of Hong Kong Limited ([www.hkexnews.hk](http://www.hkexnews.hk)).

Any shareholder(s) of the Company (the "Shareholders") entitled to attend and vote at the AGM and the H Shares Class Meeting are entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a shareholder of the Company. If you intend to appoint a proxy to attend the AGM and the H Shares Class Meeting and vote on your behalf, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return it by hand, by post or by facsimile to the Company's H share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for H Shareholders only) as soon as possible and in any event not later than 24 hours before the time appointed for the holding of the AGM and the H Shares Class Meeting or any adjournment thereof (as the case may be). Completion and return of the proxy form will not preclude you from attending and voting at the AGM and the H Shares Class Meeting or any adjournment hereof should you so wish. Any Shareholder(s) who intend to attend the AGM and the H Shares Class Meeting in person or by proxy should complete, sign and return the reply slip in accordance with the instructions printed thereon on or before Friday, 7 June 2019.

16 May 2019

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:*

“AGM”	the annual general meeting of the Company to be held at 9:00 a.m. on Friday, 28 June 2019 at the conference room of the Company, Building No.3, Shuntai Plaza, Shunhua Road No. 2000, Jinan, Shandong Province, the PRC;
“Annual Report”	The 2018 annual report published by the Company on 25 April 2019 on the websites of the Company (www.sdjgf.com.cn) and Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk);
“A Shareholder(s)”	holder(s) of A Shares;
“A Share(s)”	The domestic share(s) issued by the Company to domestic investors with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange;
“A Shares Class Meeting”	the 2019 first A Shares Class Meeting of the Company to be held on 28 June 2019 for the purpose of considering, among other things, approving the proposed Bonus Issue;
“Articles of Association”	The articles of association of the Company, as amended from time to time;
“Board” or “Board of Directors”	the board of Directors of the Company;
“Bonus Issue”	the proposed issue of 4 Bonus Shares for every 10 Shares by way of conversion of capital reserve;
“Bonus Shares”	the new Shares to be allotted and issued under the Bonus Issue by the Company;
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC;
“Class Meeting(s)”	A Share Class Meeting and/or H Share Class Meeting;
“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, the H Shares and A Shares of which are listed on the main board of The Hong Kong Stock Exchange Limited (Stock Code: 1787) and the Shanghai Stock Exchange (Stock Code: 600547) respectively;

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## DEFINITIONS

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“CSRC”	China Securities Regulatory Commission;
“Directors”	the directors of the Company;
“Group”	the Company and all our subsidiaries;
“HKSCC”	Hong Kong Securities Clearing Company Limited;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Hong Kong dollar”	Hong Kong dollar, the lawful currency of Hong Kong;
“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;
“H Shareholder(s)”	holder(s) of H Shares;
“H Shares”	The overseas-listed foreign invested share(s) in the Company’s share capital, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange;
“H Shares Class Meeting”	the 2019 first H Shares Class Meeting of the Company to be held on 28 June 2019 for the purpose of considering, among other things, approving the proposed Bonus Issue;
“Latest Practicable Date”	14 May 2019, being the latest practicable date prior to the printing of this circular;
“Listing Date”	28 September 2018, being the date the shares of the Company commenced trading on the Hong Kong Stock Exchange;
“New A Shares”	the new A Shares to be allotted and issued under the Bonus Issue;
“New H Shares”	the new H Shares to be allotted and issued under the Bonus Issue;
“PRC” or “China”	the People’s Republic of China but for the purpose of this circular, excludes Hong Kong, Macau Special Administrative Region and Taiwan;

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## DEFINITIONS

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“Prospectus”	The prospectus being issued by the Company in connection with the Hong Kong public offering dated 14 September 2018;
“Profit Distribution”	the proposed distribution of cash dividend of RMB1 for every 10 Shares (before tax);
“RMB”	Renminbi, the lawful currency of the PRC;
“SDG Finance Co.”	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”	SDG Group Co. and all of its subsidiaries;
“SDG Group Co.”	Shandong Gold Group Co., Ltd. (山東黃金集團有限公司), a limited liability company incorporated in the PRC on 16 July 1996, the Controlling Shareholder of our Company, and was held as to approximately 70% by Shandong SASAC, as to approximately 20% by Shandong Guohui Investment Co., Ltd. (山東國惠投資有限公司) and as to approximately 10% by Shandong Social Security Fund Committee (山東省社會保障基金理事會);
“SDG Hong Kong”	Shandong Gold Mining (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 Non-ferrous”	Shandong Gold Non-ferrous Metal Mine Group Co., Ltd. (山東黃金有色礦業集團有限公司), a limited liability company incorporated in the PRC on 19 August 2008 and was held as to approximately 95.65% by SDG Group Co. and approximately 4.35% by Jinan Jinsui Jincai Investment Partnership (Limited Partnership) (濟南金穗金財投資合夥企業(有限合夥));
“SSE” or “Shanghai Stock Exchange”	Shanghai Stock Exchange (上海證券交易所);
“Shanghai Listing Rules”	the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange (上海證券交易所股票上市規則) as amended supplemented or otherwise modified from time to time;

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## DEFINITIONS

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“Shareholders”	the shareholders of the Company;
“Supervisor(s)”	supervisor(s) of the Company;
“Supervisory Committee”	committees of Supervisors;
“Veladero Mine”	The Veladero Mine located in the high Andes Cordillera of central western Argentina. Details of which are set out in “Appendix IV-Competent Person’s Report-RPA Report” to the Prospectus.

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## EXPECTED TIMETABLE

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*The expected timetable for, inter alia, the Bonus Issue and Profit Distribution is set forth below:*

**With respect to the proposed allotment and issue of the New H Shares and Profit Distribution:**

<b>Event</b>	<b>2019 (Hong Kong time)</b>
Latest time for lodging transfer of Shares for entitlement to attend and vote at the AGM and the H Shares Class Meeting . . . . .	Tuesday, 28 May (4:30 p.m.)
Closure of the register of members of the Company for determining the identity of the Shareholders who are entitled to attend and vote at the AGM and the H Shares Class Meeting . . . . .	Wednesday, 29 May to Friday, 28 June
Latest date for returning reply slip for attendance at the AGM and the H Shares Class Meeting . . . . .	Friday, 7 June
Latest time to return form of proxy for the AGM and the H Shares Class Meeting . . . . .	Thursday, 27 June, by (9:00 a.m.)
Date and time of the AGM . . . . .	Friday, 28 June (9:00 a.m.)
Date of the H Shares Class Meeting . . . . .	Friday, 28 June (immediately after the conclusion of the 2018 first A Shares Class Meeting)
Publication of poll results announcement of the AGM . . . . .	Friday, 28 June
Publication of poll results announcement of the H Shares Class Meeting . . . . .	Friday, 28 June
<b>The following events are subject to the satisfaction of the conditions of the Bonus Issue as set out in this circular:</b>	
Last day of dealings in H Shares on a cum-entitlement basis relating to the Profit Distribution and Bonus Shares . . . . .	Tuesday, 2 July
First day of dealings in H Shares on an ex-entitlement basis relating to the Profit Distribution and Bonus Shares . . . . .	Wednesday, 3 July

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## EXPECTED TIMETABLE

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Latest time for lodging transfers of H Shares for registration in order to qualify for the Profit Distribution and Bonus Shares	Thursday, 4 July (4:30 p.m.)
Closure of register of members of the Company for transfer of H Shares for determining entitlement to the Profit Distribution and Bonus Shares	Friday, 5 July to Wednesday, 10 July
Record Date to qualify H Shareholders for determination of entitlement to the Profit Distribution and Bonus Shares	Wednesday, 10 July
Register of members for transfer of H Shares of the Company re-opens	Thursday, 11 July
Profit Distribution payment date	Tuesday, 20 August <sup>(Note)</sup>
Certificates of the New H Shares to be despatched	Tuesday, 20 August <sup>(Note)</sup>
Dealings in New H Shares commence	Wednesday, 21 August (9:00 a.m.)

*Note:* The dates with regard to Profit Distribution and Bonus Issue are for reference only as they are subject to approval by the Shareholders and might be adjusted by the Company. If there is any such change, the Company will make announcement to inform the Shareholders.

All times and dates in this circular are Hong Kong times and dates.



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LETTER FROM THE BOARD

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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)**

***Executive Directors:***

Mr. Wang Peiyue  
Mr. Li Tao (*Vice-Chairman*)  
Mr. Tang Qi

***Non-executive Directors:***

Mr. Li Guohong (*Chairman*)  
Mr. Wang Lijun  
Ms. Wang Xiaoling

***Independent Non-executive Directors:***

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

***Registered office and headquarters  
in the PRC***

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

***Principal place of business in Hong Kong***

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

16 May 2019

*To the Shareholders*

1. 2018 WORK REPORT OF THE BOARD OF DIRECTORS
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## LETTER FROM THE BOARD

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### INTRODUCTION

On behalf of the Board of Directors, I invite you to attend the AGM and the H Shares Class Meeting to be held at the conference room of the Company, Building No.3, Shuntai Plaza, Shunhua Road No. 2000, Jinan, Shandong Province, PRC at 9:00 a.m. on Friday, 28 June 2019 and on Friday, 28 June 2019 immediately after the conclusion of the A Shares Class Meeting respectively.

The purpose of this circular is to provide you with all the information reasonably necessary to enable you to make an informed decision on whether to vote for or against the proposed resolutions at the AGM and at the H Shares Class Meeting as follows:

#### 1. 2018 WORK REPORT OF THE BOARD OF DIRECTORS

An ordinary resolution will be proposed to approve the Work Report of the Board of Directors for the year ended 31 December 2018. The full text of the aforesaid report is set out in the Management Discussion and Analysis and the 2018 Report of the Board of Directors in the Annual Report.

The 2018 Work Report of the Board of Directors for the year ended 31 December 2018 was considered and approved by the Board on 28 March 2019 and will be submitted, by way of ordinary resolution, for the Shareholders' consideration and approval at the AGM.

#### 2. 2018 WORK REPORT OF THE SUPERVISORY COMMITTEE

An ordinary resolution will be proposed at the AGM to approve the 2018 Work Report of the Supervisory Committee for the year ended 31 December 2018. The full text of the Report of the Supervisory Committee is set out in the Annual Report which has been despatched to the Shareholders on 26 April 2019.

The 2018 Work Report of the Supervisory Committee for the year ended 31 December 2018 was considered and approved by the Board on 28 March 2019 and will be submitted, by way of ordinary resolution, for the Shareholders' consideration and approval at the AGM.

#### 3. 2018 WORK REPORT OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

An ordinary resolution will be proposed at the AGM to approve the 2018 Work Report of the independent non-executive Directors for the year ended 31 December 2018. The full text of the aforesaid Work Report is set out in **Appendix I** to this circular.

The 2018 Work Report of the independent non-executive Directors for the year ended 31 December 2018 was considered and approved by the Board on 28 March 2019 and will be submitted, by way of ordinary resolution, for the Shareholders' consideration and approval at the AGM.

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## LETTER FROM THE BOARD

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### 4. 2018 FINAL FINANCIAL REPORT

An ordinary resolution will be proposed at the AGM to approve the 2018 Final Financial Report for the year ended 31 December 2018. The full text of the aforesaid report is set out in **Appendix II** to this circular.

The 2018 Final Financial Report for the year ended 31 December 2018 was considered and approved by the Board on 28 March 2019 and will be submitted, by way of ordinary resolution, for the Shareholders' consideration and approval at the AGM.

### 5. 2019 FINANCIAL BUDGET REPORT

An ordinary resolution will be proposed at the AGM to approve the 2019 Financial Budget Report. The full text of the aforesaid report is set out in **Appendix III** to this circular.

The 2019 Financial Budget Report was considered and approved by the Board on 28 March 2019 and will be submitted, by way of ordinary resolution, for the Shareholders' consideration and approval at the AGM.

### 6. RESOLUTION REGARDING THE REVIEW OF THE ANNUAL REPORT AND ITS EXTRACTS OF THE COMPANY FOR THE YEAR 2018

An ordinary resolution will be proposed at the AGM to approve the Annual Report for the year ended 31 December 2018. The aforesaid Annual Report has been published on the website of the Hong Kong Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<http://www.sdhjgf.com.cn>) on 25 April 2019.

The Annual Report was considered and approved by the Board on 28 March 2019 and will be submitted, by way of ordinary resolution, for the Shareholders' consideration and approval at the AGM.

### 7. RESOLUTION REGARDING 2018 ANNUAL PROFIT DISTRIBUTION PLAN AND ISSUANCE OF BONUS SHARES BY WAY OF CONVERSION OF CAPITAL RESERVE

A special resolution will be proposed at the AGM, A Shares Class Meeting and H Shares Class Meeting to approve the proposed profit distribution plan and issuance of Bonus Shares of the Company for the year ended 31 December 2018 in accordance with the Articles of Association.

Beijing Tianyuanquan Certified Public Accountants (Special General Partnership) and PricewaterhouseCoopers, after audits, confirmed that the net profits of the parent company in 2018 calculated under the Chinese Accounting Standards for Business Enterprises and the International Financial Reporting Standards were RMB122,432,825.28.

In accordance with the requirements of the Company Law of the PRC and the Articles of Association, the profits of the parent company available for distribution to the Shareholders for the current year were RMB4,048,936,862.98 under the Chinese Accounting Standards, which were calculated by extracting 10% of the net profit into its statutory reserve fund of RMB12,243,282.53, plus the undistributed profit of RMB4,014,252,848.63 for the beginning of the current year and deducting the 2017 cash dividends of RMB73,764,149.96 paid during the year and the asset transfer in relation to water, electricity and heat supply and property management of RMB1,741,378.44.

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## LETTER FROM THE BOARD

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Pursuant to a resolution passed at the Board meeting on 28 March 2019, the Board proposed the distribution of a final dividend of RMB1 per ten (10) Shares (tax inclusive) for the year ended 31 December 2018, amounting to a total of approximately RMB221.4 million and the issue of four (4) bonus Shares for every ten (10) Shares to all Shareholders by way of conversion of capital reserve, based on the total issued shares 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.

On the basis of 2,214,008,309 existing Shares, comprising of 356,889,500 H Shares and 1,857,118,809 A Shares, in issue as at the Latest Practicable Date, and assuming no further Shares will be issued or repurchased before the Record Date, it is anticipated that 885,603,323 Shares, comprising of 142,755,800 New H Shares and 742,847,523 New A Shares will be issued under the Bonus Issue. The New H Shares will be issued on a pro-rata basis and any fractional Shares (if any) will be rounded down to the nearest whole unit. No fractional Shares will be issued and distributed pursuant to the Bonus Issue, but will be aggregated and sold for the benefit of the Company.

The Board also proposed that, a cash dividend of RMB1 (tax inclusive) per 10 Shares will be distributed to ordinary Shareholders. The cash dividend will also be paid on a pro-rata basis to Shareholders who hold ordinary Shares in odd lot (i.e. RMB0.1 per ordinary Shares). The dividend will be denominated and declared in RMB, and distributed to the domestic Shareholders and investors participating in the Shanghai-Hong Kong Stock Connect Program in RMB and to the overseas Shareholders in Hong Kong dollar. The exchange rate for the dividend calculation in Hong Kong dollar is based on the middle rate as published by the People's Bank of China on the date on which the AGM is held.

The Bonus Issue is subject to the following conditions:

- (1) Approval of the Shareholders at the AGM and at the Class Meetings to be held on 28 June 2019;
- (2) Hong Kong Stock Exchange granting the listing of, and permission to deal in, the New H Shares; and
- (3) Compliance with the relevant legal procedures and requirements under the company law of the PRC to effect the Bonus Issue and approval of the Bonus Issue by the relevant authorities in the PRC (if so required).

For the cash dividends from the 13,015,060 locked Shares which shall be compensated by SDG Non-ferrous to the Company, SDG Non-ferrous shall return the relevant cash dividends to the Company according to Article 4.3 of the profit forecast compensation agreement for purchase of assets by issuance of shares entered into between the Company and SDG Non-ferrous on 5 May 2015. Save as mentioned above, the Group is not aware of any arrangement under which a Shareholder has waived or agreed to waive any dividends.

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## LETTER FROM THE BOARD

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### **Status of Bonus Shares**

The Bonus Shares will, subject to the Articles of Association, rank *pari passu* in all respects with the Shares in issue on the date of the issue of the Bonus Shares. Holders of Bonus Shares will be entitled to receive all future dividends and distributions (if any) which are declared, made or paid after the date on which the Bonus Shares are allotted and issued. The Bonus Issue should not result in any change to the rights of the Shares.

### **Overseas H Shareholders**

The Company will consider and make enquiry, if necessary, to seek legal advice(s) from overseas counsel(s) on the applicable procedural requirements for extending the Bonus Shares to the overseas Shareholders. Upon such consideration and enquiry, if the Board is of the view that the exclusion of the overseas Shareholders is necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place, the Bonus Shares will not be issued to those Overseas Shareholders, i.e. the non-qualifying Shareholders. In such circumstances, arrangements will be made for the Bonus Shares, which would otherwise have been issued to the non-qualifying Shareholders, if any, to be sold in the market as soon as practicable after dealings in the Bonus Shares commence. Any net proceeds of sale, after deduction of the related expenses, will be distributed in Hong Kong dollar to the non-qualifying Shareholders, if any, pro-rata to their respective shareholdings and remittances therefor will be posted to them, at their own risk, unless the amount falling to be distributed to any such persons is less than HK\$100.00, in which case it will be retained for the benefit of the Company.

According to the latest information provided by the Company's share registrar, as at the Latest Practicable Date, there were no Shareholders with registered address outsider the jurisdiction of Hong Kong.

### **Taxation**

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

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

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## LETTER FROM THE BOARD

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

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

### **Profit Distribution to Investors of Northbound Trading**

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

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

### **Profit Distribution to Investors of Southbound Trading**

For investors of the SSE and Shenzhen Stock Exchange (including enterprises and individuals) investing in the H shares of the Company listed on the Hong Kong Stock Exchange (the “**Southbound Trading**”), the cash dividends for the investors of H shares of Southbound Trading will be paid in RMB. The record date and the date of distribution of cash dividends and other arrangements for the investors of Southbound Trading will be the same as those for the holders of H shares of the Company. As for the relevant taxation policies, pursuant to the relevant requirements under the Notice on the Tax Policies Related to the Pilot Program of the Shanghai-Hong Kong Stock Connect (Caishui [2014] No. 81) (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知(財稅[2014]81號)》) and the Notice on the Tax Policies Related to the Pilot Program of the Shenzhen-Hong Kong Stock Connect (Caishui [2016] No. 127) (《關於深港股票市場交易互聯互通機制試點有關稅收政策的通知(財稅[2016]127號)》), for dividends received by domestic individual investors from investing in the H shares of the Company listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, the Company shall withhold and pay individual income tax at the rate of 20% on behalf of the investors. For dividends received by domestic securities investment funds from investing in the H shares of the Company listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong

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## LETTER FROM THE BOARD

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Stock Connect and Shenzhen-Hong Kong Stock Connect, the tax payable shall be the same as that for individual investors. The Company will not withhold and pay the income tax of dividends for domestic enterprise investors and those domestic enterprise investors shall report and pay the relevant tax themselves.

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

### **Application for Listing**

Application will be made by the Company to the Listing Committee of the Hong Kong Stock Exchange for the approval for the listing of, and permission to deal in, the New H Shares. The New A Shares will be listed on the SSE. Subject to the satisfaction of the conditions as set out in this circular (including but not limited to the granting of the aforesaid listing approval by the Hong Kong Stock Exchange), the New H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS. All necessary arrangements will be made by the Company for the New H Shares to be admitted into CCASS. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Subject to the Bonus Issue becoming unconditional, the certificates for the New H Shares and the cheques for the Profit Distribution will be despatched by ordinary post to the H Shareholders who are entitled to the Bonus Issue and the Profit Distribution at their own risk. In case of joint shareholding, the certificates for the New H Shares and the cheques for the Profit Distribution will be posted to the first named person on the H Shareholders' register in respect of such joint shareholding. For the date of despatch of the certificates for the New H Shares and the cheques for the Profit Distribution and the date of the commencement of dealings in the New H Shares, please refer to the section headed "Expected Timetable" of this Circular.

All Bonus Shares are non-renounceable. Trading of the New H Shares is subject to Hong Kong stamp duty.

