



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

Stock Code 股份代號 : 1787

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



2020

ANNUAL REPORT

年度報告

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Liu Qin (appointed on 30 December 2020)
Mr. Wang Shuhai (appointed on 30 December 2020)
Mr. Tang Qi (re-appointed on 30 December 2020)
Mr. Wang Peiyue (retired on 30 December 2020)
Mr. Li Tao (retired on 30 December 2020)

NON-EXECUTIVE DIRECTORS

Mr. Li Guohong (re-appointed on 30 December 2020)
Mr. Wang Lijun (re-appointed on 30 December 2020)
Ms. Wang Xiaoling (re-appointed on 30 December 2020)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Yunmin (appointed on 30 December 2020)
Mr. Liew Fui Kiang (appointed on 30 December 2020)
Ms. Zhao Feng (appointed on 30 December 2020)
Mr. Gao Yongtao (retired on 30 December 2020)
Mr. Lu Bin (retired on 30 December 2020)
Ms. Hui Wing (retired on 30 December 2020)

SUPERVISORS

Mr. Li Xiaoping (re-appointed on 30 December 2020)
Ms. Liu Yanfen (re-appointed on 29 December 2020)
Mr. Luan Bo (re-appointed on 30 December 2020)

AUDIT COMMITTEE

Ms. Zhao Feng (*Chairman*)
Mr. Li Guohong
Ms. Wang Xiaoling
Mr. Wang Yunmin
Mr. Liew Fui Kiang

NOMINATION COMMITTEE

Mr. Wang Yunmin (*Chairman*)
Mr. Wang Lijun
Mr. Liu Qin
Mr. Liew Fui Kiang
Ms. Zhao Feng

REMUNERATION AND APPRAISAL COMMITTEE

Mr. Liew Fui Kiang (*Chairman*)
Mr. Wang Shuhai
Mr. Tang Qi
Mr. Wang Yunmin
Ms. Zhao Feng

STRATEGY COMMITTEE

Mr. Li Guohong (*Chairman*)
Mr. Wang Lijun
Ms. Wang Xiaoling
Mr. Wang Yunmin
Mr. Liew Fui Kiang

JOINT COMPANY SECRETARIES

Mr. Tang Qi
Ms. Ng Sau Mei (*FCG, FCS*)

HONG KONG LEGAL ADVISER

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PRC LEGAL ADVISER

Beijing Hualian Law Firm
10th Floor, Gao Lan Building
No. 32 Liang Ma Qiao Road
Chao Yang District, Beijing, China
Zip Code: 100125

INTERNATIONAL AUDITOR

SHINEWING (HK) CPA Limited

DOMESTIC AUDITOR

TianYuanQuan Certified Public Accountants
(Special General Partnership)

H SHARE REGISTRAR

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East, Hong Kong

REGISTERED OFFICE AND HEADQUARTERS IN THE PRC

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Hong Kong

STOCK CODE

Hong Kong Stock Exchange: 01787
Shanghai Stock Exchange: 600547

WEBSITE

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

FINANCIAL HIGHLIGHTS

2016-2020 FINANCIAL INFORMATION AS EXTRACTED FROM CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS:

	For the year ended 31 December				
	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000 (Note)	2016 RMB'000 (Note)
Revenue	63,645,351	62,613,141	56,250,494	51,041,303	49,072,691
Cost of sales	(57,088,914)	(57,601,794)	(52,213,915)	(47,398,660)	(45,567,129)
Gross profit	6,556,437	5,011,347	4,036,579	3,642,643	3,505,562
Selling expenses	(107,147)	(188,120)	(126,995)	(31,152)	(34,440)
General and administrative expenses	(2,319,331)	(1,768,667)	(1,445,860)	(1,214,344)	(1,225,662)
Research and development expenses	(387,558)	(333,050)	(321,041)	(273,559)	(265,333)
Other income	26,435	37,704	14,398	15,979	14,845
Other gains and losses, net	143,354	107,585	253,554	(30,625)	39,952
Finance income	72,877	71,466	67,646	37,445	10,988
Finance costs	(811,872)	(866,894)	(936,319)	(575,966)	(375,598)
Share of results of associates	10,669	1,319	38,066	34,024	27,662
Profit before tax	3,183,864	2,072,690	1,580,028	1,604,445	1,697,976
Income tax expenses	(687,562)	(660,376)	(559,231)	(431,452)	(385,194)
Profit for the year	2,496,302	1,412,314	1,020,797	1,172,993	1,312,782
Profit for the year attributable to:					
Owners of the Company	2,231,533	1,290,503	964,411	1,118,920	1,286,642
Non-controlling interests	264,769	121,811	56,386	54,073	26,140
	2,496,302	1,412,314	1,020,797	1,172,993	1,312,782
Basic and diluted earnings per share (RMB) (Note)	0.51	(restated) 0.30	(restated) 0.25	(restated) 0.31	(restated) 0.43