### **Warning of Risks of Dealing in the H Shares**

**H Shareholders should note that the existing H Shares are expected to be dealt in on an ex-entitlement basis for entitlement to the New H Shares and the Profit Distribution from Wednesday, 3 July 2019. If the conditions of the Bonus Issue and Profit Distribution (as set out above under the section headed "Resolution Regarding 2018 Annual Profit Distribution Plan and Issuance of Bonus Shares by way of conversion of Capital Reserve") are not fulfilled, the Bonus Issue and Profit Distribution will not proceed. If in doubt, investors are recommended to consult their professional advisers.**

### **Explanation of Bonus Issue and Profit Distribution**

The Company has proposed cash dividends for 2018 of RMB1.00 (tax inclusive) for every 10 Shares to all Shareholders, with a total amount of RMB221,400,830.90, representing 25.28% of net profit attributable to shareholders of the listing company. The main consideration for the dividend distribution included an increase in capital needs for expansion of its production scale and resources mergers and acquisition business, and the need to maintain a consistent and relatively stable dividend policy of the



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## LETTER FROM THE BOARD

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Company. In 2019, the expected investment budget of the Company amounted to RMB3,117 million and, among which, budgets of intangible assets, expansion of production scale and maintaining production investment amounted to RMB71 million, RMB859 million and RMB2,187 million respectively. The Company's undistributed profit of 2018 will be carried forward to the following year and will all be used in corporate operation and development.

The Company will continue to focus on return to investors, strictly comply with the Company Law of the PRC, the Securities Law of the PRC, the Articles of Association and other relevant laws and regulations, consider all factors regarding profit distribution, actively implement its profit distribution policy and share the return of corporate development with the investors.

### **Authorisation Regarding the Amendments to the Registered Capital Articles under the Articles of Association in Relation to the Implementation of the Profit Distribution Plan**

The 2018 profit distribution plan of the Company involves the issuance of Bonus Shares by way of conversion of capital reserve. The changes in registered capital will involve the amendments to the articles related to the registered capital under the Articles of Association. The Board will propose at this general meeting to authorise it to amend the articles related to the registered capital under the Articles of Association according to the result for implementing the profit distribution plan in due course and perform the relevant procedures for the changes in industrial and commercial registration.

The 2018 Annual Profit Distribution Plan and Issuance of Bonus Shares by way of conversion of capital reserve was considered and approved by the Board on 28 March 2019 and will be submitted, by way of special resolution, for the Shareholders' consideration and approval at the AGM, A Shares Class Meeting and H Shares Class Meeting.

### **8. RESOLUTION REGARDING THE EXPECTED CONNECTED TRANSACTIONS DURING THE ORDINARY COURSE OF BUSINESS IN 2019**

An ordinary resolution will be proposed at the AGM to approve the resolution regarding the expected connected transactions during the ordinary course of business in 2019. The full text of the aforesaid resolution is set out in **Appendix IV** to this circular.

The resolution regarding the expected connected transactions during the ordinary course of business in 2019 was considered and approved by the Board on 28 March 2019 and will be submitted, by way of ordinary resolution, for the Shareholders' consideration and approval at the AGM.

### **9. RESOLUTION REGARDING THE APPOINTMENT OF ACCOUNTING FIRMS AND INCREASING ANNUAL AUDITING SERVICE FEES**

An ordinary resolution will be proposed at the AGM to approve the appointment of accounting firms and increasing annual auditing services. Detail of the resolution is as follows:

The Company has appointed Beijing Tianyuanquan Certified Public Accountants (Special General Partnership) as its auditor for 2018 A Shares' financial statements to audit accounting statements for a term of one year. Due to an increase in asset scale of the Company thus causing an expansion in the audit scope, it is agreed to increase the annual audit service fees for 2018 by RMB0.4 million to RMB3.0 million.



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## LETTER FROM THE BOARD

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According to the Hong Kong Stock Exchange and relevant requirements for listing in Hong Kong, the Company has appointed PricewaterhouseCoopers as its assurance service provider for 2018 H Shares' financial statements. Given that PricewaterhouseCoopers had audited the financial results of the Company in the first half of 2018 during the Initial Public Offering of the Company's H shares, it is determined that the assurance service fee payable to PricewaterhouseCoopers for 2018 shall be RMB4.47 million.

The aforesaid resolution was considered and approved by the Board on 28 March 2019 and will be submitted, by way of ordinary resolution, for the Shareholders' consideration and approval at the AGM.

### **10. RESOLUTION REGARDING THE RE-APPOINTMENT OF INTERNAL CONTROL AUDITOR AND INCREASING AUDITING SERVICE FEES**

An ordinary resolution will be proposed at the AGM to approve the re-appointment of Beijing Tianyuanquan Certified Public Accountants (Special General Partnership) as the Company's internal control auditor for the year of 2019 for a term of one year. The Company has acquired some subsidiaries by ways such as material asset restructuring and overseas mergers since 2016. This has increased its asset scale and expanded the audit scope. With reference to the market rate for internal control audit services, it is proposed to increase the internal control audit service fees for 2018 by RMB0.4 million to RMB1.4 million. The Company will not bear the travelling expenses incurred by the internal control auditor's personnel.

The internal control audit service fees for 2019 will remain at RMB1.4 million, and the Company will not bear the travelling expenses incurred by the auditor's personnel.

The aforesaid resolution was considered and approved by the Board on 28 March 2019 and will be submitted, by way of ordinary resolution, for the Shareholders' consideration and approval at the AGM.

### **11. RESOLUTION REGARDING THE 2018 APPRAISAL REPORT ON INTERNAL CONTROL**

An ordinary resolution will be proposed at the AGM to approve the 2018 Appraisal Report on Internal Control. The full text of the English translation of the aforesaid report is set out in **Appendix V** to this circular.

The 2018 Appraisal Report on Internal Control was considered and approved by the Board on 28 March 2019 and will be submitted, by way of ordinary resolution, for the Shareholders' consideration and approval at the AGM.

### **12. 2018 SOCIAL RESPONSIBILITY REPORT**

An ordinary resolution will be proposed at the AGM to approve the 2018 Social Responsibility Report. The full text of the aforesaid report is enclosed in the announcements of the Company dated 28 March 2019 and 8 May 2019.

The 2018 Social Responsibility Report was considered and approved by the Board on 28 March 2019 and will be submitted, by way of ordinary resolution, for the Shareholders' consideration and approval at the AGM.

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## LETTER FROM THE BOARD

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### 13. RESOLUTION REGARDING THE SPECIAL REPORT ON THE DEPOSIT AND USE OF PROCEEDS IN 2018

An ordinary resolution will be proposed at the AGM to approve the Special Report on the Deposit and Use of Proceeds in 2018. The full text of the aforesaid report is set out in **Appendix VI** to this circular.

The Special Report on the Deposit and Use of Proceeds in 2018 was considered and approved by the Board on 28 March 2019 and will be submitted, by way of ordinary resolution, for the Shareholders' consideration and approval at the AGM.

### 14. RESOLUTION REGARDING THE SIGNING OF THE FINANCIAL SERVICES FRAMEWORK AGREEMENT WITH SHANDONG GOLD GROUP FINANCE CO., LIMITED

Reference is made to the announcement of the Company dated 28 March 2019 in relation to the renewal of the financial services framework agreement. As the financial services framework agreement is valid for a term from the Listing Date to the AGM, the Company entered into a new financial services framework agreement (the "**Financial Services Framework Agreement**") on 28 March 2019 to facilitate the Group's operational needs of financial services. The principal terms of the Financial Services Framework Agreement are set out below:

#### **Financial Services Framework Agreement**

*Date:*

28 March 2019

*Parties:*

SDG Finance Co. and the Company

*Subject matter:*

Pursuant to the Financial Services Framework Agreement, SDG Finance Co. will provide the Company and/or the associates of the Company with financial services, among others, (i) deposits and related services (the "**Deposit Services**"), (ii) loan and related financing services (the "**Loan and Other Financing Services**"), (iii) overdraft services ("**Overdraft Services**"), and (iv) other financial services, including settlement, guarantee, insurance agent, financial lease services, financial consultancy.

*Term:*

The Financial Services Framework Agreement will be valid from the passing of the resolution in relation to the Financial Services Framework Agreement at the AGM to 31 December 2021. The Company will enter into separate financial services agreements (if any) with SDG Finance Co., which will set out the specific terms and conditions according to the principles and conditions provided in the Financial Services Framework Agreement.

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## LETTER FROM THE BOARD

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### *Interest rates and handling fees:*

The Financial Services Framework Agreement provides that the interest rates applicable to the Deposit Services provided by SDG Finance Co. to the Company shall be (i) on normal commercial terms; (ii) no less than benchmark interest rates for the same period published by the PBOC or interest rates for comparable deposit for the same period provided by other major domestic commercial banks; and (iii) no less than interest rates for comparable deposit for the same period applicable to other members of SDG Group provided by SDG Finance Co..

The interest rates for the Loan and Other Financing Services and Overdraft Services provided by SDG Finance Co. to us under the Financial Services Framework Agreement shall be (i) on normal commercial terms and in compliance with applicable laws, rules and regulations; and (ii) no higher than rates for comparable loans for the same period obtained by members of the Group from other domestic financial institutions. No security over the assets of the Group will be granted in respect of the financial assistance given by SDG Finance Co..

The handling fees for other financial services under the Financial Services Framework Agreement shall be (i) charged based on the relevant rates or standards published by the PBOC or the CBIRC; or (ii) no higher than handling fees for similar financial services provided by other commercial banks to members of the Group, if there are no official rates or standards applicable.

Taking into account that no less favorable interest rates and other commercial benefits to the Group, we consider that the preservation of such financial arrangement with SDG Finance Co. is beneficial to the Group and the Shareholders as a whole.

### **Reasons for and Benefits of the Transaction**

The benefits to the Company from relevant financial services provided by SDG Finance Co. pursuant to the Financial Services Framework Agreement are as follows:

- (i) the rates on loans and deposits offered by SDG Finance Co. to the Company and its subsidiaries will be equal to or more favourable than those offered by other PRC commercial banks;
- (ii) SDG Finance Co. is regulated by the PBOC and CBIRC and provides its services in accordance with and in satisfaction of the rules and operational requirements of these regulatory authorities;
- (iii) the Group is expected to benefit from SDG Finance Co.'s better understanding of operations of the Group which should allow expedient and efficient service provision. For instance, it is expected that loans from SDG Finance Co. may be approved quicker than a commercial bank;
- (iv) pursuant to the relevant regulations of the PBOC and the CBIRC, the customers of SDG Finance Co. are limited to entities within SDG Group (including our Group), thereby reducing the credit and operational risks that SDG Finance Co. may otherwise be exposed to if its customers included other entities unrelated to SDG Group.

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## LETTER FROM THE BOARD

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### Historical Amounts

Set out below are the historical amounts of the relevant financial services provided by the SDG Finance Co. for the years ended 31 December 2016, 2017 and 2018.

	<b>Historical figures (RMB million)</b>		
	<b>For the year ended 31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
Maximum Daily Balance of Deposit Services	510.86	1,265.45	1,174.15
Interest Income from Deposit Services on an actual basis	2.33	6.62	9.31
Maximum Daily Balance of Loan and Other Financing Services	283.42	374.09	418.52
Interest Expenses for Loan and Other Financing Services and Overdraft Services on an actual basis	2.02	5.39	7.95
Maximum Daily Balance of Overdraft Services	230.00	300.00	537.00
Handling Fees and Other Financial Services	0.22	0.44	0.14

### Proposed Caps and Basis of Caps

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

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

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## LETTER FROM THE BOARD

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In determining the proposed annual caps for the transactions contemplated under the Financial Services Framework Agreement, we have considered, among others, the following key factors:

- (i) For proposed caps of the Deposit Services, the Company has considered various key factors including the maximum month-end balance of deposits and the cap set in the historical financial services framework agreements entered into with SDG Finance Co. In light of the Group's overall development plan, mine merger and acquisition plan and steady year-by-year expansion of development scale, the scale of the Group's funds is expected to show an increasing trend and the caps for deposits for the relevant period are determined on a year-by-year increase of approximately 20% based on the cap set in the Financial Services Framework Agreement.
- (ii) For the proposed caps of the Loan and Other Financing Services, the Company has considered various key factors including the historical maximum month-end balance of loans and other financing as well as the favorable loan interest rates provided by SDG Finance Co. to the Group. In particular, the Company considered that the substantial increase in the amount of new annual cap for the Loan and Other Financing Services is justifiable having considered the following:
  - (a) the caps are set with the expected expansion of the Group's operation and development scale in the future and with reference to the growth scale of loans from 2016 to 2018 (including the aggregated loans secured from SDG Finance Co. and commercial banks); and
  - (b) the Group borrowed over RMB14,900 million in the financial year of 2018 from independent third party banks, which demonstrated its financing need.
- (iii) For the proposed caps of the Overdraft Services, they are based on the actual balance of overdraft and the needs of the Group. As the overdraft credit line granted was close to RMB600 million in aggregate in 2018, the Company expects that its need of overdraft credit will gradually increase for the next three financial years.
- (iv) For the handling fees and other financial services, the Company contemplated that there will be an increase in demand of financial services, including insurance agent, entrusted loan, finance lease and etc. The historical transaction amounts were limited as SDG Finance Co. has yet to offer a full-range of these financial services pending the approval and issuance of relevant licenses from the government authority. It is contemplated that more new financial services and products become available as SDG Finance Co. has gradually obtained the required approval and licenses for offering these financial services.

### **Internal Control**

With a view to safeguard the interests of our independent Shareholders, the Company will require SDG Finance Co. to provide it with periodic reports on its liquidity in order for the Company to determine the suitability of engaging SDG Finance Co. for the transactions contemplated under the Financial Services Framework Agreement from time to time. The

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## LETTER FROM THE BOARD

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Company's external auditors will review the transactions as contemplated under the Financial Services Framework Agreement annually to check and confirm, among others, whether the pricing terms have been adhered to and whether the proposed caps have been exceeded. The Company will have sufficient internal control system in place to ensure that the transactions as contemplated under the Financial Services Framework Agreement will be on normal commercial terms and no less favourable to the Company than those offered by independent third parties.

### **Information of the Relevant Parties**

#### *The Company*

The Company is an integrated gold company listed on the SSE and the Hong Kong Stock Exchange since 2003 and 2018, respectively and engaged in gold exploration, mining, processing, smelting and sales. It is one of the largest gold producers listed in the PRC and/or Hong Kong that operates in the PRC, controlling and operating more than 10 gold mines with operation primarily located in Shandong province. The Company has gradually expanded its business into the Inner Mongolia autonomous region, Gansu province and Fujian province and abroad, namely acquiring a 50% interest in the Veladero Mine in San Juan province of Argentina in June 2017.

#### *SDG Group*

The Company was established by its promoters with approval from the Shandong Economic System Reform Committee (山東省經濟體制改革委員會) and the People's Government of Shandong Province (山東省人民政府) in January 2000. As at the Latest Practicable Date, SDG Group Co. directly and indirectly holds approximately 47.06% of the Company's total issued share capital. As the Company's controlling Shareholder, SDG Group Co., was established in July 1996. SDG Group engages in gold mining related operations, including geological exploration and mining of gold, gold processing, gold smelting and technical services, and production and sales of specialized equipment and supplies and construction materials for gold mines. The gold resources of SDG Group are mainly located in the PRC.

#### *SDG Finance Co.*

As at the Latest Practicable Date, SDG Finance Co. was held as to 30% by the Company and 70% by SDG Group Co. and is principally engaged in carrying on business approved by the CBIRC pursuant to relevant applicable laws and regulations. SDG Finance Co. is an institution regulated by the PBOC and CBIRC. SDG Finance Co. is a non-banking financial institution incorporated in the PRC in July 2013 and is subject to the Administrative Measures on Finance Companies within Group Enterprises (《企業集團財務公司管理辦法》) and other relevant regulations promulgated by the PBOC and the CBIRC.

### **The Hong Kong Listing Rules Implications**

Any transactions between the Group and SDG Group Co., or its associates (as defined under Chapter 14A of the Hong Kong Listing Rules) will constitute connected transactions under Chapter 14A of the Hong Kong Listing Rules. SDG Finance Co. is controlled by SDG Group Co., hence SDG Finance Co. is a connected person of the Company by virtue of being an associate of the Company's substantial shareholder under Chapter 14A of the Hong Kong Listing Rules. As a

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## LETTER FROM THE BOARD

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result, the Financial Services Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under the Hong Kong Listing Rules.

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

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

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

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

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

### **Confirmation by the Board**

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



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## LETTER FROM THE BOARD

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The Directors, including the independent non-executive Directors, also believe that the annual caps set out for the transactions contemplated under the Financial Services Framework Agreement are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

The Directors, Mr. Li Guohong, Mr. Wang Lijun and Ms. Wang Xiaoling, also hold senior management positions in SDG Group, are deemed to have material interests in the continuing connected transactions contemplated under the Financial Services Framework Agreement and have abstained from voting on the relevant resolution of the Board. Save for the Directors mentioned above, none of the other Directors has or is deemed to have a material interest in the above transactions.

The resolution regarding the signing of the Financial Services Framework Agreement was considered and approved by the Board on 28 March 2019 and will be submitted, by way of ordinary resolution, for the Shareholders' consideration and approval at the AGM.

### **15. RESOLUTION REGARDING THE APPOINTMENT OF AUDITORS FOR 2019**

An ordinary resolution will be proposed at the AGM to approve the resolution regarding the appointment of auditors for 2019.

In accordance with the Standards on Governance of Listed Companies and relevant regulations, the Company proposed to appoint Beijing Tianyuanquan Certified Public Accountants (Special General Partnership) as the Company's auditor for the 2019 A Shares' financial statements to audit accounting statements for a term of one year. The audit service fees for 2019 amount to RMB3.00 million.

Reference is made to the Company's announcement dated 9 May 2019. The Company has achieved the listing of its H Shares in 2018. According to the Hong Kong Stock Exchange and relevant requirements for listing in Hong Kong, the Company is required to appoint an assurance service provider for the H Shares' financial statements. In order to establish long-term cooperation with the assurance service provider and improve the communication efficiency with the same, the Company has recently conducted competitive selection process in accordance with its internal policy for the selection of the Company's auditor for the year ending 31 December 2019. On 9 May 2019, the Board resolved, based on the outcome of the competitive selection process and with the recommendation from the audit committee of the Board, to propose an ordinary resolution at the AGM to approve the appointment of Deloitte Touche Tohmatsu Certified Public Accountants LLP as the international auditor of the Company to hold office from the conclusion of the AGM to the next annual general meeting of the Company. The services to be provided include all businesses involved in the assurance of financial statements under the International Financial Reporting Standards. The assurance service fees amount to RMB3.88 million.

In this connection, PricewaterhouseCoopers ("PwC"), the current international auditor of the Company, will retire as the auditor of the Company with effect from the conclusion of the AGM. PwC has confirmed that there are no circumstances connected with its retirement that need to be brought to the attention of the Shareholders and the Company's creditors. The Board has confirmed that there is no disagreement between PwC and the Company and there are no matters in respect of the proposed change of auditor that need to be brought to the attention of the Shareholders.

The resolution regarding the appointment of auditors for 2019 was considered and approved by the Board on 9 May 2019 and will be submitted, by way of ordinary resolution, for the Shareholders' consideration and approval at the AGM.



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## LETTER FROM THE BOARD

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### 16. THE AGM AND THE H SHARES CLASS MEETING

The proxy form and the reply slip of the AGM and the H Shares Class Meeting have been despatched by the Company on 10 May 2019. The said proxy forms and reply slips are also published on the website of The Stock Exchange of Hong Kong Limited ([www.hkexnews.hk](http://www.hkexnews.hk)).

Any Shareholder entitled to attend and vote at the AGM and the H Shares Class Meeting is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a Shareholder. If you intend to appoint a proxy to attend the AGM and the H Shares Class Meeting and vote on your behalf, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return it, by hand, by post or by facsimile, to the Company's H share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for H Shareholders only) as soon as possible and in any event not later than 24 hours before the time appointed for the holding of the AGM and the H Shares Class Meeting or any adjournment thereof (as the case may be). Completion and return of the proxy form will not preclude you from attending and voting at the AGM and the H Shares Class Meeting or any adjournment thereof should you so wish.

If you intend to attend the AGM and the H Shares Class Meeting in person or by a proxy, you are requested to complete and sign the reply slip in accordance with the instructions printed thereon and return it to the correspondence address of the Company at Building No. 3, Shuntai Plaza, Shunhua Road No. 2000, Jinan, Shandong Province, PRC (Attention: the office of the Board of the Company) on or before Friday, 7 June 2019.

#### Closure of Register of Members

For determining the entitlement to attend and vote at the AGM and the H Shares Class Meeting to be held on Friday, 28 June 2019, the register of members of the Company will be closed from Wednesday, 29 May 2019 to Friday, 28 June 2019, both days inclusive, during which period no transfer of shares will be registered. In order to qualify as members entitled to attend and vote at the AGM and the H Shares Class Meeting, investors should lodge all share transfer documents accompanied by the relevant share certificates with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. (Hong Kong time) on Tuesday, 28 May 2019. For determining the entitlement to the proposed Profit Distribution and Bonus Shares, the register of members of the Company will be closed from Friday, 5 July 2019 to Wednesday, 10 July 2019, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the entitlement to the proposed Profit Distribution and Bonus Shares, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. (Hong Kong time) on Thursday, 4 July 2019.

### 17. GENERAL

The English translation of the appendices in this circular are for Shareholders' reference only. In case there is any inconsistency between the English and Chinese version, the Chinese version shall prevail.

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## LETTER FROM THE BOARD

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### 18. VOTING BY POLL

Pursuant to the Hong Kong Listing Rules, each of the resolutions set out in the Notice of AGM and the H Shares Class Meeting will be voted on by poll. Results of the poll voting will be published on the Company's website at <http://www.sdjgf.com.cn> and the website of the Hong Kong Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) after the AGM and the H Shares Class Meeting.

### 19. RECOMMENDATIONS

The Board of Directors considers that the proposed resolutions set out in the Notice of AGM and the H Shares Class Meeting are in the interests of the Company and its Shareholders as a whole. Accordingly, the Board of Directors recommends the Shareholders to vote in favour of the proposed resolutions.

### 20. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

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

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## NOTICE OF 2018 ANNUAL GENERAL MEETING

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**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)**

## **NOTICE OF 2018 ANNUAL GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that the 2018 Annual General Meeting (the “AGM”) of Shandong Gold Mining Co., Ltd. (the “Company”) will be held at the conference room of the Company, Building No. 3, Shuntai Plaza, Shunhua Road No. 2000, Jinan, Shandong Province, the PRC at 9:00 a.m. on Friday, 28 June 2019 for the purpose of considering and, if thought fit, passing the following resolutions:

### **ORDINARY RESOLUTIONS**

1. To consider and approve the 2018 Work Report of the Board of Directors (the “**Board**”)
2. To consider and approve the 2018 Work Report of the Supervisory Committee
3. To consider and approve the 2018 Work Report of the independent non-executive Directors
4. To consider and approve the 2018 Final Financial Report
5. To consider and approve the 2019 Financial Budget Report
6. To consider and approve the resolution regarding the 2018 Annual Report and its extracts
7. To consider and approve the resolution regarding the expected connected transactions during the ordinary course of business in 2019
8. To consider and approve the resolution regarding the appointment of accounting firms and increase in annual audit service fees
9. To consider and approve the resolution regarding the re-appointment of internal control auditor firm and increase in audit service fees
10. To consider and approve the resolution regarding the 2018 Appraisal Report on Internal Control of the Company
11. To consider and approve the resolution regarding the 2018 Social Responsibility Report of the Company
12. To consider and approve the resolution regarding the special report on the deposit and use of proceeds in 2018

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## NOTICE OF 2018 ANNUAL GENERAL MEETING

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13. To consider and approve the resolution regarding the signing of the Financial Services Framework Agreement with Shandong Gold Group Finance Co., Limited
14. To consider and approve the resolution regarding the appointment of auditors for 2019

### SPECIAL RESOLUTION

1. To consider and approve the resolution regarding the profit distribution plan and issuance of bonus shares by way of conversion of capital reserve in 2018

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

Jinan, the PRC, 9 May 2019

*As at the date of this notice, the executive directors of the Company are Mr. Wang Peiyue, Mr. Li Tao and Mr. Tang Qi; 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, Mr. Lu Bin and Ms. Hui Wing.*

*Notes:*

1. All holders of H Shares whose names appear on the register of members of the Company on Wednesday, 29 May 2019 are entitled to attend the AGM and should bring along their identity cards or passports when attending the AGM. Holders of the Company's H Shares should note that the register of members of the Company will be closed from Wednesday, 29 May 2019 to Friday, 28 June 2019 (both dates inclusive) during which period no transfers of H Shares will be effected. All transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar in respect of H Shares, namely Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Tuesday, 28 May 2019. Holders of H Shares who intend to attend the AGM should deliver reply slip for attending the AGM, a copy of each of the shareholding document(s), copies of their identity cards or passports (with the pages showing the names of such shareholders), by hand, by post or by facsimile, to the correspondence address of the Company at Building No. 3, Shuntai Plaza, Shunhua Road No. 2000, Jinan, Shandong Province, the PRC (Attention: The office of the board of directors of the Company) on or before Friday, 7 June 2019. The record date and arrangements in respect of the holders of A Shares of the Company who are entitled to attend the AGM will be determined and announced separately in the PRC.
2. Any shareholder entitled to attend and vote at the AGM is entitled to appoint a proxy or more proxies (who need not be a shareholder of the Company) to attend the AGM and vote thereat in his stead. For any shareholder who appoints more than one proxy, the voting right can only be exercised by his/her proxies on a poll.
3. Any shareholder who intends to appoint a proxy to attend the AGM shall put it in writing, with the proxy form to be signed by the appointor or his attorney duly authorized in writing. If the appointor is a corporation, the proxy form must be affixed with its common seal, or signed by any of its directors or attorney duly authorized in writing. If the proxy form is signed by an attorney authorized by the appointer, the power of attorney or other authorization documents must be notarially certified. The notarially certified power of attorney or other authorization documents together with the proxy form must be delivered to the Company's H share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for H shareholders only) not later than 24 hours before the time appointed for the holding of the AGM (i.e. before 9:00 a.m. on Thursday, 27 June 2019). Completion and return of the proxy form will not affect the rights of the shareholders to attend and vote at the AGM in person.

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## NOTICE OF 2018 ANNUAL GENERAL MEETING

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4. Proxies of holders of the Company's H Shares shall bring along the proxy form, instrument(s) for appointing a proxy (if applicable) and the proxies' identity cards or passports to attend the AGM.
5. According to Article 108 of the Articles of Association, an ordinary resolution shall be passed by more than half of the votes cast by the shareholders (including proxies) present at the general meeting, while a special resolution shall be passed by more than two-thirds of the votes cast by the shareholders (including proxies) present at the general meeting.
6. Directors, supervisors and senior management of the Company and the witnessing lawyers and other relevant personnel employed by the Company will attend the AGM.



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)**

**NOTICE OF 2019 FIRST CLASS MEETING FOR HOLDERS OF H SHARES**

**NOTICE IS HEREBY GIVEN** that the 2019 First Class Meeting for Holders of H Shares (the “**H Shares Class Meeting**”) of Shandong Gold Mining Co., Ltd. (the “**Company**”) will be held immediately after the conclusion of the 2019 first class meeting for holders of domestic listed shares (A shares) (or any adjourned meeting thereof) of the Company at the conference room of the Company, Building No. 3, Shuntai Plaza, Shunhua Road No. 2000, Jinan, Shandong Province, the PRC on Friday, 28 June 2019 for the purpose of considering and, if thought fit, passing the following resolution:

**SPECIAL RESOLUTION**

1. To consider and approve the resolution regarding the profit distribution plan and issuance of bonus shares by way of conversion of capital reserve in 2018.

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

Jinan, the PRC, 9 May 2019

*As at the date of this notice, the executive directors of the Company are Mr. Wang Peiyue, Mr. Li Tao and Mr. Tang Qi; 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, Mr. Lu Bin and Ms. Hui Wing.*

*Notes:*

1. All holders of H Shares whose names appear on the register of members of the Company on Wednesday, 29 May 2019 are entitled to attend the H Shares Class Meeting and should bring along their identity cards or passports when attending the H Shares Class Meeting. Holders of the Company's H Shares should note that the register of members of the Company will be closed from Wednesday, 29 May 2019 to Friday, 28 June 2019 (both dates inclusive) during which period no transfers of H Shares will be effected. All transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar in respect of H Shares, namely Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Tuesday, 28 May 2019. Holders of H Shares who intend to attend the H Shares Class Meeting should deliver reply slip for attending the H Shares Class Meeting, a copy of each of the shareholding document(s), copies of their identity cards or passports (with the pages showing the names of such shareholders), by hand, by post or by facsimile, to the correspondence address of the Company at Building No.3, Shuntai Plaza, Shunhua Road No. 2000, Jinan, Shandong Province, the PRC (Attention: The office of the board of directors of the Company) on or before Friday, 7 June 2019.

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## NOTICE OF 2019 FIRST CLASS MEETING FOR HOLDERS OF H SHARES

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2. Any shareholder entitled to attend and vote at the H Shares Class Meeting is entitled to appoint a proxy or more proxies (who need not be a shareholder of the Company) to attend the H Shares Class Meeting and vote thereat in his stead. For any shareholder who appoints more than one proxy, the voting right can only be exercised by his/her proxies on a poll.
3. Any shareholder who intends to appoint a proxy to attend the H Shares Class Meeting shall put it in writing, with the proxy form to be signed by the appointor or his attorney duly authorized in writing. If the appointor is a corporation, the proxy form must be affixed with its common seal, or signed by any of its directors or attorney duly authorized in writing. If the proxy form is signed by an attorney authorized by the appointer, the power of attorney or other authorization documents must be notarially certified. The notarially certified power of attorney or other authorization documents together with the proxy form must be delivered to the Company's H share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for H shareholders only) not later than 24 hours before the time appointed for the holding of the H Shares Class Meeting (i.e. before 9:00 a.m. on Thursday, 27 June 2019). Completion and return of the proxy form will not affect the rights of the shareholders to attend and vote at the H Shares Class Meeting in person.
4. Proxies of holders of the Company's H Shares shall bring along the proxy form, instrument(s) for appointing a proxy (if applicable) and the proxies' identity cards or passports to attend the H Shares Class Meeting.
5. According to Article 108 of the Articles of Association, an ordinary resolution shall be passed by more than half of the votes cast by the shareholders (including proxies) present at the general meeting, while a special resolution shall be passed by more than two-thirds of the votes cast by the shareholders (including proxies) present at the general meeting.
6. Directors, supervisors and senior management of the Company and the witnessing lawyers and other relevant personnel employed by the Company will attend the H Shares Class Meeting.

**SHANDONG GOLD MINING CO., LTD.  
2018 WORK REPORT OF INDEPENDENT NON-EXECUTIVE DIRECTORS**

We, as the independent non-executive Directors of Shandong Gold Mining Co., Ltd. (hereinafter, the “Company”), have lawfully and diligently performed our duties in 2018 in strict compliance with relevant laws, regulations and regulatory documents such as the Company Law of the PRC, the Law of the People's Republic of China on Securities, Standards on Governance of Listed Companies (《上市公司治理準則》), the Guidance on the Establishment of Independent Directorship of Listed Companies (《關於在上市公司建立獨立董事制度的指導意見》), the Rules Governing the Listing of Securities on The Hong Kong Stock Exchange and Companies Ordinance of Hong Kong as well as the stipulations and requirements of the Articles of Association and the Working Rules for Independent Directors of the Company and relevant rules. In particular, we have actively attended the relevant meetings, fully understood the Company's operation, paid attention to its sustainable development and made decisions independently. We also actively promoted and improved the Company's corporate governance and issued our independent opinions in an objective and fair manner on significant decision-making matters of the Board. As a result, we have sufficiently played our roles as independent non-executive Directors and earnestly safeguarded the legal interest of all Shareholders and, in particular, the minority Shareholders. We hereby set out our work report in 2018 as follows:

**I. BASIC INFORMATION OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS****1. Personal working experience, professional background and other concurrent posts**

We possess professional qualifications and work capabilities as the independent non-executive Directors of the Company, and have accumulated rich experience in the professional fields we are engaged in respectively. Set out below is the information about our personal working experience, professional backgrounds and other concurrent posts:

**Gao Yongtao**, male, Han nationality, a communist party of China (“CPC”) member, born in December 1962 and a holder of doctoral degree. He is a PhD supervisor, a lifetime professor of mining and a member of National Work Safety Expert Group (國家安全生產專家組) and is entitled to State Council Government Allowance (國務院政府津貼). From time to time, he served as a teaching assistant, a lecturer and an associate professor of University of Science and Technology. He is also the chairman of the underground mining committee of Sub-society for Mining of the Chinese Society for Metals (中國金屬學會地採委員會) and the vice chairman of Chinese Sub-society for Soft Rock Engineering of the Chinese Society for Rock Mechanics. He is currently a professor and a PhD supervisor of School of Civil and Environmental Engineering of University of Science and Technology Beijing (北京科技大學土木與環境工程學院), the chairman of Beijing Anke Technology Co., Ltd.(北京安科興業科技股份有限公司) and the independent Director of the Company. He was once awarded the 8th China Youth Science and Technology Award (第八屆中國青年科技獎), recognized as a national candidate for the New Century Hundred-Thousand-Ten Thousand Talents Project (新世紀百千萬人才工程國家級人選), and awarded the title of “the Outstanding Teacher in Beijing (北京市優秀教師), the title of “the Outstanding Individual Award in Production Academic and Research in Beijing” (北京市產學研先進個人) and the title of “Zhongguancun High-end Leading Talent” (中關村高端領軍人才). He has received one Second Class Award of Science and Technology Progress at national level (國家科技進步二等獎), four First Class Awards, two Second Class Awards and three Third Class Awards, of Science and Technology Progress at provincial and ministerial level as well as one Special Award at bureau level (局級特等獎).



**Lu Bin**, male, a CPC member, born in October 1976. He is a holder of doctorate degree from Chinese University of Hong Kong, an associate professor of Nanjing Audit University, a PhD supervisor and an independent Director of the Company. He once served as a teacher and an associate professor of Nanjing University of Finance & Economics, and an assistant to director of the management committee and a director of the economic development bureau of Kunshan Huaqiao Economic Development Zone. He is also a member of the Teaching and Research Office for Financial Audit of the School of Audit Cadres (審計幹部教育學院金融審計教研室成員), one of the Third-batch of Industrial Professors in Jiangsu Province (江蘇省第三批產業教授), a director of Jiangsu Capital Market Research Association (江蘇資本市場研究會), a supervisor of Chang Hua Commercial Bank, Ltd (彰銀商業銀行有限公司) and vice chairman of the Institute of Jiangsu Zijin Industrial Finance Development (江蘇紫金產業金融發展研究院副院長). Mr. Lu has long been engaged in research on financial management and corporate finance, and has published dozens of research reports in international journals such as “Journal of Empirical Finance” and “Quantitative Finance”, and published writings such as Research on Dynamic Adjustment in Capital Structure of Listed Companies in the PRC (《中國上市公司資本結構動態調整研究》).

**Hui Wing**, female, Han nationality, born in June 1976 and a holder a master degree. She has intensive knowledge and experience in accounting and is a master of finance management. She possesses the qualifications of registered accountant of Hong Kong Institute of Certified Public Accountants, internationally certified internal auditor and internationally certified information systems auditor. She once served as an audit officer of Bank of Communications Hong Kong Branch, a senior audit associate of Hong Kong Mortgage Corporation Limited, an audit manager of CTBC Bank Co., Ltd. and an audit manager of China Merchants Bank Hong Kong Branch. She is currently the general manager of the audit department of Industrial Bank Hong Kong Branch and an independent non-executive Director of the Company.

## 2. Statement on whether the independence is affected

As independent non-executive Directors, we strictly complied with laws and regulations and the relevant requirements in the Articles of Association. None of us held any posts with the Company other than that of the independent non-executive Directors, nor did we hold any posts in substantial Shareholders of the Company. There was no relationship between us and the Company and its substantial Shareholders or any interested entities or persons that may have impact on our independent and objective judgments. We did not receive any additional undisclosed benefits from the Company, its substantial Shareholders or any interested entities or persons. Therefore, there were no circumstances which would affect our independence.

## II. OVERVIEW OF THE PERFORMANCE OF DUTIES BY THE INDEPENDENT NON-EXECUTIVE DIRECTORS FOR THE YEAR

In 2018, all of us, as independent non-executive Directors, attended the Board meetings and diligently performed our duties. We are of the opinion that the shareholders' general meetings and Board meetings of the Company had been convened and held in compliance with statutory procedures, while all of the material decision-makings on operation and other material matters had undergone the relevant approval procedures. As such, we voted in favor of all the resolutions of the Board in this year. Details of our attendances at the meetings are set out as below:

### 1. Attendance at shareholders' general meetings

Name of independent non-executive Director	Number of meetings held during his/her term of office	Number of meetings attended
Gao Yongtao	3	1
Lu Bin	3	0
Hui Wing	3	0

### 2. Attendance at Board meetings

Name of independent non-executive Director	No. of Board meetings that required attendance	Attendance in person	Attendance by means of communication	Attendance by proxy	No. of absence	Whether he/she had failed to attend two consecutive meetings
Gao Yongtao	11	1	10	0	0	No
Lu Bin	11	3	8	0	0	No
Hui Wing	11	1	10	0	0	No

### 3. Operation of the specialized committee

As members of the Strategy Committee, Nomination Committee, Remuneration and Appraisal Committee and Audit Committee under the Board of the Company, we earnestly performed our duties through considering the issues such as audit reports, connected transactions, internal control and remuneration for senior management and issuing professional opinions of the respective specialized committee to the Board, and hence effectively played our roles as independent non-executive Directors and members of each specialized committee in corporate governance and significant decision-making.

#### **4. On-site inspection and listed company's cooperation in the work with independent non-executive Directors**

We made good use of our attendance in person at the on-site Board meetings and shareholders' general meetings to conduct on-site visit and inspection of the Company. During the preparation of the Company's Annual Report, we communicated many times with the accountants and the management of Company and reviewed and examined the relevant information to gain a profound understanding of the operation, production and financial conditions of the Company. In doing so, we have earnestly performed our duties as independent non-executive Directors. Meanwhile, we paid close attention to the progress of significant matters such as the issuance and listing of H Shares and issuance of green bonds as well as the developments in the operations of the Company, and made corresponding recommendations to the Company. The Company provided favourable conditions to us so that we could perform our duties as independent non-executive Directors, and actively and effectively cooperated with us for our work.

For the purpose of facilitating the implementation of Board resolutions, we, as independent non-executive Directors, paid on-site investigation and survey visits along with the management of the Company to Peru, Argentina and Chile, during which we inspected the Veladero Mine acquired from Barrick Company. We firmly believe that, with a strong resources and reserve, advanced safety technology and green ecological philosophy, the Company will strive to build a large-scale, digitalized and ecology-friendly "10,000-tonnes large mine group" and an internationally first-class demonstrative mine, while accumulating all advantages and develop into a first-class gold corporation in the world.

### **III. KEY CONCERNS OF INDEPENDENT NON-EXECUTIVE DIRECTORS IN THEIR PERFORMANCE OF DUTIES IN THE YEAR**

#### **1. Connected transactions**

During the Reporting Period, we have conducted prior review of the connected transactions such as the day-to-day connected transactions and the capital increase in Shandong Gold Group Finance Co., Ltd. and issued our independent opinions thereon in strict accordance with requirement of the relevant laws and regulations such as the Rules Governing the Listing of Stocks on SSE, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, Guidance on Implementation of Connected Transactions of Listed Companies (《上市公司關聯交易實施指引》) and Companies Ordinance of Hong Kong. We consider that the connected transactions of the Company and the related decision-making procedures comply with the relevant requirements, terms of the transactions are fair and reasonable and in line with the interests of Shareholders as a whole, and we are not aware of any circumstances which would impair the interests of the Company due to the connected transactions. Therefore, we have given our consent to all the connected transactions of the Company in 2018.

## 2. External guarantee and funds appropriation

As independent non-executive Directors, we have inspected the guarantees provided by the Company to SDG Hong Kong in an diligent, practical and realistic manner in accordance with the relevant requirements of the laws and regulations such as the “Notice on Regulating Certain Issues Concerning the Receipt and Payment of Fund between Listed Companies and its Related Parties and External Guarantee of Listed Companies” (《關於規範上市公司與關聯方資金往來及上市公司的對外擔保若干問題的通知》) and the “Notice on Regulating External Guarantee of Listed Companies “ (《關於規範上市公司對外擔保行為的通知》) as well as the Articles of Association and the Decision-making System for External Guarantee of the Company (《公司對外擔保決策制度》). We are of the opinion that all the provision of external guarantees had been considered and approved by the Board meetings and Shareholders’ general meetings within their respective authority. As at 31 December 2018, the outstanding amount of loans of SDG Hong Kong for which the Company provided guarantees on an accumulative basis was USD410 million. Save for the guarantees provided for this wholly-owned subsidiary in Hong Kong, the Company did not provide any guarantees for its controlling shareholders, de facto controller and its subsidiaries and other related parties in which the Company is interested less than 50%, any non-legal-person entities or individuals.

The receipts and payments of fund between the Company and its related parties were all conducted in the ordinary course of business and there were no appropriation by the controlling shareholders or its subsidiaries of the Company’s fund.

## 3. Use of Proceeds

During the Reporting Period, the Company completed acquisition of assets by issuance of consideration shares and the related fundraising and the connected transaction on 29 September 2016. The 12th meeting of the 5th session of the Board considered and passed the Resolution of the Company Regarding Temporary Use of Certain Idle Funds from the Fundraising to Replenish Working Capital on 29 October 2018, for which we have issued our independent opinion that, such use of idle fund in an amount of RMB680 million to temporarily replenish working capital is not in contradiction with the investment projects supposed to be funded by the raised funds and has no impact on the scheduled operation of these projects, and could help to improve the efficiency in use of the raised funds and reduce the financial costs of the Company. The relevant decision-making procedures of the Company are lawful and there are no circumstances which would prejudice the interests of minority Shareholders.