	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000 (Note)	2016 RMB'000 (Note)
Assets and liabilities					
Total assets	64,461,691	58,848,726	54,560,477	43,131,721	29,366,421
Total liabilities	32,603,506	32,780,401	28,886,040	25,637,955	12,676,700
Non-controlling interests	3,030,354	2,860,413	1,943,845	1,026,341	1,008,906
Perpetual bonds	3,999,387	–	–	–	–
Total equity attributable to owners of the Company	24,828,444	23,207,912	23,730,592	16,467,425	15,680,815

Note: The consolidated financial information during the years ended 31 December 2016 and 2017 were extracted from the Prospectus that do not incorporate the financial information of SDG Capital Management and its subsidiaries which were acquired by the Company through business combination involving entities under common control during the year ended 31 December 2019.

The calculation of basic and diluted earnings per share has been retrospectively adjusted for the bonus issue on 20 August 2019 and 19 August 2020.

The profit attributable to owners of the Company used for the calculation of basic and diluted earnings per share was extracted from the Prospectus without taking into consideration the profit attributable to owners of the Company as if the acquisition of SDG Capital Management and its subsidiaries were completed on 1 January 2016.

CHAIRMAN'S STATEMENT

To all shareholders,

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

On behalf of the Board, I am delighted to present the 2020 annual report of Shandong Gold and to report on the Company's performance for the period to all shareholders.

OVERVIEW OF THE COMPANY'S OPERATION

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

The core business operations of the Company during the Reporting Period

During the Reporting Period, the Company's approved business scope was mainly: mining and beneficiation of gold, production and sales of specialized equipment for gold mines and construction and decoration materials (excluding products restricted by national laws and regulations). The Company mainly produces standard gold bullions and investment gold bars and silver ingots and other products of various specifications.

On the one hand, the Company endeavors to leverage on the core advantage of domestic resources. On the other hand, it implements the "going global" strategy and participates in global resource allocation in an active manner. The mining enterprises under the Company's management are located in Shandong, Fujian, Inner Mongolia, Gansu, Xinjiang and other provinces in the PRC, and overseas in Argentina, South America and Ghana, Africa, forming an integrated industry chain covering exploration, mining, processing, smelting (refining) of gold and deep processing and sales of gold products, as well as the production and sales of mining equipment and materials, with a supporting scientific and technological research and development system.

Operating Model

Large-scale operating model:

The Company focuses on the development and utilization of gold mineral resources. By adopting the gold production model of scattered mining and centralized smelting, the Company has been able to enhance its scale advantage and modern production level of its gold resources in the Laizhou region of the Jiaodong Peninsula. The Company's Jiaojia Gold Mine, Linglong Gold Mine and Sanshandao Gold Mine were among the first in the country to achieve cumulative gold production of over 100 tonnes. Domestically, Shandong Gold Smelting Co., Ltd. ranked among the top in the industry in terms of both the refining volume and the trading volume. The Company aims to boost its large-scale operations by improving the level of mechanical operation and enhance corporate efficacy through the construction of the project of "world-class exemplary mine". At present, our mining enterprises firmly occupy the leading position in the domestic mining industry in terms of equipped production level and mechanization degree. Moreover, the underground trackless mining equipment configuration has always maintained an advanced level internationally. Currently, the Company is accelerating the construction of a world-class gold base and has set up the construction plan of a world-class gold base leveraging on the mining rights resources covering "Sanshandao Resource Belt, Jiaojia Resource Belt and Xincheng Resource Belt" and relying on the six major segments of mining, refining, circular economy, intelligent mine, ecological mine and industrial synergies, setting its mind upon becoming the first domestic 10,000-tonne gold production base.