The proceeds (net of transaction costs) from issuance of H Shares by the Company in 2018 amounted to RMB4,619 million. As at 31 December 2018, the Company had used approximately RMB4,506 million to repay the loans for acquisition of Veladero Mine in Argentina and pay listing expenses in an amount of RMB18 million, and the remaining fund was deposited in a bank account. The aforesaid use of proceeds is in line with those as disclosed in the Prospectus.

#### **4. Nomination and remuneration of senior management**

We issued our independent opinion on the Resolutions of the Company on Director Resignation and Election of an Executive Director to Fill the Vacancy passed at the 13th meeting of the 5th session of Board and 2019 First Extraordinary General Meeting of the Company, and considered that (1) the education background, professional knowledge, expertise and managerial experience and the health condition of Mr. Li Tao is well equipped for the post of Director and he possesses the required qualifications and conditions to perform the duties of the post; we are not aware of any circumstances as stipulated in the Provision 146 of the Company Law and he is not subject to any prohibition from entering the market or an outstanding prohibition period as stipulated by the CSRC; and he meets the conditions for the post as required by the relevant laws, regulations and rules such as the Company Law; (2) the appointment procedures and voting results of the Board meeting comply with the relevant requirement of relevant laws, administrative regulations, departmental rules, regulatory documents and the Articles of Association; and (3) we give consent to the resolution regarding the resignation of Mr. Chen Daojiang and election of Mr. Li Tao as an candidate for executive Director to fill the vacancy.

The remuneration packages of Directors, general manager and other senior management formulated by the Company are in compliance with the requirements of relevant national policies and the Articles of Association, which is reasonable and in line with the principle of a balanced combination of duties, rights and benefits and could reflect the incentive and restrictive mechanism where the income of Directors, general manager and other senior management is linked to the operating objectives and performance of the Company.

#### **5. Preliminary results announcement and results updates**

During the reporting period, the Company did not publish any preliminary results announcement or results updates.

#### **6. Appointment of auditors**

At the 5th meeting of the 5th session of the Board on 6 March 2018 and the 2017 Annual General Meeting of the Company held on 28 March 2018, the Resolution Regarding the Re-appointment of the Company's Accounting Firm and the Resolution Regarding the Re-appointment of the Company's Internal Control Auditor were considered and passed.

We are of the opinion that, as Beijing Tianyuanquan Certified Public Accountants (Special General Partnership) has been providing audit services to the Company for years and its dedication spirit and realistic working style have been recognized by the Company, we agree to its re-appointment as the Company's auditor and internal control auditor for 2018.

## 7. Cash dividends and other returns to investors

In October 2017, declaration of a cash dividend of RMB148,569,504.72 (representing a cash dividend of RMB0.8 for every ten Shares) for the first three quarters of 2017 was approved at the 43th meeting of 4th session of the Board of the Company. In 2018, a cash dividend of RMB74,284,752.36 was paid to all Shareholders on the basis of a total share capital of 1,857,118,809 Shares as at 31 December 2017, representing a cash dividend of RMB0.4 for every ten Shares (tax inclusive). The balance of undistributed profit was carried forward and will be distributable for subsequent years.

With regard to the relatively low ratio of cash dividend, the independent non-executive Directors issued independent opinions, considering that: through two rounds of dividend distribution, the Company paid a total cash dividend for 2017 of RMB1.2 (tax inclusive) for every ten Shares to all Shareholders, which amounted to RMB222,854,257.08 in total and accounted for 19.59% (less than 30%) of the net profit attributable to Shareholders of the Company for the period. This is mainly because the Company needs more capital to expand its production and merger and acquisition, and for the purpose of maintaining a continuous and relatively stable dividend policy. The profit distribution plan for 2017 was formulated by the Company after taking into account its earnings level, the characteristics of the industry and its operation plan for 2018, which complies with the relevant requirements of securities regulatory authorities and the Articles of Association and is appropriate to the circumstances of the Company; and the profit distribution plan gives consideration to both the Company's sustainable development and the reasonable return to Shareholders, which could secure capital support for the Company's day-to-day operation and construction of relevant projects, effectively reduce financial costs, create more value for Shareholders and safeguard the sound development of the Company.

## 8. Performance of undertakings of the Company and its Shareholders

The Company discloses each year in its annual report the performance of undertakings by SDG Group Co., the controlling Shareholder and de facto controller of the Company. We are not aware of any violation of the undertakings by the controlling Shareholder during the Reporting Period.

## 9. Execution of information disclosures

During the reporting period, the Company issued a total 57 information disclosure announcements for A Shares, 39 information disclosure announcements for H Shares and four periodic reports in accordance with the respective requirements of the Company Law, the Securities Law, the Administrative Measures for Information Disclosure of Listed Companies (《上市公司信息披露管理办法》), the Rules Governing the Listing of Stocks on Shanghai Stock Exchange and the Main Board Listing Rules of the Hong Kong Stock Exchange. The Company completed the preparation of the 2017 annual report, and the 2018 first quarterly report, half-year report for A Shares, interim report for H Shares, third quarterly report for A Shares and third quarterly report for H Shares. This ensured the Shareholders and investors of the Company could

receive information on the Company in a timely, equal and convenient manner, earnestly protected the legitimate interests of Shareholders and won recognition from the capital market and regulatory authorities.

#### **10. Execution of internal control**

During the reporting period, the Company continued to perfect its internal control system in strict accordance with regulatory requirements, which provided reasonable assurance for the lawfulness and compliance of its operation and management, assets security, truthfulness and completeness of financial reports and related information, improved operation efficiency and performance and facilitated the fulfillment of its development strategies. In this regard, Beijing Tianyuanquan Certified Public Accountants (Special General Partnership) issued the Internal Control Audit Report to the Company.

The independent non-executive Directors of the Company are of the opinion that: the Company has established a relatively sound and comprehensive internal control system, which complies with requirements of the relevant laws and regulations, is appropriate to the actual circumstances of the Company and could meet the needs of the Company for its development to date; and each of the internal control measures has been effectively implemented.

#### **11. Operation of the Board and its specialized committees**

The Board functioned in an orderly manner in strict accordance with the relevant laws and regulations and requirements of regulatory authorities, and all aspects of the Board meeting including the convening, consideration and voting of resolutions, meeting minutes and approval of resolutions were conducted in an orderly manner in compliance with relevant laws and regulations.

During the reporting period, all the four specialized committees of the Board earnestly performed their duties in accordance with their respective rules of operation, which paved the way for the Board to make decisions in a scientific way.

### **IV. OVERALL EVALUATION AND RECOMMENDATIONS**

We, as the independent non-executive Directors of the Company, took part in the corporate governance of the Company and issued independent opinions through faithfully performing our duties in strict compliance with relevant laws and regulations, and provided recommendations to the Board for its decision-makings, which further enhanced the ability of the Board to make decisions in a scientific way and safeguarded the interests of the Company as a whole and the legitimate interests of Shareholders and, in particular, the minority Shareholders. In 2019, we will continue to follow the prudent, diligent and honest principle to faithfully perform the duties and obligations as independent Directors. In particular, we will pay attention to, among others, the improvement of the corporate governance structure, implementation of cash dividend policies, connected transactions, external guarantees and information disclosure, take advantage of our respective expertise and experience to provide more constructive opinions and recommendations for the decision-making of the Board, and play a more important role in facilitating a healthier and more normative operation of the Company and safeguarding the interests of the Company as a whole and the legitimate interests of Shareholders in an objective and impartial manner. Thank you all!



**Final Financial Report for the Year 2018****(Officer in charge of the Company's accounting affairs: Wang Peiyue)**

Dear Shareholders and Shareholders' representatives,

We have prepared the Final Financial Report for the Year 2018 in accordance with the requirements of the CSRC, the Shanghai Listing Rules and Hong Kong Listing Rules and the Articles of Association, which has been audited by Beijing Tianyuanquan Certified Public Accountants (Special General Partnership) and PricewaterhouseCoopers with a standard unqualified audit report issued thereon.

**I. Key operating indicators and financial condition (the following figures is from the consolidated financial statements prepared in accordance with the Chinese Accounting Standards)****(I) Production indicators**

In 2018, the Company's production of gold amounted to 39.32 tons, representing an increase of 3.43 tons or 9.56% year on year. In particular, our domestic mines produced 30.66 tons of gold, representing an increase of 1.27 tons or 4.32% year on year; and Veladero Gold Mine produced 8.66 tons of gold, representing an increase of 2.16 tons or 33.31% year on year.

**(II) Revenue**

In 2018, the Company recorded a revenue of RMB54.788 billion, representing an increase of RMB3.747 billion or 7.34% year on year, mainly due to:

1. the increase in the sales volume of self-produced gold by 3.82 tons year on year, resulting in an increase in our revenue by RMB1.026 billion; the sales volume of small gold bars increased by 22.25 tons year on year, resulting in an increase in our revenue by RMB5.221 billion; and the sales volume of purchased gold decreased by 6.40 tons year on year, resulting in a decrease in our revenue by RMB1.740 billion;
2. the decrease in the gold price resulting in a decrease in our revenue by RMB735 million. In particular, the sales price of self-produced gold decreased by RMB5.80/g year on year, resulting in a decrease in our revenue by RMB206 million; the sales price of purchased gold decreased by RMB4.50/g year on year, resulting in a decrease in our revenue by RMB476 million; and the sales price of small gold bars decreased by RMB1.08/g year on year, resulting in a decrease in our revenue by RMB53 million.



**(III) Total profit**

In 2018, the Company recorded a total profit of RMB1.449 billion, representing a decrease of RMB180 million or 11.03% year on year, mainly due to:

1. the contribution of our self-produced gold business to an increase in our profit of RMB185 million. In particular, the sales volume of self-produced gold increased by 3.81 tons year on year, resulting in an increase in our total profit of RMB466 million; the sales price of self-produced gold decreased by RMB5.80/g year on year, resulting in a decrease in our total profit of RMB228 million; the average unit operating cost increased by RMB1.35/g year on year, resulting in a decrease in our total profit of RMB53 million;
2. the contribution of our purchased gold business to a decrease in our profit of RMB52 million year on year;
3. the contribution of our small gold bar business to an increase in our profit of RMB10 million year on year;
4. the decrease in our general and administrative expenses and research and development costs of RMB133 million year on year;
5. the increase in our taxes and surcharges of RMB123 million year on year;
6. the increase in our finance costs of RMB292 million year on year;
7. the contribution of the changes in fair value, gains on disposal of assets, investment income and other income to a decrease in our profit of RMB25 million year on year;
8. the contribution of the credit impairment losses, net non-operating income and expenses and other to a decrease in our profit of RMB16 million year on year.

**(IV) Profitability**

In 2018, the net profit attributable to owners of the parent company amounted to RMB876 million, representing a year-on-year decrease of RMB262 million or 23.01%.

As at the end of 2018, the equity attributable to the owners of the parent company amounted to RMB21.62 billion, representing a year-on-year increase of RMB5.296 billion or 32.44%.

In 2018, the weighted average return on net assets was 4.92%, representing a year-on-year decrease of 2.20 percentage points.

In 2018, the basic earnings per share was RMB0.45 per share, representing a year-on-year decrease of RMB0.16 per share. During the reporting period, the weighted average number of ordinary shares outstanding was 1.944 billion Shares, representing an increase of 87 million Shares compared with 1.857 billion Shares in the previous year. Net profit attributable to owners of the parent company decreased by RMB262 million year on year, resulting in a decrease in basic earnings per share.

**(V) Financial condition**

*1. Assets*

As at the end of 2018, the Company's total assets amounted to RMB44.946 billion, representing an increase of RMB2.83 billion or 6.72% compared with the beginning of the period.

*2. Liabilities*

As at the end of 2018, the Company's total liabilities amounted to RMB21.569 billion, representing a decrease of RMB3.378 billion or 13.54% compared with the beginning of the period, with an asset-liability ratio of 47.99%, representing a year-on-year decrease of 11.24 percentage points.

*3. Owner's equity*

As at the end of 2018, the owner's equity amounted to RMB23.377 billion, representing an increase of RMB6.208 billion or 36.16% compared with the beginning of the period.

The item under owner's equity that has changed significantly was the balance of capital reserve of RMB8.393 billion, which has increased by RMB4.177 billion or 99.06% compared with the beginning of the year, mainly due to the listing of the Company's H shares on the main board of Hong Kong Stock Exchange.

**(VI) Cash flow**

1. In 2018, the Company realized a net cash flow from operating activities of RMB2.927 billion. Cash from sales of goods and provision of services constituted the most important source of cash inflow to the Company, which is enough to satisfy the needs of our operating activities. Net cash flow from operating activities decreased by 20.86% year on year;
2. Net cash outflow from investment activities was RMB3.765 billion, representing a year-on-year decrease of RMB6.642 billion;
3. Net cash flow from financing activities was RMB356 million, representing a year-on-year decrease of RMB7.611 billion.

## II. Differences between financial statements prepared in accordance with the International Financial Reporting Standards and those prepared in accordance with the generally accepted accounting standards in China

There are differences between financial statements prepared in accordance with the International Financial Reporting Standards and those prepared in accordance with the relevant generally accepted accounting standards in China, which are shown as follows:

*Unit: RMB*

Item	Net profit attributable to shareholders of the parent company (consolidated)		Net assets attributable to shareholders of the parent company (consolidated)	
	Current period	Previous period	At the end	At the beginning
			of the period	of the period
Prepared in accordance with the Chinese Accounting Standards for Business Enterprises (CAS)	875,730,869.22	1,137,423,812.13	21,620,222,656.96	16,324,338,267.66
Items and amounts adjusted in accordance with the International Financial Reporting Standards (IFRS)				
Difference in goodwill upon initial recognition	-59,683,002.53	-18,504,086.13	92,662,387.57	143,085,972.34
Prepared in accordance with the IFRS	816,047,866.69	1,118,919,726.00	21,712,885,044.53	16,467,424,240.00

The reasons for the difference are explained as follows: under CAS, the difference between the cost of the Company's acquisition of a subsidiary and the fair value of the identifiable net assets of the acquiree obtained in the merger is recognized as goodwill as an asset and initially measured at cost, and presented separately in the consolidated financial statements. Goodwill is tested for impairment at the end of each year and is measured at cost less accumulated impairment losses. However, when the Company prepares its financial statements for disclosure on the Hong Kong Stock Exchange in accordance with IFRS, goodwill is distributed to the value of the relevant assets in accordance with the value distribution report of the acquired assets, resulting in differences in the amounts of depreciation and amortization of the relevant assets each year, hence the difference.

We hereby present the above for Shareholder and Shareholder's representatives review and consideration.

## Financial Budget Report of the Company for the Year 2019

(Officer in charge of the Company's accounting affairs: Wang Peiyue)

Dear Shareholders and Shareholder's representatives,

In 2019, the Company will continue to embrace its strategic vision of “maintaining the leading position in domestic gold mining industry, becoming a top international gold mining enterprise”. Leading by the “13th Five-Year Plan” strategic goals and based on its development goals of “two tasks forging ahead”, the Company persists with its working keynote of making progress with stability, its belief of seeking new development, and promote high quality development. The Company will focus on structural reform at the supply side, operation management, innovation and movement, expansion and development, and brand image promoting, and strive for becoming a top international enterprise with competitive advantages. We now present our financial budget for 2019:

### (i) Basis on which the financial budget for 2019 is prepared

#### 1. Principles and grounds for preparation of the financial budget

The financial budget is prepared in strict accordance with the “13th Five-Year” development strategy after taking into account the conditions of gold market and the actual circumstances of each member enterprise of the Group. In this regard, we set a reasonable annual development objective, take “Three removal, one reduction and one strengthening” (三去一降一補) as our major task and allocate resources in a scientific manner, with a view to accomplish the transition from focus on scale expansion to focus on quality and performance and effectively facilitate the industrial structural adjustment and transformation and upgrading. The budget indicators are set, on the principle of affordability, to mainly reflect improvement of the operation efficiency and earnings level of assets, pay sufficient attention to improve the profitability of the Company and its wholly-owned subsidiaries and facilitate the sustainable development of the Company.

#### 2. Scope of the financial budget

All the enterprises which are consolidated into the financial statements for 2019 are included in the scope of the financial budget. The financial budget will be adjusted when appropriate in case of any additional or exits from any existing investment projects.

### (ii) Major budget indicators

#### 1. Budget for production indicators

It is estimated the ore processed will be 29.05 million tonnes and gold production will be 37.87 tonnes in 2019.

2. *Investment budget*

The total investment budget of the Company is RMB3,117 million, including investment budget for intangible assets of RMB71 million, investment budget for production expansion of RMB859 million and investment budget for maintaining production of RMB2,187 million.

3. *Financing budget*

As at the end of 2018, the balance of fund raised from external sources was RMB14,100 million, while the capital need for investment in 2019 is RMB3,100 million. It is estimated that, after deducting the self-owned fund of RMB3,400 million and a balance of long-term financing of RMB2,800 million, there is a need for fund of RMB11,000 million to be raised from external sources.

**(iii) Explanation on matters which would have an influence on the budget indicators**

Apart from the aforesaid risks of fluctuations in gold price, the safety and environmental risks of mines will have an influence on the budget indicators: the mining activities conducted by mining enterprises will generate waste rock and tailings and damage ground vegetation, and the voids underground may be subject to subsidence, while ore processing and smelting activities will also generate waste water, waster gas and waste residue. The expenditures on safety and environmental costs may further increase.

**(iv) Measures to safeguard implementation of the financial budget**

The Company will further optimize the reserve and increase its resources, and increase the production capacity and scale, proactively cultivate a differentiated competitiveness, and follow a new development path which is efficient, energy-conservative and environmental-friendly. We will synchronously carry forward both overseas and domestic mergers and acquisitions to proactively expand quality resources, and enhance the independent operating capability overseas. On the basis of properly enhancing production capacity of existing mines, we will focus on promoting resources consolidation in Jiaodong Peninsula and the production continuation projects, making our best efforts to expand regional production capacity. We will promote comprehensive refined management to enhance production efficacy and cost competitiveness; increase scientific and technological investment to raise the level of technological contribution; and adhere to the “double-zero” target to achieve green and ecology-friendly development. The focus is on tapping into the material and spiritual potential of Laizhou Gold Base in terms of management, technology, safety, ecology and corporate culture to build it into a world-leading gold production and smelting base.

We hereby present the above for the Shareholders and Shareholders’ representatives review and consideration.

Stock Code:600547

Stock Abbreviation: SD GOLD

No.: LIN2019-017

**SHANDONG GOLD MINING CO., LTD.**  
**THE EXPECTED CONNECTED TRANSACTIONS DURING THE**  
**ORDINARY COURSE OF BUSINESS IN 2019**

The Company and all members of the board of directors of the Company warrant the truthfulness, accuracy and completeness of the contents of the notice and accept responsibility severally for any false statement, misleading representation or material omission contained in this notice.

**Important Notice:**

- The estimated daily connected transactions of the Company in 2019 are subject to consideration by Shareholders at the Shareholders' general meeting of the Company.
- The estimated connected transactions of the Company in 2019 relate to the daily operations of the Company and will be conducted in the usual course of business of the Company. The prices are negotiated based on market prices, which are fair and reasonable. They will not adversely affect the Company's ability to its continuity of operation, profitability or independence of assets, nor will they result in any relatively significant reliance of the Company on its related parties.

**I. BASIC INFORMATION ON THE DAILY CONNECTED TRANSACTIONS****(I) Consideration procedures completed for the daily connected transactions**

1. At the 18th meeting of the 5th session of the Board of the Company held on 28 March 2019, the Resolution in Relation to the Estimated Daily Connected Transactions of the Company in 2019 was considered and passed. When the Board was considering this resolution, Li Guohong, Wang Lijun and Wang Xiaoling, being interested Directors, abstained from voting in respect of this resolution, while all disinterested Directors unanimously passed this resolution.
2. This resolution has obtained prior consents of the independent non-executive Directors and the Audit Committee of the Company.

The independent non-executive Directors of the Company are of the opinion that:

- (1) Prior to the Board meeting of the Company, we reviewed the Resolution in Relation to the Estimated Daily Connected Transactions of the Company in 2019 and gave consent to the submission of this resolution to the Board meeting of the Company for consideration.
- (2) The interested Directors of the Company abstained from reviewing and voting in respect of the resolution regarding the connected transactions, and the voting procedures comply with the relevant requirements such as the Rules Governing the Listing of Stocks on Shanghai Stock Exchange, the Guidance on

Implementation of Connected Transactions of Listed Companies of Shanghai Stock Exchange (《上海證券交易所上市公司關聯交易實施指引》), the Articles of Association and the Rules on Management of Connected Transactions of the Company.

- (3) The estimated connected transactions of the Company in 2019 are necessary for its normal production operation and the transaction conditions are fair and reasonable, which could reduce the transaction cost for the Company and does not impair the interests of the Company and minority shareholders. All of the related parties selected by the Company have good business reputation and financial condition, which could reduce the operation risks of the Company and facilitate the Company to proceed with its normal operations. The connected transactions would not result in the reliance of the Company's principal businesses on the related parties, nor would they have any influence on the independency of the Company. Therefore, we gave unanimous consent to the matters regarding the connected transactions as considered by the Board meeting, and the submission of the same to the 2018 AGM of the Company for consideration.

The Audit Committee is of the opinion that, the estimated connected transactions comply with the relevant requirements of the Guidance on Implementation of Connected Transactions of Listed Companies of Shanghai Stock Exchange and the Rules on Management of Connected Transactions of the Company and are necessary for the normal production operation of the Company. The estimated connected transactions will be conducted within the scope of the relevant policies and regulations based on arm's length negotiation between the parties and on a fair and equitable pricing principle, which is in the interests of the Company and Shareholders as a whole without any prejudice to the legitimate interests of the Company and other particular Shareholders, and would not affect the independence of the Company. Therefore, the Audit Committee gave its consent to the estimated connected transactions and the submission of the same to the Board meeting for consideration.

3. The estimated daily connected transactions are subject to consideration by Shareholders at the Shareholders' general meeting of the Company where the interested Shareholders are required to abstain from voting on the resolution. In respect of the voting of disinterested Shareholders, the Company will make sufficient disclosure in its announcement on resolutions passed at the Shareholders' general meeting.

## (II) The estimation and implementation of historical daily connected transactions

## 1. Purchase of goods/receipt of services by the Company

Nature of transaction	Counterparty name	Content of transaction	Estimated transaction amount for	Actual transaction amount for
			2018 (RMB0,000)	2018 (RMB0,000)
Purchase of goods and receipt of services	Chifeng Shanjin Gold Silver Lead Co., Ltd. (赤峰山金銀鉛有限公司)	Dore, dore containing silver	2,500.00	3,038.32
	Inner Mongolia Shanjin Geological Mine Exploration Co., Ltd. (內蒙古山金地質礦產勘查有限公司)	Engineering exploration fee		33.60
	Qingdao Gold Geological Exploration Co., Ltd. (青島黃金地質勘查有限公司)	Exploration service fee	167.74	334.66
	Shandong Gold Geological Mine Exploration Co., Ltd. (山東黃金地質礦產勘查有限公司)	Exploration engineering		1,188.72
	SDG (Beijing) Industry Investment Co., Ltd. (山東黃金(北京)產業投資有限公司)	Service fee		49.59
	SDG Electricity Co., Ltd. (山東省黃金電力有限公司)	Electricity purchase/ materials/project payment/testing	40,121.00	39,527.19
	Shandong Gold Senior Technical School (山東黃金高級技工學校)	Training fee	1,484.43	1,462.74
	SDG Engineering Construction Supervision Co., Ltd. (山東省黃金工程建設監理有限公司)	Supervision fee	585.09	471.43
	Laizhou Gold Coast Tourism Properties Co., Ltd. (萊州黃金海岸旅遊地產有限公司)	Project service fee	230.00	136.36
	SDG Property Management Co., Ltd. (山東黃金物業管理有限公司)	Property management fee, Utilities fee	545.32	798.14
	SDG Group Yantai Design and Research Engineering Co., Ltd. (山東黃金集團煙臺設計研究工程有限公司)	Materials payment/ equipment payment/ design fee	8,370.07	7,753.12
	Shandong Gold Group Co., Ltd. (山東黃金集團有限公司)	Engineering service fee	360.00	453.28
	SDG Automobile Services Co., Ltd. (山東黃金汽車服務有限責任公司)	Automobile rental	46.36	78.58



**APPENDIX IV**

**RESOLUTION REGARDING THE EXPECTED  
CONNECTED TRANSACTIONS DURING  
THE ORDINARY COURSE OF BUSINESS IN 2019**

Nature of transaction	Counterparty name	Content of transaction	Estimated transaction amount for 2018 (RMB0,000)	Actual transaction amount for 2018 (RMB0,000)
	Shandong Tiancheng Mining Co., Ltd. (山東天承礦業有限公司)	Dore, silver	15.00	18,334.11
	Shandong Jinchuang Gold and Silver Smelting Co., Ltd. (山東金創金銀冶煉有限公司)	Processing fee	1,366.00	477.40
	Shandong Decoration Group Co., Ltd. (山東省裝飾集團有限公司)	House decoration	400.00	1,203.39
	SDG (Shanghai) Precious Metals Investment Co., Ltd. (山金金控(上海)貴金屬投資有限公司)	Dore	900.00	282.31
	Shanghai Shengju Assets Operation and Management Co., Ltd. (上海盛鉅資產經營管理有限公司)	Promotion fee	190.48	188.68
	SDG (Shenzhen) Gold Investment Development Co., Ltd. (山金金控(深圳)黃金投資發展有限公司)	Dore	300.00	406.12
	Jinchuang Gold (Shanghai) Co., Ltd. (金創黃金(上海)有限公司)	Dore		74.44
	SDG Securities (HK) Limited	Underwriting fee		290.00
	SDG Guyun Lake International Golf Club Co., Ltd. (山東黃金崮雲湖國際高爾夫俱樂部有限公司)	Meeting affairs fee		1.46
	Subtotal		<u>57,581.50</u>	<u>76,583.65</u>

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THE ORDINARY COURSE OF BUSINESS IN 2019**

Nature of transaction	Counterparty name	Content of transaction	Estimated transaction amount for 2018 (RMB0,000)	Actual transaction amount for 2018 (RMB0,000)
As a lessee and use of trademark	Shandong Gold Group Co., Ltd. (山東黃金集團有限公司)	Lease of land	364.20	364.20
	Shandong Gold Group Co., Ltd. (山東黃金集團有限公司)	Lease of house	62.00	61.50
	Shandong Gold Group Co., Ltd. (山東黃金集團有限公司)	Lease of mining permits	537.74	537.74
	Shandong Gold Group Co., Ltd. (山東黃金集團有限公司)	Lease of house and land	895.31	813.92
	Shandong Gold Group Qingdao Gold Co., Ltd. (山東黃金集團青島黃金有限公司)	Lease of land	156.00	165.90
	Shandong Gold Group Co., Ltd. (山東黃金集團有限公司)	License fee for use of trademark	70.00	66.04
	Subtotal			2,085.25
	Shandong Gold Group Finance Co., Ltd. (山東黃金集團財務有限公司)	Deposit (daily balance of deposit)	≤100,000.00	≤100,000.00
		Loan (credit limit)	≤400,000.00	≤400,000.00

2. *Sale of goods/provision of services by the Company*

Nature of transaction	Counterparty name	Content of transaction	Estimated transaction amount for 2018 (RMB0,000)	Actual transaction amount for 2018 (RMB0,000)	
Sale of goods and provision of services	Chifeng Shanjin Gold Silver Lead Co., Ltd. (赤峰山金銀鉛有限公司)	Bulk concentrate	2,000.00		
	SD Gold Capital Management Co., Ltd. (山金金控資本管理有限公司)	Processing fee		62.69	
	Qinghai Kunlun Gold Co., Ltd. (青海昆侖黃金有限公司)	Processing fee		13.04	
	Qingdao Gold Lead and Zinc Development Co., Ltd. (青島黃金鉛鋅開發有限公司)	Lead-zinc ore	249.00	523.61	
	Laizhou Ludi Mining Investment and Development Co., Ltd. (萊州魯地礦業投資開發有限公司)	Gasoline	3.50	2.36	
	Shandong Gold Geological Mine Exploration Co., Ltd. (山東黃金地質礦產勘查有限公司)	Electricity	60.00	32.86	
	Laizhou Gold Coast Tourism Properties Co., Ltd. (萊州黃金海岸旅遊地產有限公司)	Electricity	4.00	3.55	
	SDG Group Yantai Design and Research Engineering Co., Ltd. (山東黃金集團煙臺設計研究工程有限公司)	Electricity, equipments	15.00	12.53	
	SDG Property Management Co., Ltd. (山東黃金物業管理有限公司)	Heating fee		34.70	
	SDG Electricity Company Limited (山東黃金電力有限公司)	Physical examination fee		0.35	
	Shandong Jinchuang Gold and Silver Smelting Co., Ltd. (山東金創金銀冶煉有限公司)	Sale of gold concentrate, silver concentrate	10.00	39.35	
	SDG (Shenzhen) Gold Investment Development Co., Ltd. (山金金控(深圳)黃金投資發展有限公司)	Finished gold products, processing fee	10,000.50	11,459.73	
	Subtotal			12,342.00	12,184.77

**APPENDIX IV**

**RESOLUTION REGARDING THE EXPECTED  
CONNECTED TRANSACTIONS DURING  
THE ORDINARY COURSE OF BUSINESS IN 2019**

Nature of transaction	Counterparty name	Content of transaction	Estimated transaction amount for 2018 (RMB0,000)	Actual transaction amount for 2018 (RMB0,000)			
Lease	Shandong Gold Group Co., Ltd. (山東黃金集團有限公司)	Lease of house	446.55	450.61			
	Shandong Gold International Mining Co., Ltd. (山東黃金國際礦業有限公司)	Lease of house	128.90				
	Shandong Gold Group Finance Co., Ltd. (山東黃金集團財務有限公司)	Lease of house	118.38	119.45			
	SDG Venture Capital Co., Ltd. (山東黃金創業投資有限公司)	Lease of house	18.92	19.81			
	Qingdao Gold Lead and Zinc Development Co., Ltd. (青島黃金鉛鋅開發有限公司)	Lease of equipment	8.55	18.01			
	Subtotal		721.29	607.89			
Equity entrustment	Shandong Gold Group Co., Ltd. (山東黃金集團有限公司)	Resources Development 100%	207.55	207.55			
		Jinchuang Group 65%					
		Tiancheng Mining 100%					
		Laizhou Ludi 100%					
		SDG Electricity 100%					
		Gold Senior Technical School 100%					
		Yantai Design and Research Engineering Co. 100%					
		Shandong Gold Non-ferrous Metal Mine Group Co., Ltd. (山東黃金有色礦業集團有限公司)			Songxian Shanjin 70%	132.08	132.08
		Hainan Shanjin 63%					
		Aerhada 100%					
		Hongling Mining 90%					
		Shanjin Gold Silver Lead 100%					
		Hulunbuir 75%					
Xilin Guole Baiyin Hubu 79.93%							

**RESOLUTION REGARDING THE EXPECTED  
CONNECTED TRANSACTIONS DURING  
THE ORDINARY COURSE OF BUSINESS IN 2019**

Nature of transaction	Counterparty name	Content of transaction	Estimated transaction amount for 2018 (RMB0,000)	Actual transaction amount for 2018 (RMB0,000)
	Shandong Gold Group Qingdao Gold Co., Ltd. (山東黃金集團青島黃金有限公司)	Gold Lead and Zinc 100% Jinxing Shares 91.8% Qingdao Gold Geological Exploration 100%	56.60	56.60
	SD Gold Capital Management Co., Ltd. (山金金控資本管理有限公司)	SDG (Shanghai) Precious Metals 100% SDG (Shenzhen) Precious Metals 70% Jinchuang Gold (Shanghai) Co. 100%	56.60	56.60
	Laizhou Xinyuan Mining Investment and Development Co., Ltd. (萊州鑫源礦業投資開發有限公司)	Laizhou Ludi Investment and Development 55%	18.87	18.87
	Subtotal		<u>471.70</u>	<u>471.70</u>

## (III) Estimated amount and category of the daily connected transactions in 2019

## 1. Purchase of goods/receipt of services by the Company

Nature of transaction	Counterparty name	Content of transaction	Actual	Estimated
			transaction amount for 2018 (RMB0,000)	transaction amount for 2019 (RMB0,000)
Purchase of goods and receipt of services	Chifeng Shanjin Gold Silver Lead Co., Ltd. (赤峰山金銀鉛有限公司)	Dore, dore containing silver	3,038.32	3,000.00
	Inner Mongolia Shanjin Geological Mine Exploration Co., Ltd. (內蒙古山金地質礦產勘查有限公司)	Engineering exploration fee	33.60	90.00
	Qingdao Gold Geological Exploration Co., Ltd. (青島黃金地質勘查有限公司)	Technical service and drilling engineering payment	334.66	55.00
	Shandong Gold Geological Mine Exploration Co., Ltd. (山東黃金地質礦產勘查有限公司)	Exploration engineering	1,188.72	1,278.60
	SDG (Beijing) Industry Investment Co., Ltd. (山東黃金(北京)產業投資有限公司)	Service fee	49.59	3,113.21
	SDG Electricity Company Limited (山東黃金電力有限公司)	Electricity purchase/materials/project payment/testing	39,527.19	42,762.96
	Shandong Gold Senior Technical School (山東黃金高級技工學校)	Training fee	1,462.74	1,531.11
	SDG Engineering Construction Supervision Co., Ltd. (山東省黃金工程建設監理有限公司)	Supervision fee	471.43	861.52
	Laizhou Gold Coast Tourism Properties Co., Ltd. (萊州黃金海岸旅遊地產有限公司)	Project service fee	136.36	242.59
	SDG Property Management Co., Ltd. (山東黃金物業管理有限公司)	Property management fee, utilities fee	798.14	1,127.59
	SDG Group Yantai Design and Research Engineering Co., Ltd. (山東黃金集團煙臺設計研究工程有限公司)	Materials payment/equipment payment/design fee	7,753.12	9,980.47
	Shandong Gold Group Co., Ltd. (山東黃金集團有限公司)	Engineering service fee	453.28	348.00
	SDG Automobile Services Co., Ltd. (山東黃金汽車服務有限責任公司)	Automobile rental	78.58	80.72

**RESOLUTION REGARDING THE EXPECTED  
CONNECTED TRANSACTIONS DURING  
THE ORDINARY COURSE OF BUSINESS IN 2019**

Nature of transaction	Counterparty name	Content of transaction	Actual transaction amount for 2018 (RMB0,000)	Estimated transaction amount for 2019 (RMB0,000)
	SDG Tiancheng Mining Co., Ltd. (山東黃金天承礦業有限公司)	Dore, silver	18,334.11	19,736.00
	Shandong Jinchuang Gold and Silver Smelting Co., Ltd. (山東金創金銀冶煉有限公司)	Processing fee	477.40	597.33
	Shandong Decoration Group Co., Ltd. (山東省裝飾集團有限公司)	House decoration	1,203.39	120.00
	SDG (Shanghai) Precious Metals Investment Co., Ltd. (山金金控(上海)貴金屬投資有限公司)	Dore	282.31	200.00
	Shanghai Shengju Assets Operation and Management Co., Ltd. (上海盛鉅資產經營管理有限公司)	Promotion fee	188.68	188.68
	SDG (Shenzhen) Gold Investment Development Co., Ltd. (山金金控(深圳)黃金投資發展有限公司)	Dore	406.12	200.00
	Jinchuang Gold (Shanghai) Co., Ltd. (金創黃金(上海)有限公司)	Dore	74.44	-
	SDG Securities (HK) Limited	Underwriting fee	290.00	-
	SDG Guyun Lake International Golf Club Co., Ltd. (山東黃金崮雲湖國際高爾夫俱樂部有限公司)	Meeting affairs fee	1.46	2.00
	Subtotal		<u>76,583.65</u>	<u>85,515.77</u>

## APPENDIX IV

RESOLUTION REGARDING THE EXPECTED  
CONNECTED TRANSACTIONS DURING  
THE ORDINARY COURSE OF BUSINESS IN 2019

Nature of transaction	Counterparty name	Content of transaction	Actual	Estimated
			transaction amount for 2018 (RMB0,000)	transaction amount for 2019 (RMB0,000)
As a lessee and use of trademark	Shandong Gold Group Co., Ltd. (山東黃金集團有限公司)	Lease of land	364.20	364.20
	Shandong Gold Group Co., Ltd. (山東黃金集團有限公司)	Lease of house	61.50	61.50
	Shandong Gold Group Co., Ltd. (山東黃金集團有限公司)	Lease of house and land	813.92	813.92
	Shandong Gold Group Co., Ltd. (山東黃金集團有限公司)	Lease of mining permits	537.74	537.74
	Shandong Gold Group Qingdao Gold Co., Ltd. (山東黃金集團青島黃金有限公司)	Lease of land	165.90	165.90
	Shandong Gold Group Co., Ltd. (山東黃金集團有限公司)	License fee for use of trademark	66.04	66.04
	Subtotal			<u>2,009.30</u>
	Shandong Gold Group Finance Co., Ltd. (山東黃金集團財務有限公司)	Deposit (daily balance of deposit)	≤100,000.00	≤150,000.00
		Loan and other financing services	≤400,000.00	≤80,000.00
		Overdraft service		≤70,000.00



## 2. Sale of goods/provision of services by the Company

Nature of transaction	Counterparty name	Content of transaction	Actual	Estimated	
			transaction amount for 2018 (RMB0,000)	transaction amount for 2019 (RMB0,000)	
Sale of goods and provision of services	SD Gold Capital Management Co., Ltd. (山金金控資本管理有限公司)	Processing fee	62.69	27.00	
	Qinghai Kunlun Gold Co., Ltd. (青海昆侖黃金有限公司)	Processing fee	13.04	60.00	
	Qingdao Gold Lead and Zinc Development Co., Ltd. (青島黃金鉛鋅開發有限公司)	Lead-zinc ore	523.61	280.00	
	Laizhou Ludi Mining Investment and Development Co., Ltd. (萊州魯地礦業投資開發有限公司)	Gasoline	2.36	2.30	
	Shandong Gold Geological Mine Exploration Co., Ltd. (山東黃金地質礦產勘查有限公司)	Electricity	32.86	33.17	
	Laizhou Gold Coast Tourism Properties Co., Ltd. (萊州黃金海岸旅遊地產有限公司)	Electricity	3.55	4.31	
	SDG Group Yantai Design and Research Engineering Co., Ltd. (山東黃金集團煙臺設計研究工程有限公司)	Electricity, equipments	12.53	12.93	
	SDG Property Management Co., Ltd. (山東黃金物業管理有限公司)	Heating fee	34.70	35.00	
	SDG Electricity Company Limited (山東黃金電力有限公司)	Physical examination fee	0.35	0.30	
	Shandong Jinchuang Gold and Silver Smelting Co., Ltd. (山東金創金銀冶煉有限公司)	Sale of gold concentrate, silver concentrate	39.35	1,578.90	
	SDG (Shenzhen) Gold Investment Development Co., Ltd. (山金金控(深圳)黃金投資發展有限公司)	Finished gold products, processing fee	11,459.73	11,459.73	
	Subtotal			12,184.77	13,493.64

APPENDIX IV

RESOLUTION REGARDING THE EXPECTED  
CONNECTED TRANSACTIONS DURING  
THE ORDINARY COURSE OF BUSINESS IN 2019

Nature of transaction	Counterparty name	Content of transaction	Actual transaction amount for 2018 (RMB0,000)	Estimated transaction amount for 2019 (RMB0,000)		
Lease	Shandong Gold Group Co., Ltd. (山東黃金集團有限公司)	Lease of house	450.61	450.61		
	Shandong Gold Group Finance Co., Ltd. (山東黃金集團財務有限公司)	Lease of house	119.45	119.45		
	SDG Venture Capital Co., Ltd. (山東黃金創業投資有限公司)	Lease of house	19.81	19.81		
	SDG Real Estate Tourism Group Co., Ltd. (山東黃金地產旅遊集團有限公司)	Lease of house		140.57		
	Qingdao Gold Lead and Zinc Development Co., Ltd. (青島黃金鉛鋅開發有限公司)	Lease of equipment	18.01	10.34		
	Subtotal		607.89	740.79		
Equity entrustment	Shandong Gold Group Co., Ltd. (山東黃金集團有限公司)	Resources Development	100%	207.55	207.55	
		Jinchuang Group	65%			
		Tiancheng Mining	100%			
		Laizhou Ludi	100%			
		SDG Electricity	100%			
		Gold Senior Technical School	100%			
		Yantai Design and Research Engineering Co.	100%			
		Shandong Gold Non-ferrous Metal Mine Group Co., Ltd. (山東黃金有色礦業集團有限公司)	Songxian Shanjin			70%
		Hainan Shanjin	63%			
		Aerhada	100%			
		Hongling Mining	90%			
		Shanjin Gold Silver Lead	100%			
		Hulunbair	75%			
XilinGol League Baiyin Hubu	79.93%					
Shandong Gold Group Qingdao Gold Co., Ltd. (山東黃金集團青島黃金有限公司)	Qingdao Gold Lead and Zinc	100%	56.60	56.60		
Jinxing Shares	91.8%					
Qingdao Gold Geological Exploration	100%					

**RESOLUTION REGARDING THE EXPECTED  
CONNECTED TRANSACTIONS DURING  
THE ORDINARY COURSE OF BUSINESS IN 2019**

Nature of transaction	Counterparty name	Content of transaction	Actual transaction amount for 2018 (RMB0,000)	Estimated transaction amount for 2019 (RMB0,000)
	SD Gold Capital Management Co., Ltd. (山金金控資本管理有限公司)	SDG (Shanghai) Precious Metals 100%	56.60	56.60
		SDG (Shenzhen) Precious Metals 70%		
		Jinchuang Gold (Shanghai) Co. 100%		
	Laizhou Xinyuan Mining Investment and Development Co., Ltd. (萊州鑫源礦業投資開發有限公司)	Laizhou Ludi Investment and Development 55%	18.87	18.87
	Subtotal		<u>471.70</u>	<u>471.70</u>

**II. PROFILES OF RELATED PARTIES AND THE RELATIONSHIPS****(I) Basic information on the related parties****1. Shandong Gold Group Co., Ltd. (山東黃金集團有限公司)**

Domicile: Building No. 3, Shuntai Plaza, No. 2000 Shunhua Road, Jinan High-tech Zone; Legal Representative: Chen Yumin; registered capital: RMB1,272.618 million.