CHAIRMAN'S STATEMENT

Technology and innovation-driven model:

The Company always places its emphasis on technological innovation with the aim of building core competitiveness in the era of corporate digitalization to accelerate in-depth integration of the new generation of information technology and industrial automation. The three laboratories of the Company, namely the deep underground mining laboratory, filling laboratory and beneficiation laboratory, have gradually played a leading role in science and technology, with significant enhancement in innovation and technology capability, and outstanding performance in technology innovation. The national key research and development plan project undertaken and participated by the Company has achieved remarkable results, and continuous improvement has been made in the innovation platform and system. A series of key technologies has achieved significant breakthroughs along with promotion and application of advanced information technology. Some of the scientific research results are playing or will play a key supporting role in the Company's technology innovation development. Shandong Gold Mining Science and Technology Co., Ltd. obtained the approval for the registration of provincial-level new type of research and development institution. The Company jointly established the "Mining Technology and Innovation Institution" with Northeastern University, and took the lead in undertaking the "R&D and Exemplary Project of Key Technologies for Green Mining of Deep Metal Mines" (深部金屬礦綠色開採關鍵技術研發與示範), which passed the mid-term inspection. The Company stressed the importance on reform and innovation and gathered resource on transformation and upgrade, accomplished the construction of "a world-class exemplary mine" for the Sanshandao Mine, realized the first remote control and transformation of imported drilling jumbos and the application of 5G technology in the PRC, completed the transformation of backfilling automation and the construction of a ramp comprehensive management system, and became a leader in "smart mines" and "ecological mining".

Safe and green development model:

The Company consciously placed the green development model into practice, and proactively promoted construction of green mines. The Company insisted on placing green development on the same level of importance as its strategy, and further strengthened the brand image of Shandong Gold. The Company adhered to the "double zero" goal in respect of safety and environmental protection, endeavored to build a world-class intrinsically safe mines, formed a new model of tailings-free and waste-free mining development that meets the requirements of ecological civilization construction, and strived to achieve scale intensification of mine production models, clean and environmentally friendly production processes, energy saving and consumption reduction of production equipment. The Company focused on efficient development and comprehensive utilization of mineral resources, comprehensive treatment of mine wastes, so as to maximize the protection of the geological environment and implement the reclamation of the mine land accordingly. It also achieved a harmonious, mutually beneficial and win-win situation between mines and the surrounding communities. For instance, the Company made a significant breakthrough in the construction of tailings-free and waste-free mine. Shandong Gold Mining (Xinhui) Co., Ltd. implemented a pilot program to establish a new model of gold mine production with fine tailings high-density filling and coarse tailings being exported as mine products, which generally reached the international leading level and became a tailings-free and waste-free mine. In addition, the dry discharge capacity of tailings of Jiaojia Gold Mine and Xincheng Gold Mine achieved 11,000 tonnes, and Linglong Gold Mine realized zero discharge. As of the end of 2020, all domestic mine enterprises of the Company met the national or provincial green mine standard, and further enhanced the brand of "Shandong Gold, Ecological Mining".

CHAIRMAN'S STATEMENT

Industry Development and the Position of the Company in the Industry

Since the beginning of 2020, the COVID-19 epidemic has been spreading across the world. In response to the epidemic, countries have generally taken measures such as strengthening quarantine measures and suspending work and production. Consumption and investment have declined, international trade scaled down sharply and global industrial and supply chains have been disrupted, resulting in a severe recession of the world economy.

Domestically, the Chinese government took the lead in taking strong measures to bring the COVID-19 epidemic under control within a short period of time, and economic activities resumed in an orderly manner. Key economic indicators improved markedly, with the macro economy experiencing a temporary downturn in the first quarter, before rebounding at an accelerated pace in the next three quarters. GDP grew by 2.3% year-on-year in 2020, making China the only major economy in the world to achieve positive growth. Internationally, the global epidemic is still developing and major economies such as those in Europe, the United States and Japan continues its downturn. At the same time, protectionism and unilateralism are on the rise and the international economic, technological, cultural, security and political landscapes are undergoing profound adjustments. The world is in a period of turbulence and change, and the uncertainty of the international economic and political landscape is driving gold prices to rise continuously.

Since 2020, the domestic gold industry has put the new development concept into the whole process of reform and development of the industry, and the concentration of the industry has been enhanced through increased resource integration and enterprise mergers and acquisitions. The key projects have achieved breakthrough results in scientific and technological research, and innovation has become a new engine for the development of the gold industry. The "going global" strategy has frequently yielded good results, with overseas investment and overseas resources of key gold enterprises increasing significantly. The gold industry is changing from its previous development mode of being small and fragmented, resource intensive and high consumption to one of resource integration and comprehensive utilization, energy saving and emission reduction, and green environmental protection. In 2020, the gold produced with domestic raw materials was 365.34 tonnes, representing a decrease of 14.88 tonnes or 3.91% as compared with the same period of 2019. In particular, the gold mine production volume was 301.69 tonnes, representing a decrease of 12.68 tonnes or 4.03% year-on-year.