Business scope: (the following operations shall be conducted by its subsidiaries only) gold geological exploration, mining; electricity supply to gold mines; automobile leasing. (Validity period shall be subject to the relevant permits). Refining, processing, production and sale of gold jewelry; gold processing and smelting and technical services; refining, processing, production and sale of precious metal and non-ferrous metal products; production and sale of special-purpose equipments and materials and construction materials for gold mines; equipment repair; import and export and processing with imported materials and the “Three-plus-one” trading-mix; computer software development, consultation on corporate management and accounting, property management (for items subject to approval according to laws, operation activities may not be commenced until the approval has been obtained from the relevant authorities).

Relationship with the listed company: the parent company of the listed company, and a wholly state-owned company under the State-owned Assets Supervision and Administration Commission of Shandong Province.

**2. SDG Electricity Company Limited (山東黃金電力有限公司)**

Domicile: East Jiaojia Village, Jincheng Town, Laizhou, Yantai City; Legal Representative: Sun Minzhe; registered capital: RMB40.91 million; nature: limited liability company.

Business scope: sale of electricity, installation (repair, testing) of electricity facilities; design and construction of electrical projects; manufacturing and sale of electrical equipments; provision of electricity technical services (for items subject to approval according to laws, operation activities may not be commenced until the approval has been obtained from the relevant authorities).

Relationship with the listed company: a fellow subsidiary under the control of the same parent company.

3. ***Shandong Gold Geological Mine Exploration Co., Ltd.***(山東黃金地質礦產勘查有限公司)

Domicile: No.609 Laizhou North Road, Laizhou City; Legal Representative: Sun Zhifu; registered capital: RMB50 million.

Business scope: geological exploration of solid minerals; exploration technical services; geological drilling exploration; geological pit prospecting; geophysical prospecting; surveying and mapping services (for items subject to approval according to laws, operation activities may not be commenced until the approval has been obtained from the relevant authorities).

Relationship with the listed company: a shareholder of the Company and a fellow subsidiary under the control of the same parent company.

4. ***Qingdao Gold Geological Exploration Co., Ltd.*** (青島黃金地質勘查有限公司)

Domicile: No.36 Qutangxia Road, Shinan District, Qingdao City, Shandong Province; Legal Representative: Pang Jiugang; registered capital: RMB1 million.

Business scope: exploration of solid minerals, engineering survey, and immovable property surveying and mapping (these operations shall be subject to license).

Relationship with the listed company: a fellow subsidiary under the control of the same parent company.

5. ***SDG Group Yantai Design and Research Engineering Co., Ltd.*** (山東黃金集團煙臺設計研究工程有限公司)

Domicile: No.118 Taishan Road, Yantai Development Zone; Legal Representative: Yu Hu; registered capital: RMB49.50 million.

Business scope: turnkey contracting business for construction projects and project management and corresponding technical and management services within the scope stipulated in the Engineering Design Qualification Certificate; design and service: mine design, research trial for new mining and processing techniques, technical achievements development, transfer and consultation and technical services, computer software development, design and transfer services; design, manufacturing and installation of grinding equipment, grading equipment, washing and processing equipment, transportation equipment, load-haul-dump, underground trackless equipment, electromechanical equipment and accessories (excluding special equipments); manufacture and sale of mine equipment and accessories; import and export of goods and technologies (for items subject to approval according to laws, operation activities may not be commenced until the approval has been obtained from the relevant authorities).

Relationship with the listed company: a fellow subsidiary under the control of the same parent company.

**6. *SDG Engineering Construction Supervision Co., Ltd.* (山東省黃金工程建設監理有限公司)**

Domicile: No.118 Taishan Road, Yantai Economic and Technological Development Zone; Legal Representative: Zhao Guizhou; registered capital: RMB3 million.

Business scope: construction supervision and consultation services (for items subject to approval according to laws, operation activities may not be commenced until the approval has been obtained from the relevant authorities).

Relationship with the listed company: a fellow subsidiary under the control of the same parent company.

**7. *Shandong Gold Senior Technical School* (山東黃金高級技工學校)**

Domicile: No. 23 Fenglin Road, Laishan District, Yantai City; Legal Representative : Wang Gongji; Start-up capital: RMB45.7189 million.

Business scope: cultivating mid-level technical talents for the society, assuming the responsibility of post skills training, and providing technical secondary education for adults.

Relationship with the listed company: a fellow subsidiary under the control of the same parent company.

**8. *Laizhou Gold Coast Tourism Properties Co., Ltd.* (萊州黃金海岸旅遊地產有限公司)**

Domicile: north of Yonghe Road, Jincang Sub-district Office, Laizhou City, Shandong Province; Legal Representative: Zang Wenning; registered capital: RMB20.00 million.

Business scope: development and operation of property projects; development and operation of tourism projects, and consultation services on tourism information; construction of landscaping projects; construction of solid waste treatment projects; accommodation services; conference services; organization of sports games and sports activities; provision of venue for sports activities; sale of sports goods and tourist commodities; consultation services on sports information (for items subject to approval according to laws, operation activities may not be commenced until the approval has been obtained from the relevant authorities).

Relationship with the listed company: a fellow subsidiary under the control of the same parent company.

9. *Shandong Decoration Group Co., Ltd.* (山東省裝飾集團有限公司)

Domicile: No.7 Building, Chaoshan Street, Jinan City; Legal Representative: Wang Haitao; registered capital: RMB80.00 million.

Business scope: construction of building curtain wall projects within the permitted scope as shown on the qualifications; architectural engineering construction; Grade I for building renovation and decoration engineering construction and Grade A for building decoration design; supply, adjustment and swap of auxiliary goods and materials for decoration engineering (subject to the budget sheet of the contract), decoration machines and tools, metal materials, wood, plywood and plastics necessary for production of interior decorative supplies set and building materials; sale of stainless steel and stainless steel products; lease of house; engineering design for building curtain wall; manufacture and installation of building curtain wall; pseudo-classic architecture engineering and repair; wood products manufacturing; urban greening management; lighting engineering; air purification engineering and anti-corrosion and heat insulating engineering construction; intelligent building engineering; installation of metal doors and windows; design and construction of fire facilities engineering; electromechanical equipment (excluding special equipments) installation engineering construction (for items subject to approval according to laws, operation activities may not be commenced until the approval has been obtained from the relevant authorities).

Relationship with the listed company: a fellow subsidiary under the control of the same parent company.

10. *SDG Property Management Co., Ltd.* (山東黃金物業管理有限公司)

Domicile: No.16 Jiefang Road, Lixia District, Jinan City; Legal Representative: Ye Chunxiao; registered capital: RMB10.00 million.

Business scope: property management and lease of housing; repair services for housing and supporting facilities; landscaping services; sale and lease of greening nursery-grown plants (excluding seedling) and flowers; laundry service; cleaning service; corporate management consultation; hotel management consultation; parking area services; housing intermediary services; ticket agency; property sale agency; on-line sale: daily necessities, general merchandise, hardware products, household appliances; food and beverage services (operation shall be subject to license); electrical equipment maintenance; conference services (for items subject to approval according to laws, operation activities may not be commenced until the approval has been obtained from the relevant authorities).

Relationship with the listed company: a fellow subsidiary under the control of the same parent company.

**11. SDG Automobile Services Co., Ltd. (山東黃金汽車服務有限責任公司)**

Domicile: No. 2503 Jingshiyi Road, Jinan City; Legal Representative: Zhao Yongzhou; registered capital: RMB30.00 million.

Business scope: lease of automobiles, taxi transport, lease of housing; operation of electric vehicle charging service projects; operation of parking lots (for items subject to approval according to laws, operation activities may not be commenced until the approval has been obtained from the relevant authorities).

Relationship with the listed company: a fellow subsidiary under the control of the same parent company.

**12. Shandong Tiancheng Mining Co., Ltd. (山東天承礦業有限公司)**

Domicile: east of Hongbu Village, Jincheng Town, Laizhou City; Legal Representative: Cheng Quanmin; registered capital: RMB16.18 million.

Business scope: mining, processing and smelting: gold (operations shall be subject to obtaining of the license and the validity period shall be subject to the license).

Relationship with the listed company: a fellow subsidiary under the control of the same parent company.

**13. Shanghai Shengju Assets Operation and Management Co., Ltd. (上海盛鉅資產經營管理有限公司)**

Domicile: No.12 Dongfang Road, China (Shanghai) Pilot Free Trade Zone; Legal Representative: Zhang Feng; registered capital: RMB121.00 million.

Business scope: assets management, investment management (excluding equity investment and management of equity investment), property management, lease of self-owned houses.

Relationship with the listed company: a fellow subsidiary under the control of the same parent company.

**14. Qingdao Gold Lead and Zinc Development Co., Ltd. (青島黃金鉛鋅開發有限公司)**

Domicile: Dazhuangzi Village, Xinhe Town, Pingdu City; Legal Representative: Wang Mingqin; registered capital: RMB15.87936 million.

Business scope: recycle of lead and zinc from industrial waste residue and the deep-processing and sale (operations shall be subject to license if so required).



Relationship with the listed company: a fellow subsidiary under the control of the same parent company.

**15. Shandong Jinchuang Gold and Silver Smelting Co., Ltd. (山東金創金銀冶煉有限公司)**

Domicile: Menlou Village, Daliuhang Town, Penglai City, Shandong Province; Legal Representative: Li Fengliang; registered capital: RMB300.00 million.

Business scope: smelting and processing of gold, silver, lead and copper; import and export of goods (for items subject to approval according to laws, operation activities may not be commenced until the approval has been obtained from the relevant authorities).

Relationship with the listed company: a fellow subsidiary under the control of the same parent company.

**16. SD Gold Capital Management Co., Ltd. (山金金控資本管理有限公司)**

Domicile: Room 1805, No. 769 Jiujiang Road, Huangpu District, Shanghai; registered capital: RMB1,500.00 million; Legal Representative: Zhang Feng.

Business scope: equity investment fund, management of equity investment fund, industrial investment, investment in the field of precious metals and non-ferrous metals, sale and repurchase of precious metals, sale of coal, ferrous metals, non-ferrous metals and mineral products, import and export of goods and technology, assets management, corporate management, investment management, financial consultation (excluding acting as a bookkeeping agency), investment consultation (for items subject to approval according to laws, operation activities may not be commenced until the approval has been obtained from the relevant authorities).

Relationship with the listed company: a fellow subsidiary under the control of the same parent company.

**17. SDG (Shenzhen) Gold Investment Development Co., Ltd. (山金金控(深圳)黃金投資發展有限公司)**

Domicile: Room 201, Block A, Administration Complex, Qianhai Shenzhen/Hong Kong Modern Service Industries Cooperation Zone, No.1, Liyumen Street, Qianwan 1st Road, Shenzhen (settled in Shenzhen Qianhai Commerce Secretariat Co., Ltd.); Legal Representative: Zhang Feng; registered capital: RMB70.00 million.

Business scope: investment in gold industry (specific items shall be subject to application and reporting on a separate basis); equity investment; venture capital investment; entrusted management of equity investment fund (excluding securities investment, investment activities by way of public fundraising, and management of public fundraising); supply chain management and related supporting business; sale of art wares;

sale of jewelry, gold and silver jewelry, diamond jewelry, carving crafts, flower painting crafts and weaving crafts; sale of tie clips and accessories and brooches; sale of household or kitchen utensils and containers, decorations and household articles; sale of glasses, cases and bags; sale of mineral products (excluding coal); information consulting on precious metal and jewelry products; conducting trade activities on the internet (excluding restricted items); domestic trade (excluding franchised, specially-controlled or monopolized commodities); factoring agent (non-bank financing), import and export business (excluding items prohibited by laws, administrative regulations and decisions of the State Council, while the restricted items can only be operated after obtaining permission).

Relationship with the listed company: a fellow subsidiary under the control of the same parent company.

**18. *SDG (Shanghai) Precious Metals Investment Co., Ltd.* (山金金控(上海)貴金屬投資有限公司)**

Domicile: Room 1806-2, No.769 Jiujiang Road, Huangpu District, Shanghai; registered capital: RMB300.00 million; Legal Representative: Liu Hongjun.

Business scope: investment in precious metal, sale and recycle of and trading agency for precious metals (excluding auction) (for items subject to approval according to laws, operation activities may not be commenced until the approval has been obtained from the relevant authorities).

Relationship with the listed company: a fellow subsidiary under the control of the same parent company.

**19. *Shandong Gold Group Finance Co., Ltd.* (山東黃金集團財務有限公司)**

Domicile: west of the 1st Floor, and 8th Floor, Building No. 3, Shuntai Plaza, No. 2000 Shunhua Road, Jinan City; Legal Representative: Wu Chen; registered capital : RMB3,000.00 million.

Business scope: operating businesses as approved by China Banking Regulatory Commission in accordance with the relevant laws, administrative regulations and other requirements, while the business scope shall be subject to those as set out on the approval documents (the validity period shall be subject to the licenses or permits) (for items subject to approval according to laws, operation activities may not be commenced until the approval has been obtained from the relevant authorities).

Relationship with the listed company: a company with the joint investment of the Company and its parent company.

20. *Inner Mongolia Shanjin Geological Mine Exploration Co., Ltd.* (內蒙古山金地質礦產勘查有限公司)

Domicile: 8th Floor, Block B, Chifeng Geological and Mineral Exploration and Development Institute, Inner Mongolia; Legal Representative: Li Wen; registered capital: RMB20.00 million.

Business scope: licensed business items: nil; general business items: solid minerals exploration; exploration engineering construction; hydro geological, engineering geological and environmental geological survey; geophysical prospecting.

Relationship with the listed company: a fellow subsidiary under the control of the same parent company.

21. *SDG (Beijing) Industry Investment Co., Ltd.* (山東黃金(北京)產業投資有限公司)

Domicile: Room 318, Urban Oasis (都市綠洲), 237 Dingsi Road, Future Science City, Changping District, Beijing; Legal Representative: He Jiping; registered capital: RMB1,000.00 million.

Business scope: equity investment and investment in gold projects; assets management; investment management; investment consultation; corporate management; sale (including on-line sale) of gold; economic information consultation (excluding intermediary); import and export of goods, import and export agency, and technology import and export. (1. May not raise funds publicly without the approval of the relevant authorities; 2. May not conduct trading of securities products and financial derivative products; 3. May not grant loans; 4. May not provide guarantee for enterprises other than its investee enterprises; 5. May not promise investors that the investment principal will not suffer any loss or promise them a minimum return; the enterprise may independently select the business items and conduct operation activities in accordance with laws; for items subject to approval according to laws, operation activities may not be commenced until the approval has been obtained from the relevant authorities; and it may not be engaged in any operation activities prohibited or restricted by the municipal industrial policies of Beijing.)

Relationship with the listed company: a fellow subsidiary under the control of the same parent company.

22. *Shandong Gold Non-ferrous Metal Mine Group Co., Ltd.* (山東黃金有色礦業集團有限公司)

Domicile: Building No. 3, Shuntai Square, No. 2000 Shunhua Road, Lixia District, Jinan City; Legal Representative: Liu Runtian; registered capital: RMB1,150.00 million.

Business scope: technical services for geological exploration, mining, processing and smelting of metallic and non-metallic mines; import and export and processing with imported materials with the registered scope (for items subject to approval according to laws, operation activities may not be commenced until the approval has been obtained from the relevant authorities).

Relationship with the listed company: a Shareholder of the Company and a fellow subsidiary under the control of the same parent company.

**23. Shandong Gold Group Qingdao Gold Co., Ltd. (山東黃金集團青島黃金有限公司)**

Domicile: Unit 401, Entrance 1, Tower 2, Yulong Building, No. 19 Miaoling Road, Laoshan District, Qingdao City, Shandong Province; Legal Representative: Lu Jisheng; registered capital: RMB116.49 million.

Business scope: operation and management of gold mine enterprise, corporate management and consultation services, making external investment by self-owned capital (without the approval of financial administrative authorities, it may not be engaged in financial businesses such as financing guarantee, deposit-taking and entrusted wealth management for clients); mineral resources exploration (operations shall be subject to the permits issued by the land authorities); purchase and sale of mineral products (excluding those subject to special control) (for items subject to approval according to laws, operation activities may not be commenced until the approval has been obtained from the relevant authorities).

Relationship with the listed company: a shareholder of the Company and a fellow subsidiary under the control of the same parent company.

**24. Chifeng Shanjin Gold Silver Lead Co., Ltd. (赤峰山金銀鉛有限公司)**

Domicile: Fenghuangshan Industrial Park, Baarin Left Banner; Legal Representative: Zhang Xuqiu; registered capital: RMB301.00 million.

Business scope: licensed business items: sale and production of sulfuric acid, oxygen, nitrogen, gas and coal tar (limited to sales within the plant area only) (production license valid until 1 December 2018). General business items: smelting, processing and sale of silver, lead, copper, zinc, gold, antimony and bismuth.

Relationship with the listed company: a fellow subsidiary under the control of the same parent company.

**25. Laizhou Ludi Mining Investment and Development Co., Ltd. (萊州魯地礦業投資開發有限公司)**

Domicile: Seat of government of Jincheng Town, Laizhou City, Shandong Province; Legal Representative: Yin Guoguang; registered capital: RMB360.00 million.

Business scope: investment with self-owned capital in commercial minerals exploration, minerals development and operation of mining rights (without the approval of financial regulatory authorities, it may not be engaged in financial businesses such as deposit-taking, financing guarantee and entrusted wealth management for clients); sale of mining supplies (for items subject to approval according to laws, operation activities may not be commenced until the approval has been obtained from the relevant authorities).

Relationship with the listed company: a fellow subsidiary under the control of the same parent company.

**26. SDG Venture Capital Co., Ltd. (山東黃金創業投資有限公司)**

Domicile: 14th Floor, Building No. 3, Shuntai Plaza, No. 2000 Shunhua Road, Jinan High-tech Zone; Legal Representative: Zhang Feng; registered capital: RMB500.00 million.

Business scope: venture capital investment business; acting as an agency on behalf of other institutions such as venture capital enterprises or individuals for their venture capital investments; consultation on venture capital investment; provision of management services for venture enterprises; participation in establishment of investment enterprises and venture capital management consultation firms (without the approval of financial regulatory authorities, it may not be engaged in financial businesses such as deposit-taking, financing guarantee and entrusted wealth management for clients) (for items subject to approval according to laws, operation activities may not be commenced until the approval has been obtained from the relevant authorities).

Relationship with the listed company: a fellow subsidiary under the control of the same parent company.

**27. Qinghai Kunlun Gold Co., Ltd. (青海昆侖黃金有限公司)**

Domicile: Xiangride Town, Dulan County, Qinghai Province; Legal Representative: Wang Shuhai; registered capital: RMB200.00 million.

Business scope: gold smelting and sale; processing and sale of by-products from gold production; warehousing and sale of raw materials necessary for gold production (excluding hazardous chemicals); processing and trade of precious metals and their alloys and jewelries; research, development and consultation services on gold production technologies (for those subject to national special regulations, the relevant licenses shall be obtained) (for items subject to approval according to laws, operation activities may not be commenced until the approval has been obtained from the relevant authorities).

Relationship with the listed company: a fellow subsidiary under the control of the same parent company.

28. *SDG Real Estate Tourism Group Co., Ltd.* (山東黃金地產旅遊集團有限公司)

Domicile: No. 1587 Chonghua Road, Jinan High-tech Zone; Legal Representative: Zang Wenning; registered capital: RMB300.00 million.

Business scope: real estate development and management; house repair; sale of metal materials (excluding precious metals), cutting, wood, mechanical and electrical products, automobiles (excluding cars), electronic products and communication equipment (excluding radio transmitting equipment), needles and textiles, agricultural and sideline products (excluding franchised products); information consultation services (excluding items subject to special approval by the country); house lease; geothermal resources development, geothermal heating and hot spring bath (for items subject to approval according to laws, operation activities may not be commenced until the approval has been obtained from the relevant authorities).

29. *SDG Guyun Lake International Golf Club Co., Ltd.* (山東黃金崑崙湖國際高爾夫俱樂部有限公司)

Domicile: Tushan Village, Guyun Lake Sub-district Office, Changqing District, Jinan City; Legal Representative: Zang Wenning; registered capital: RMB10.00 million.

Business scope: meal service; provision of golf course-related services; provision of entrusted services for organizing sports events; research and development of entertainment projects; conference reception; property management services; sale of clothing and tea; maintenance and sale of jewelry and art wares; domestic advertising business; lease of battery car and golf equipment; landscaping construction; cultivation and sale of nursery-grown plants, flowers and lawn; landscape technology consulting services; organizing and planning of cultural and artistic exchange activities; ceremonial celebration service; venue lease; house lease (for items subject to approval according to laws, operation activities may not be commenced until the approval has been obtained from the relevant authorities).

Relationship with the listed company: a fellow subsidiary under the control of the same parent company.

30. *Laizhou Xinyuan Mining Investment and Development Co., Ltd.* (萊州鑫源礦業投資開發有限公司)

Domicile: No. 18 Jiaojia Village, Jincheng Town, Laizhou, Yantai City; Legal Representative: Yin Guoguang; registered capital: RMB90.50 million.

Business scope: investment with self-owned capital in mineral development projects (without the approval of financial regulatory authorities, it may not be engaged in financial businesses such as deposit-taking, financing guarantee and entrusted wealth management for clients) (for items subject to approval according to laws, operation activities may not be commenced until the approval has been obtained from the relevant authorities).

Relationship with the listed company: a fellow subsidiary under the control of the same parent company.

**31. Jinchuang Gold (Shanghai) Co., Ltd. (金創黃金(上海)有限公司)**

Domicile: Unit 01 and 02, 17th Floor, No. 333 Caoxibei Road, Xuhui District, Shanghai; registered capital: RMB30.00 million; Legal Representative: Liu Hongjun.

Business scope: sale of metal materials such as gold, silver and platinum; industrial investment, mining investment, real estate investment and advertising investment; technology development, technology transfer, technology consulting, technical services and investment management and consultation in the field of scientific and technological products; the import and export of goods and technology (for items subject to approval according to laws, operation activities may not be commenced until the approval has been obtained from the relevant authorities).

**32. SDG Securities (HK) Limited**

Domicile: Room 5806-07, 58/F, International Finance Centre, 8 Finance Street, Central, Hong Kong; Registered Capital: RMB100 million; Authorised Representative: Fei Xiang

Business scope: provision of securities trading services.

Relationship with the listing company: a subsidiary of the same parent company.

**(II) Relationship with the listed company**

Among the aforesaid related parties, Shandong Gold Group Co., Ltd. is the controlling parent company of the Company, which falls within the relationship circumstances as defined in Paragraph (1) of Article 8 of the Guidance on Implementation of Connected Transactions (《關聯交易實施指引》). Each of the other related parties is a fellow subsidiary under the control of the same parent company, which falls within the relationship circumstances as defined in Paragraph (2) of Article 8 of the Guidance on Implementation of Connected Transactions (《關聯交易實施指引》).

**(III) Analysis of the implementation and performance ability of historical similar connected transactions**

Each of the aforesaid related parties has a long-term cooperation with the Company and a good track record in implementing the similar connected transactions. Therefore, each of them has a good ability in performing the contract.



**III. MAIN CONTENT OF THE CONNECTED TRANSACTIONS AND THE PRICING POLICIES**

- 1. Procurement, Sale and Service Framework Agreement:** The Company and its subsidiaries entered into the Procurement, Sale and Service Framework Agreement with Shandong Gold Group Co., Ltd. (being the controlling shareholder) and its subsidiaries in 2018 for a term of three years, which has been approved at the Board meeting and Shareholders' general meeting of the Company. The amounts for 2019 is estimated based on the Procurement, Sale and Service Framework Agreement entered into in 2018.
- 2. Land and properties leasing and licensed use of mining rights:** Shandong Gold Group Co., Ltd. and certain of its subsidiaries leased offices from the Company under the respective leasing agreements.

Pursuant to the respective leasing agreements, the Company leased the land and properties from Shandong Gold Group Co., Ltd. for use at the Company's Xincheng Gold Mine and Jiaojia Gold Mine. Since 2018, Jiaojia Gold Mine and Sanshandao Gold Mine of Shandong Gold Mining (Laizhou) Co., Ltd., Shandong Gold Mining (Yinan) Co., Ltd. and Shandong Gold Mining (Linglong) Co., Ltd., being subsidiaries of the Company, have leased from Shandong Gold Group Co., Ltd. properties and lands for production operation, each for a term expiring on 31 December 2020, at a price determined based on the appraised price. This estimate is made based on such leasing agreements on an aggregate basis.

Shandong Gold Group Co., Ltd. has granted a license to the Company to use the mining rights of Jiaojia Gold Mine at a leasing fee calculated annually.

- 3. Financial services:** Since 2014, to address its daily operation needs, the Company has entered into the Financial Services Framework Agreement with Shandong Gold Group Finance Co., Ltd., pursuant to which Shandong Gold Group Finance Co., Ltd. has provided to the Company and its subsidiaries settlement services such as financing and deposit. In this year, the Board meeting of the Company will consider the revised Financial Services Framework Agreement which will be implemented in 2019 and shall be subject to the consideration and approval at the Shareholders' general meeting of the Company. The estimated amount for 2019 is calculated based on the revised Financial Services Framework Agreement.
- 4. Equity and asset entrustment:** In 2017, for the purpose to avoid potential competition, Shandong Gold Group Co., Ltd., after having adjusted and reallocated its businesses, assets and resources, entrusted to the Company the equity interests in gold operations and the relevant assets held by it and certain of its subsidiaries, in respect of which, a new Entrustment Agreement was entered between both parties. In 2018, as the Company intended to include, from the competitive assets of Shandong Gold Group Co., Ltd. and its subsidiaries, additional targets to be subject to the entrustment services, the Entrustment Agreement and the Supplemental Entrustment Agreement were entered into among the relevant parties to reflect the addition of entrusted targets, which have been considered and



approved by the Board meeting and implemented in 2018. This estimated amount for 2019 is calculated based on the Entrustment Agreement entered into in 2017 and the Entrustment Agreement and Supplemental Entrustment Agreement entered into and implemented in 2018 on an aggregate basis.

5. **Licensed use of trademarks:** Pursuant to the Trademark License Contract (《商標使用許可合同》) and Trademark License Agreement (《商標使用許可協議》) entered into between the Company and Shandong Gold Group Co., Ltd. in respect of the Company's use of certain registered trademarks owned by Shandong Gold Group Co., Ltd. in Mainland China and Hong Kong, the Company shall pay an aggregate license fee at RMB700,000 year to Shandong Gold Group Co., Ltd. for the use of its trademarks in Mainland China and Hong Kong.

#### IV. PURPOSE OF THE CONNECTED TRAFFICS AND THE IMPACT ON THE COMPANY

The daily connected transactions of the Company in 2019 are all necessary for the Company's day-to-day production operation, and for the purpose to ensure the continuous and effective production operation of the Company. The Company has selected the related parties based on our knowledge on their operation management, creditability and performance ability and the geographical convenience, which would reduce the procurement and sales cost and broaden the financing channels. The terms and conditions of the connected transactions are fair and reasonable, can help the Company to reduce transaction cost, and will not impair the interests of the Company and minority shareholders. In addition, the connected transactions will not have any adverse impact on the ability of the Company in operating as a going concern, its profitability or independence of assets, nor will they result in any reliance of the Company on its related parties.

Company Code: 600547

Company Abbreviation: Shandong Gold

**Shandong Gold Mining Co., Ltd.**  
**2018 Annual Internal Control Appraisal Report**

To all Shareholders of Shandong Gold Mining Co., Ltd.:

According to the requirements of the Basic Rules for Internal Control of Companies (《企業內部控制基本規範》) and corresponding with guidance and other regulatory requirements concerning the internal control (“Enterprise Internal Control Regulatory Systems”), and considering internal control system and evaluation methods of the Company and based on day-to-day monitoring and special supervision of internal control, we assessed the effectiveness of the internal control of the Company as at 31 December 2018 (the reference date of the Internal Control Appraisal Report).

**I. IMPORTANT STATEMENT**

According to the requirements of Enterprise Internal Control Regulatory Systems, it is the responsibility of the Board of the Company to put in place a sound and effective internal control mechanism, assess its effectiveness and honestly disclose the Internal Control Appraisal Report. The Supervisory Committee shall oversee the establishment and implementation of the internal control mechanism by the Board. The management shall be responsible for the day-to-day operation of this mechanism. The Board, Supervisory Committee and Directors, Supervisors and the senior management of the Company hereby warrant that there are no false representations, misleading statements contained in or material omissions from this report, and severally and jointly accept full responsibility for the truthfulness, accuracy and completeness of the information herein contained.

The objectives of the internal control are to reasonably ensure that the Company’s operation and management are in compliance with laws and regulations, to guarantee assets safety and that the financial report and relevant information are true and accurate, to improve efficiency and effect of operation, and to facilitate achievement of the development strategies. Given its intrinsic limitations, internal control can only provide reasonable assurance for the above objectives. In addition, changes in the circumstance may render the internal control inappropriate or relevant policies and procedures followed at a lower level. There are risks involved in forecasting the effectiveness of future internal control based on the results of internal control appraisal.

**II. RESULTS OF INTERNAL CONTROL APPRAISAL****1. Whether there is any material Deficiencies in the Internal Control over Financial Reporting of the Company, as at the reference date of the Internal Control Appraisal Report**

Yes  No

**2. Results of Internal Control Appraisal over Financial Reporting**

Effect  No Effect

According to the identification of material deficiencies in the internal control over financial reporting of the Company, as at the reference date of the Internal Control Appraisal Report, there were no material deficiencies in the internal control over financial reporting. The Board believes that the Company has maintained an effective internal control over financial reporting in all material aspects according to the requirements of Enterprise Internal Control Regulatory Systems and relevant requirements.

**3. Whether Material Deficiencies in Internal Control over Non-Financial Reporting had been discovered**

Yes  No

According to the Company's identification of material deficiencies in the internal control over non-financial reporting, as at the reference date of the Internal Control Appraisal Report, the Company had discovered no material deficiencies in the internal control over non-financial reporting.

**4. The Factors Affecting the Appraisal Results of the Effectiveness of Internal Control from the Reference Date to the Issuance Date of the Internal Control Appraisal Report**

Applicable  N/A

From the reference date to the issuance date of the Internal Control Appraisal Report, there is no occurrence of such factors that may affect the appraisal results of the effectiveness of the internal control.

**5. Whether the Auditing Opinions on Internal Control are Consistent with the Company's Appraisal Results of the Effectiveness of Internal Control over Financial Reporting**

Yes No

**6. Whether the material deficiencies in internal control over non-financial reporting disclosed by the Internal Control Audit Report are consistent with those disclosed by the Company's Internal Control Appraisal Report**

Yes No

**III. DETAILS OF INTERNAL CONTROL APPRAISAL**

**(I). Scope of Internal Control Appraisal**

The Company determined the main enterprises, business and matters and high-risk fields covered in the appraisal scope based on the risk-oriented principle.

- 1. Main Enterprises Covered in the Appraisal Scope:** Shandong Gold Mining Co., Ltd., Shandong Gold Mining Co., Ltd. Xincheng Gold Mine, Shandong Gold Mining (Laizhou) Co., Ltd. Sanshandao Gold Mine, Shandong Gold Mining (Laizhou) Co., Ltd. Jiaojia Gold Mine, Shandong Gold Smelting Co., Ltd., Shandong Jinzhou Mining Group Co., Ltd., Shandong Jinzhou Group Qianling Mining Co., Ltd., Shandong Jinzhou Group Fuling Mining Co., Ltd., Shandong Gold Mining (Xinhui) Co., Ltd., Shandong Gold Mining (Linglong) Co., Ltd., Shandong Gold Mining (Yinan) Co., Ltd., Chifengchai Chaihulanzi Gold Mining Co., Ltd., Shandong Jinshi Mining Co., Ltd., Shandong Gold Mining (Laixi) Co., Ltd., Gansu Xihe Zhongbao Mining Co., Ltd., Fujian Zhenghe Yuanxin Mining Co., Ltd., Shandong Gold Guilaizhuang Mining Co., Ltd., Shandong Gold Group Penglai Mining Co., Ltd., and Shandong Gold Mining (Hong Kong) Co., Limited.

2. **Percentage of the Enterprises Covered in the Appraisal Scope:**

<b>Index</b>	<b>Percentage (%)</b>
The percentage of the total assets of the enterprises covered in the appraisal scope accounting for the total assets shown in the Company's consolidated financial statements	99
The percentage of the total revenues of the enterprises covered in the appraisal scope accounting for the total revenues shown in the Company's consolidated financial statements	100

3. **Main Business and Matters Covered in the Appraisal Scope Include:**1. *Organizational structure*

The Company has established a corporate governance structure in standard operation with the main body consisting of the shareholders' meeting, board of directors, supervisory committee and management, set up an organizational function organizations that are compatible with the Company's production, operation and scale, and built an internal control system with clear division of responsibilities and featured by mutual cooperation and restriction, which guarantees the orderly daily operations. The Company always pays close attention to the latest requirements of relevant laws and regulations and securities regulatory authorities, and timely adjusts and improves the Company's internal control system based thereon to ensure the effectiveness of the Company's internal control system. The Company has four business divisions that manage subsidiaries within the areas under their respective management.

- (1) **Shareholders' meeting:** The shareholders' meeting is the highest authority of the Company. It decides on operational policies and investment plans of the Company, elects and replaces the directors and supervisors, considers and approves reports of the board of directors and the supervisory committee and the profit distribution plan and other significant matters of the Company.
- (2) **Board of directors:** The board of directors is the Company's decision-making body, and responsible for the establishment and supervision of the Company's internal control system, establishment and improvement of internal control policies and programs and supervising the implementation thereof. The current board of directors of the Company consists of 9 members, including 3 independent non-executive directors. The secretary to the board of directors is responsible for the daily work of the board. In 2018, the Company held 11 board meetings at which directors considered and voted on 51 proposals of the board resolutions.

- (3) **Supervisory committee:** The supervisory committee of the Company is the supervisory organ of the Company and is responsible for supervising and inspecting the performance of the Company's directors and senior management and the financial position of the Company and its subsidiaries. The Company's current supervisory committee consists of three members, including 1 employee supervisor.
- (4) **Special committees of the board of directors:** The board of directors of the Company has established four special committees, including the strategy committee, the audit committee, the nomination committee and the remuneration and appraisal committee. The strategy committee mainly studies the Company's long-term development strategic plans and makes recommendations; the audit committee is mainly responsible for the communication, supervision and verification of internal and external audits; the nomination committee is mainly responsible for the selection of candidates for directors and senior management and selection criteria and procedures and makes recommendations; the remuneration and appraisal committee is responsible for formulating the appraisal criteria for directors and senior management of the Company and conducting regular appraisals and responsible for formulating and reviewing the remuneration policies and plans for the Company's directors and senior management. In 2018, the Company organized 6 meetings at which 12 proposals were considered and approved.
- (5) **Management:** The management of the Company is responsible for the formulation and effective implementation of the internal control system. It organizes, coordinates, manages and supervises the functional departments' execution of management power to ensure the stable and normal operation of the Company. The Company has defined the responsibilities of senior management, implemented the principle of separation of incompatible positions, and formed a mechanism of checks and balances.

## 2. *Development Strategy*

The Company has established a working system for the strategy committee of the board of directors, which clarifies that the board of directors and its strategy committee are responsible for the Company's development strategy management and the strategic management organization can fully perform its duties and lead the Company's scientific development. In 2018, the Company held a number of strategic seminars to consult strategic optimization and transformation opinions in various aspects, give comprehensive consideration to the uncertainties that may exist or face in the internal and external strategic environment and operating environment, and fully discuss and study the Company's future development strategy and plan. Proactive study was conducted on the effects of factors including economic situation, industry policy, factor market changes, regional development, technological progress, and research and development on the Company's development. Through effective strategic management, the Company rationally avoided strategic risks and fully seized strategic opportunities to ensure the stable development and standard operation of the Company in the future.

## 3. *Human Resources*

The Company has established a sound human resources management and control systems, and has continuously improved the systems according to the actual situation of the Company's development and operation. The existing human resources systems include the working system of the remuneration and appraisal committee of the board of directors, management measures for recruitment of talents, performance appraisal management system, management measures for new employee training, compensation management system, title appraisal and employment measures, employee exit management system, labor contract management measures, code of conduct for employees, etc. The nomination committee and the remuneration and appraisal committee of the board of directors also give full play to the role of professional committees in provision of professional guidance for the Company's human resources management. Based on the development strategy and the status quo of human resources management, as well as the actual needs of production and operation, the Company has formulated the annual human resources work plan and carried out human resource management work in an orderly manner. The Company attaches great importance to the development of human resources and has established a long-term mechanism for employee training, and reserved high-end talents and specialized technical talent team. In addition, the Company has also established a working mechanism for appraisal, early warning and analysis of operating results and formulated an implementation plan on appraisal of annual results to achieve dynamic monitoring and effective evaluation of the completion of appraisal indicators, give full play to the coordination role of results appraisal and supervision, and ensure that all annual business objectives are fully completed as scheduled.

#### 4. *Social Responsibility*

The Company attaches great importance to fulfill corporate social responsibility and has established complete management systems and emergency plans in terms of production safety, energy conservation and consumption reduction, environmental protection, and employee rights and interests, to practically achieve coordination between economic and social benefits, short-term and long-term benefits, and corporate development and social development and achieve healthy and harmonious development of the Company and employees, the Company and society, and the Company and the environment. During the reporting period, the Company prepared safety and environmental management system documents to guide the Company in achievement of safety and environmental objectives and preparation of clear management plans. The Company has set up an eco-environmental protection committee, signed the statement of responsibility for green mine construction level by level, and issued relevant systems. It has promoted the special rectification actions for the basic management of safety and environmental protection to meet standards, carried out various special trainings on safety and environmental protection, and promoted green mine construction, to highlight ecological mining brand. At the same time, the Company pays attention to strengthening occupational health management and has prepared and promoted the implementation of occupational disease prevention and control plan, to realize the healthy and harmonious development of the Company and employees, the Company and society, and the Company and environment and firmly fulfill the due social responsibilities.

#### 5. *Corporate Culture*

In the process of production and operation, the Company has gradually formed a complete set of cultural norms that adapt to the Company's overall values, business philosophy and enterprise spirit, and effectively combines corporate culture with development strategy and operation management. During the reporting period, closely focusing on the development strategy, the Company strengthened corporate culture building by way of enriching the connotation of brand culture, expansion of cultural construction path and strengthening international cultural exchange, and well conducted publicity on the development strategy of building a world-class demonstration mine. Meanwhile, the ideological work was strengthened and improved, and the Company prepared and organized the signature of the statement of responsibility for ideological work to strengthen the atmosphere of harmonious development of the Company. The Company also used newspapers, magazines, and other media to widely publicize the "Pillar of Shandong Gold" spirit, gold entrepreneurship, "gold real estate craftsmen", etc. to gather the momentum of reform and development. Moreover, the Company organized and carried out the activity to seek for advices and suggestions from all employees and encouraged all employees to participate in and put heads together on cost reduction and efficiency enhancement, safety production and environmental protection, energy conservation and emission reduction, career development and self-improvement, and conservation and elimination of waste, to better enhance the sense of responsibility and mission of employees and strive to practice corporate values.



#### 6. *Fund-related Activities*

The Company has formulated and improved the regulations on management of internal accounting control system and process, formed a complete financial activity control system, and carried out fund-related activities in strict accordance with the Listing Rules and the Company's strict funds management procedures including application, authorization, approval and verification. The financial department implements unified and centralized management, and the responsibilities and authorities of all control aspects are clear and specific. During the reporting period, the Company strictly monitored the whole process of capital operation in accordance with the system regulations and made timely adjustments to the fund arrangement according to the macro-policy on financial credit. It proactively expanded financing channels and adopted innovative fund management model, to improve the capital usage efficiency. Besides, the Company proactively utilized the hedging business to reduce the cost of capital, which effectively ensured the safety and use efficiency of funds.

#### 7. *Procurement Business*

The Company has established a complete procurement management system, and thus all procurement aspects are subject to guidance and control under systems or processes. In accordance with the actual circumstances of business and the existing situation of the external environment, the Company comprehensively sorted out its procurement business process during the reporting period, and conducted benchmarking of processes to the actual implementation one by one, with the focus place on review of authorization, application, plan, approval, procurement, acceptance and other aspects to ensure the effectiveness of the procurement control measures. All aspects of the Company's procurement management have basically realized informationization. The restriction and standardization of the information system have greatly improved the efficiency and standardization of procurement, so that the Company's procurement activities can meet the production needs of the Company in time.