The Company has been making efforts both domestically and internationally. Domestically, driven by technological innovation and targeting the world's top industry standards, it has accelerated its transformation and upgrading, and improved the quality and efficiency of its operations. Internationally, the Company has set standards which are comparable with those of the world's leading gold enterprises, accelerated the pace of "going global" and further expanded its global presence. In 2020, due to the impact of the COVID-19, the Company's gold mine production volume was 37.80 tonnes, representing a decrease of 2.32 tonnes or 5.78% year-on-year, maintaining the leading position in the industry.

The year 2021 is the opening year of the Fourteenth Five-year Plan and the achievement of the Second Centenary Goal. It is also a crucial year for the Company to accelerate the pace of transformation and upgrading, deepen corporate reform and achieve development of higher quality. The Company will fully tap the production capacity of its in-production enterprises, accelerate the pace of "going global" and further expand its global presence, with a view to laying a solid foundation for realizing the Fourteenth Five-year Plan strategy.

CHAIRMAN'S STATEMENT

ANALYSIS ON THE CORE COMPETITIVENESS DURING THE REPORTING PERIOD

Strategic Advantage

On top of ensuring the successful completion of the Thirteenth Five-year Plan, the Company has been maintaining its strategic focus with the strengthening, improving and expanding of its main gold industry as the core and attaching great importance to the strategic objective of the Fourteenth Five-year Plan of “striving for global leading position and becoming one of the world’s top five”. With systematic consideration and preparation, the Company’s Fourteenth Five-year strategic plan focuses on building itself into a global leading gold mining company in terms of assets, technology, management and culture, and ranking itself among the top five gold mining companies in the world. In 2020, the Company accelerated the project of “world-class gold production base” in Laizhou and stepped up efforts to improve the production capacity of in-production mines. It accelerated the pace of digital transformation, focused on digital mines and intelligent production, gradually promoted the application of 5G technology in mines, and steadily improved the mechanization and automation level. The Company deepened the integration of industry and finance, stressing the gold industry chain finance with profit output and industry synergy as the core. The Company adhered to the “double zero” goal in respect of safety and environmental protection, and realized green and ecological development. It expedited the transformation from old growth drivers to new ones, transformed and upgraded the traditional growth drivers through management improvement and digital transformation so as to build stronger development dynamics for promoting the continuous and high quality development of the Company.

Advantage in Resource Superiority

In 2020, the Company firmly established the concept of “resource first” and, in accordance with the development idea of “strengthening and expanding through domestic exploration and external acquisition”, it stepped up exploration efforts domestically while actively pursuing resource mergers and acquisitions internationally. It commenced the resource integration of Sanshandao metallogenic belt and Jiaojia – Xincheng metallogenic belt, advanced the resource optimization and integration in Laizhou region, and consolidated and enhanced the Company’s resource reserves, which laid a solid resource foundation for building a world-class gold production base in Jiaodong region. It unswervingly implemented the “going global” strategy, actively participated in global resources allocation with an open and inclusive attitude. The Company has further expanded its global resource deployment by acquiring Cardinal Resources Limited and Hengxing Gold Holding Company Limited.

Advantage in the Company’s Scale

The Company is mainly engaged in the development and utilization of gold mineral resources, and has always been in a leading position in the domestic mining industry in terms of equipment level and degree of mechanization of mines. The construction of an international first-class exemplary mine at Sanshandao Gold Mine has led the pace of mechanization, automation and intelligent mine construction of large and medium-sized mines. A number of enterprises, such as Xincheng Gold Mine and Jiaojia Gold Mine have gradually improved the level of mechanization and automation, with the mechanization rate of mining operations reaching over 50% and the automation control rate of auxiliary production systems in mines reaching 80%. Shandong Gold Smelting Co., Ltd. enjoys a leading position in terms of national mine-produced gold processing and trading volume etc. As of now, the cumulative gold production of Jiaojia Gold Mine, Linglong Gold Mine and Sanshandao Gold Mine all exceeded 100 tonnes, making the Company the only domestic listed company which owns three mine enterprises each with cumulative gold production exceeding 100 tonnes. Jiaojia Gold Mine, Sanshandao Gold Mine, Xincheng Gold Mine and Linglong Gold Mine have been on the list of “China Top Ten Gold Production Mines” and “Top Ten Cost Efficient Gold Mines in the PRC” for several consecutive years.