#### 8. *Assets Management*

Based on the actual production needs, the Company has formulated and implemented a complete asset management system, to implement classified management of fixed assets, intangible assets, inventories, etc. During the reporting period, the Company conducted inspection of assets to comprehensively and accurately grasp the conditions of assets and streamlined the assets management process and system to further improve the relevant assets management control systems and measures and improve the asset management. In accordance with the annual operation plan, the Company has guaranteed reasonable inventories; it updated and repaired fixed assets in a timely manner to ensure safe production and operation; the ownership management of intangible assets was clarified to ensure the Company's sustainable development capability and avoid legal disputes, which guaranteed the authenticity and integrity of assets and improved the asset utilization efficiency.

#### 9. *Sales Business*

In accordance with the actual conditions of the Company and relevant national laws and regulations, during the reporting period, the Company established a trading decision-making body, built and improved the trading business authorization system, and improved the trading decision-making mechanism. At the same time, it also comprehensively streamlined the sales business processes of gold, silver, copper, iron, lead and other products and improved the management measures related to the Company's sales and settlement business. Strict management was implemented for the out-put and in-put of warehouse of various products and the sales targets were achieved through the adoption of effective management and control measures including enhanced responsibility appraisal and audit supervision.

#### 10. *Research and Development*

Firmly adhering to the development concept of “technology is the primary productive force”, the Company regards innovation as the inexhaustible motive force for its sustainable development. According to the development strategy and the technical level of the same industry, the Company proactively paid attention to technological changes and progress in the industry and promoted scientific and technological research and development, to secure benefits and efficiency by virtue of innovation. During the reporting period, the Company led the study on the “13th Five-Year Plan” national key R&D project which successfully passed the acceptance by the expert group, and conducted in-depth study on the application and development of advanced filling technology in the Company's mines, which solved a number of production difficulties for the front-line production. Furthermore, the Company comprehensively streamlined the processes of technological research and development and technological transformation and formulated and improved the management measures for technological research and development and technological transformation projects which were in line with the actual conditions and could effectively improve the independent innovation capability, providing guarantees for further standardization of technological transformation, improvement of the stability of supply, reduction of production energy consumption, reduction of pollutant emissions, elimination of potential safety hazards, and enhancement of labor productivity, etc.

#### 11. *Engineering Projects*

In accordance with the development strategy and production and operation plan, the Company has strengthened construction project management and standardized construction project implementation. During the reporting period, the Company comprehensively streamlined the project management process and improved the project construction management measures. Moreover, the Company clarified the responsibilities and authorities for risk points including project approval, bidding, construction, acceptance, cost, and post evaluation, and the work process and intensified monitoring the whole process of engineering construction, thus ensuring effective control of the quality, progress and cost of engineering projects.

*12. Financial Report*

The Company has prepared and continuously optimized and improved unified accounting manual, cost and expenses accounting measures and other relevant financial accounting systems in strict accordance with the accounting standards and other policies and based on the characteristics of the business operations of the Company. The Company has prepared financial statements and notes thereto based on accurate and complete accounting book records and other relevant information, strictly controlled the use of financial reports, and issued audit reports on the Company's annual financial reports after auditing by certified public accountants and disclose the same to the public in a timely manner after consideration by the board of directors. The Company highly values the interconnection of various business information systems and has accelerated the integration of financial informatization and international accounting, to further improve the accounting efficiency and decision-making support capacity. The Company also attaches great importance to the analysis of financial reports and regularly holds financial analysis meetings to analyze the Company's operation management by fully leveraging on the comprehensive information reflected in the financial reports to find and solve problems in a timely and targeted way, so as to continuously improve the Company's operation management level.

*13. Comprehensive Budget*

The Company implements comprehensive budget management and has determined the annual business objectives according to the development strategic objectives set by the Company and decomposed and assigned the same to the functional departments, branches and subsidiaries of the Company to implement control and management of the whole process of the Company's operating activities. The Company has prepared a comprehensive budget management system and established a budget management organization to perform budget management duties and implement unified and coordinated preparation of comprehensive budget and daily management for the head office and subsidiaries of the Company. In addition, it has designed and executed the "top-down, bottom-up and up-down combined" annual budget process which is in line with the actual conditions of the Company, and reinforced the supervision over budget through monthly tracking to implement dynamic monitoring of budget implementation while executing strict performance appraisal to ensure the effective implementation of budget management.

*14. Contract Management*

The Company highly appreciates the importance of contract management. During the reporting period, the Company comprehensively streamlined the contract management process, improved the contract management system, and strengthened the centralized management of contracts. While clarifying job responsibilities and contract ledger management, the Company has strengthened the management functions in terms of study on project approval, preliminary negotiation, text review, approval of contract execution, performance acceptance, etc., focused on the effective management of the whole process of contracts, and established a complete contract management system. The Company has carried out special audits on contract management and issued regular briefings to identify problems and improve the same in a timely manner. After the special management of the contract management business during the reporting period, the Company adopted corresponding control measures for the vulnerable aspects of the business, to promote the effective implementation of the Company's contracts, prevent and reduce the Company's contract risks, and improve the capital usage efficiency.

*15. Internal Information Transmission*

The Company has developed scientific information rules and regulations and an effective information transmission mechanism according to the actual situation of internal production and operation, so that internal information transmission can be conducted in a timely, accurate and rigorous way and managers at all levels can timely grasp relevant information and instructions according to their respective positions and perform their duties correctly. At the same time, based on the effective communication and full use of information among the internal management levels, the quality and confidentiality of information is fully guaranteed through report review and confidentiality system. As a result, the Company has established a comprehensive internal information communication mechanism, covering top-down and bottom-up financial accounting information, production and operation information, capital operation information, personnel change information, technological innovation information, comprehensive management information, etc.

*16. Information Systems*

The Company has established information systems including OA office system, financial system and logistics management based on the factors including organizational structure, business scope, and technical requirements, formulated working systems and operational specifications, and commissioned professional institutions to maintain the systems to ensure stable operation, safety and reliability of the systems. The information systems have improved the work efficiency, reduced management costs, and comprehensively enhanced the modern management level of the Company. Through the above information systems, the Company has built a three-dimensional communication platform covering production, manpower, finance, asset management, etc. of important businesses within the Company. With the help of information-based means, the process management has been optimized to achieve seamless control.

The internal control of the abovementioned businesses and matters cover all important business departments, major business matters and high-risk areas of the Company, and there are no major omissions.

**4. High-risk Fields Focused on Include:**

Fund management risk, assets management risk, safety and environmental protection risk, procurement risk, sales business management risk, contract management risk, engineering project management risk, information system general control risk, etc.

**5. The Above Enterprises, Business, Matters and High-Risk Fields Covered in the Appraisal Scope Cover the Main Aspects of the Company's Operation and Management, is there Any Major Omission**

Yes  No

**6. Is There Any Statutory Exemption**

Yes  No

**7. Statement on Other Matters**

None

**(II). Basis of Internal Control Appraisal and the Identification Criteria for Internal Control Deficiencies**

In accordance with the internal control standards system and the requirements and methods under the internal control management system, the Internal Control Manual and the Internal Control Evaluation Manual which are established, improved and implemented by the Company, the Company, based on the daily and special supervision of internal control, has organized internal control evaluation on the effectiveness of the internal control design and operation as at 31 December 2018.

1. *Is there any adjustment of the specific identification criteria of deficiency in internal control compared to the criteria last year*

Yes  No

According to the requirements of Enterprise Internal Control Regulatory Systems for the identification of material deficiencies, important deficiency and ordinary deficiency, given the Company's size, industry characteristics, risk preference, risk tolerance and other factors, the Board distinguished between internal control over financial reporting and that over non-financial reporting and studied and formed the specific identification criteria for deficiency in internal control applicable to the Company and consistent with the criteria last year.

2. *Identification criteria for deficiencies in internal control over financial reporting*

Quantitative criteria for identifying deficiencies in internal control over financial reporting:

<b>Name of Index</b>	<b>Quantitative Criteria for Material Deficiency</b>	<b>Quantitative Criteria for Important Deficiency</b>	<b>Quantitative Criteria for Ordinary Deficiency</b>
Total profit	Misstated amount $\geq$ 5% of total profit	5% of total profit > misstated amount $\geq$ 3% of total profit	Misstated amount < 3% of total profit

Remarks:

Qualitative criteria for identifying deficiencies in internal control over financial reporting:

<b>Magnitude of Deficiency</b>	<b>Qualitative Criteria</b>
Material Deficiency	<p>Any of the following or similar circumstances are considered as material deficiencies:</p> <ol style="list-style-type: none"> <li>(1) The control environment related to financial report is invalid;</li> <li>(2) Corruption related to financial report by directors, supervisors and senior management;</li> <li>(3) The external audit found that there was a material misstatement in the current financial report, and the Company failed to find the misstatement during the operation;</li> <li>(4) Restatement of the previously published financial report to correct major errors caused by fraud or error;</li> <li>(5) Material deficiencies that have been found and reported to management have not been corrected within a reasonable period of time;</li> <li>(6) The Company’s risk appraisal functions are invalid;</li> <li>(7) The supervision of internal control by the Company’s internal control and risk management committee and the supervision and auditing office is invalid;</li> <li>(8) Other deficiencies that have a significant impact on the correct judgment of users of financial report.</li> </ol>

Important Deficiency                      The circumstances other than those meeting the standards on material deficiency are determined as important or ordinary deficiencies depending on the degree of influence.

Ordinary Deficiency                      The circumstances other than those meeting the standards on material deficiency are determined as important or ordinary deficiencies depending on the degree of influence.

Remarks: –

3. *Identification criteria for deficiencies in internal control over non-financial reporting*

Quantitative criteria for identifying deficiencies in internal control over non-financial reporting:

Name of Index	Quantitative Criteria for Material Deficiency	Quantitative Criteria for Important Deficiency	Quantitative Criteria for Ordinary Deficiency
Amount standard	Direct loss $\geq$ RMB10 million	RMB10 million $>$ direct loss $\geq$ RMB3 million	Direct loss $<$ RMB3 million



Remarks:

Qualitative criteria for identifying deficiencies in internal control over non-financial reporting:

<b>Magnitude of Deficiency</b>	<b>Qualitative Criteria</b>
Material Deficiency	<p>Any of the following or similar circumstances are considered as material deficiencies:</p> <ol style="list-style-type: none"> <li>(1) Violation of national laws, regulations or normative documents;</li> <li>(2) The major decision-making process is unscientific;</li> <li>(3) The lack of system may lead to systemic failure;</li> <li>(4) Material or important deficiency cannot be rectified;</li> <li>(5) Great damage is caused to the environment;</li> <li>(6) Major or serious production safety or occupational hazard accidents are caused;</li> <li>(7) Irreparable damage is caused to the Company’s reputation;</li> <li>(8) Other circumstances that have a significant impact on the company.</li> </ol>
Important Deficiency	The circumstances other than those meeting the standards on material deficiency are determined as important or ordinary deficiencies depending on the degree of influence.
Ordinary Deficiency	The circumstances other than those meeting the standards on material deficiency are determined as important or ordinary deficiencies depending on the degree of influence.

Remarks:–

**(III). Identification and Rectification of Internal Control Deficiencies***1. Identification and rectification of deficiencies in internal control over financial reporting*

## 1.1. Material deficiency

Whether the Company had material deficiencies in internal control over financial reporting during the reporting period

Yes  No

## 1.2. Important deficiency

Whether the Company had important deficiency in internal control over financial reporting during the reporting period

Yes  No

## 1.3. Ordinary deficiency

The internal control process may have ordinary deficiencies in daily operation. Since the Company has established a dual supervision mechanism of self-evaluation and internal audit for the internal control, the Company will take correction action for the internal control defects found and identified to ensure that the risk is controllable and has no substantive influence on the Company's financial report.

1.4. After the above rectification, whether the Company had discovered any uncorrected material deficiency in the internal control over financial reporting as at the reference date of the Internal Control Appraisal Report

Yes  No

1.5. After the above rectification, whether the Company had discovered any uncorrected important deficiency in the internal control over financial reporting as at the reference date of the Internal Control Appraisal Report

Yes  No

2. *Identification and rectification of deficiencies in internal control over non-financial reporting*

2.1. Material deficiencies

Whether the Company had discovered any material deficiency in the internal control over non-financial reporting during the reporting period

Yes  No

2.2. Important deficiencies

Whether the Company had discovered any important deficiency in the internal control over non-financial reporting during the reporting period

Yes  No

2.3. Ordinary deficiencies

The internal control process may have ordinary deficiencies in daily operation. Since the Company has established a dual supervision mechanism of self-evaluation and internal audit for the internal control, the Company will take correction action for the internal control defects found and identified to ensure that the risk is controllable and has no substantive influence on the Company's financial report.

2.4. After the above rectification, whether the Company had discovered any uncorrected material deficiency in the internal control over non-financial reporting as at the reference date of the Internal Control Appraisal Report

Yes  No

2.5. After the above rectification, whether the Company had discovered any uncorrected important deficiency in the internal control over non-financial reporting as at the reference date of the Internal Control Appraisal Report

Yes  No

**IV. STATEMENT ON OTHER IMPORTANT ISSUES ON INTERNAL CONTROL****1. Rectification of Deficiency in Internal Control Last Year** Applicable  N/A**2. Operation of Internal Control during the Year and Improvement Direction Next Year** Applicable  N/A

During the reporting period, there was no other internal control information that was likely to have a significant impact on investors' understanding about the internal control self-evaluation report, evaluating the internal control conditions or making investment decisions.

In the future, based on the evaluation, the Company will continue to improve the internal control system, standardize the implementation of the internal control system, strengthen the supervision and inspection in internal control, and promote the healthy and sustainable development of the Company.

**3. Statement on Other Important Issues** Applicable  N/A

**Proposal on Special Report on the Deposit and Use of Proceeds by the Company in 2018**

Dear Shareholders and shareholders' representatives,

The Company has deposited and utilised the proceeds in strict compliance with the relevant provisions of the Proceeds Management System, and as of 31 December 2018, the Company has used the Proceeds for the following purposes:

**I. PROCEEDS FROM ISSUANCE OF A SHARES**

With the approval of the China Securities Regulatory Commission (CSRC) under Zheng Jian Xu Ke [2015] No. 2540, the Company, while issuing shares to acquire assets, carried out a non-public issuance of shares on a locked-price basis to the five specific investors, namely Shandong State-owned Assets Investment Holdings Co., Ltd. ("Shandong State-owned Investment"), Qianhai Kaiyuan Fund Management Company Limited ("Qianhai Kaiyuan"), SD Gold Capital Management Co., Ltd ("SDG Capital Management"), Yantai City Jinmao Mining Co., Ltd. ("Jinmao Mining") and the First Employee Shareholding Scheme of Shandong Gold, for the purpose of raising project supporting funds. As at 29 September 2016, Shandong State-owned Investment, Qianhai Kaiyuan, SDG Capital Management, Jinmao Mining and the First Employee Shareholding Scheme of Shandong Gold have all paid their share subscription funds. The number of shares to be issued under the non-public issuance for raising the project supporting funds was 117,425,346 shares, aiming to raise a total of RMB1,679,182,447.80. After deducting the financial advisory fee and underwriting fee of RMB36,360,000.00, we have received RMB1,642,822,447.80 in our accounts.

As at 31 December 2016, the Proceeds has been deposited in four dedicated accounts, namely Jinan Hualong Road Sub-branch of China Merchants Bank Co., Ltd. (account number: 531900059310107), Shandong Branch of Bank of Communications Co., Ltd. (account number: 371618000018800017859), Jinan Minghu Branch of Agricultural Bank of China Co., Ltd. (account number: 15153101040027808), and Jinan Zhenzhuquan Sub-Branch of China Construction Bank Co., Ltd. (account number: 37050161680109555666). The deposit of the above-mentioned Proceeds has been verified by Beijing Tianyuanquan Certified Public Accountants (Special General Partnership), with a capital verification report (Tian Yuan Quan Yan Zi [2016] No. 000040) issued thereon.

As of 31 December 2018, the Company has invested a total of RMB328,973,677.12 in the investment projects. On 19 October 2018, the Company returned all of the amount of RMB770,000,000.00 that had been used to replenish its working capital in 2017 to the dedicated account and notified the Company's sponsors and their representatives of the return of the above amount. On 29 October 2018, the 12th meeting of the fifth session of the Board of the Company reviewed and approved the Proposal on Temporary Use of Part of the Idling Proceeds to Replenish Working Capital, which authorized the Company to use RMB680,000,000.00 to temporarily replenish its working capital, with a term of less than 12 months commencing from the date on which the Board approved the proposal.

The dedicated accounts have received deposit interest, net of service fees etc., of RMB21,065,375.36. As at 31 December 2018, the balance of the Proceeds was RMB654,914,146.04 (including the bank interest, net of service fee, of RMB21,065,375.36, excluding the supplementary working capital of RMB680 million).

Pursuant to the Regulatory Guidance No. 2 on Listed Companies – Regulatory Requirements for the Management and Use of Proceeds by Listed Companies issued by the China Securities Regulatory Commission (CSRC Announcement [2012] No. 44) and the Management Measures for Proceeds of Companies Listed on the Shanghai Stock Exchange issued by the Shanghai Stock Exchange (revised in 2013), the Company has prepared the Special Report on the Storage and Use of Proceeds by the Company as of 31 December 2018.

Beijing Tianyuanquan Certified Public Accountants (Special General Partnership) has issued the Verification Report on the Storage and Use of Proceeds by Shandong Gold Mining Co., Ltd. in 2018 (Tian Yuan Quan Zhuan Shen Zi [2019] No. 000216), and the Company's financial advisor and sponsor CITIC Securities Co., Ltd. has issued the Verification Opinions on the Use of Proceeds by Shandong Gold Mining Co., Ltd.

## II. PROCEEDS FROM ISSUANCE OF H SHARES

Pursuant to the Approval for Shandong Gold Mining Co., Ltd. to Issue Overseas Listed Foreign Shares (Zheng Jian Xu Ke [2018] No. 789) issued by the China Securities Regulatory Commission, together with the approval of the Hong Kong Stock Exchange, the Company has issued a total of 356,889,500 overseas listed foreign shares (H shares) with a par value of RMB1.00 per share and an issue price of HK\$14.70 per share. As at 28 September 2018, the Company has issued 327,730,000 shares of overseas listed foreign shares (H shares) and received proceeds of HK\$4,817,631,000.00. As at 26 October 2018, in addition to the 29,159,500 shares of overseas listed foreign shares (H shares) issued by the Company upon exercise of the over-allotment options with proceeds of HK\$428,644,650.00, the Company has issued a total of 356,889,500 shares of overseas listed foreign shares (H shares), and received a total of HK\$5,246,275,650.00, with a net balance of HK\$5,245,726,677.24 after deducting the transaction fees etc., which has been transferred to our account in CMB Wing Lung Bank Limited, amounting to net Proceeds of RMB4,618,818,884.84.

As at 31 December 2018, the proceeds has been deposited into five dedicated accounts, namely CMB Wing Lung Bank Limited (account number: 60112560837), CMB Wing Lung Bank Limited (account number: 60134279189), Industrial and Commercial Bank of China (Asia) Limited (account number: 861-520-13331-1), Jinan Branch of Shanghai Pudong Development Bank (account number: 74100078801400000879), and Jinan Branch of Shanghai Pudong Development Bank (account number: 74100078801400000878).

On 2 October 2018 and 7 November 2018 respectively, the Company transferred from its accounts in CMB Wing Lung Bank Limited and Industrial and Commercial Bank of China (Asia) Limited HK\$4,720,000,000.00 and HK\$400,000,000.00 (equivalent to RMB4,506,088,000.00) to Shandong Gold Mining (Hong Kong) Co., Limited's HK dollar account in Industrial Bank Co., Ltd., and thereafter transferred an amount of US\$652,625,600.00 to its US dollar account in Industrial Bank Co., Ltd. on the same day, which was fully used to repay part of the principal and interest of the syndicated loans obtained for the acquisition of Veladero Mine in Argentina.

The Company has paid a total of RMB17,420,076.21 for the listing expenses through its account in Jinan Branch of Shanghai Pudong Development Bank, and paid RMB990,136.21 for the withheld taxes in relation to the listing through its basic account in China Construction Bank. The interest and service fees of the five Proceeds Accounts for the period amounted to RMB26,636.49, with an exchange gain/loss for the period of RMB-2,475,049.77, and an ending balance of RMB91,872,259.14.

As at 31 December 2018, the balance of the proceeds accounts amounted to HK\$103,516,086.32 and RMB1,171,464.30, equivalent to RMB91,872,259.14 in aggregate.

The Special Report of the Board on the Deposit and Use of Proceeds in 2018 has been published on the website of the Shanghai Stock Exchange (<http://www.sse.com.cn>) on 29 March 2019 for the inspection of the investors.

We hereby present the above for the Shareholders and Shareholders' representatives review and consideration.