CHAIRMAN'S STATEMENT

Advantage in Technological Innovation

Upholding the principle that “science and technology are the primary productive forces, and innovation is the primary driving force for development”, the Company reinforced the construction of independent innovation platform and stuck to the path of independent innovation by focusing on mastering cutting-edge and core mining technologies and basing on increasing investment in research and development as well as undertaking and participating in national key research and development projects. The Company is committed to the research of core technologies for gold mining and beneficiation, including deep exploration, submarine mining, deep underground mining, intelligent mining, fine tailings filling, and cyanide residue detoxification, and maintained a leading position in the industry. Pursuant to the Company's development strategy, the three laboratories of the Company have been working on rock mechanics testing and analysis, deep mining method research, filling process optimization, filling equipment and material development, non-ferrous metal processing and precious metal smelting, etc., and have achieved a number of independent innovative scientific and technological results with industrial application value. They were successfully filed as a new type of research and development institution in Shandong Province in 2020. The Company paid high attention to intellectual property protection and emphasized converting independent innovation into the driving forces for corporate development. In 2020, applications of 188 patents were submitted and accepted and 115 patents were granted. Up to now, the Company has a total of 347 valid patents, including 68 invention patents.

Talent Advantage

Shandong Gold promotes the core values of “openness, inclusiveness, loyalty and responsibility”, aiming to achieve the ideal goal of “bringing as much benefits as possible to as many individuals as possible from the existence of Shandong Gold”. It advocates the idea of seeking for both talent and virtue and promoting those with competence and merits. The Company established and strengthened three talent teams in management, technology and skill, stuck to the direction of “accumulating experience through working in primary-level units and getting stronger through working at positions requiring arduous efforts” and the construction of “learning organization” and “professional team”, and actively cultivated professional talents with “great theoretical accomplishment, strong professional ability and extensive practical experience”. The Company vigorously selects a number of young cadres under 40, further optimizing the Company's talent echelon construction. At the same time, the Company actively launched an all-round in-depth cooperation between schools and enterprises and established the “Shandong Gold – Mining Technology Innovation Institute of Northeastern University” (山東黃金-東北大學礦業技術創新研究院) to promote the cultivation of high-end talents. It utilized the market mechanism to vigorously implement the project of introducing high-end talents and broaden the channels of introducing talents.

CHAIRMAN'S STATEMENT

Brand Advantage

Based in China, Shandong Gold will optimize and expand its main gold business with international vision. By focusing on the three dimensions of brand positioning, brand connotation and brand communication, it will actively build a world-class mining brand, and strive to communicate China's voice and demonstrate China's strength in the international gold mining field. The Company was successively included into the three major international indices, namely the MSCI Indices, FTSE Russell and S&P Dow Jones Indices, and as a sample stock of the Shanghai Stock Exchange 50 Index. In 2020, the Company was granted the "China Top 100 Enterprises Award", the "China Top 100 20 Years Special Contribution Enterprise Award", the "Evergreen Awards – Sustainable Development Inclusion Award", the sixteenth "Gold Prize of Round Table – Best Board of Directors" of Chinese Boards of Listed Company and other awards, and was rated A Grade for Information Disclosure for 2019-2020 by the SSE. The Company was committed to the construction of ecological mining, and strived to build a harmonious mining area and establish a corporate brand image of "Shandong Gold, Ecological Mining". The major responsibility for work safety and environmental protection was continuously enforced, and five enterprises, including Jiaojia Gold Mine and Gold Metallurgical Plant (黃金冶煉廠), became national safety culture exemplary enterprises. Ecological environment management and special rectification of the three wastes were fully promoted, and at the end of 2020, all of the Company's in-production mines entered the national or provincial green mine list, securing a successful completion of construction of green mines.

By order of the Board of Directors

Li Guohong

Chairman

Jinan, the PRC
30 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31 December 2020, the Group's:

- **revenue** increased slightly by 1.6% to approximately RMB63,645.4 million from approximately RMB62,613.1 million for the same period in 2019.
- **cost of sales** decreased slightly by 0.9% to approximately RMB57,088.9 million from approximately RMB57,601.8 million for the same period in 2019.
- **gross profit** increased by 30.8% to approximately RMB6,556.4 million from approximately RMB5,011.3 million for the same period in 2019, which was mainly due to the increase in the gross profit from sales of the Company's self-produced gold.
- **selling expenses** decreased by 43.0% to approximately RMB107.1 million from approximately RMB188.1 million for the same period in 2019, which was mainly due to the decrease in sales commission of Shanjin Futures Co., Ltd.
- **general and administrative expenses** increased by 31.1% to approximately RMB2,319.3 million from approximately RMB1,768.7 million for the same period in 2019, which was mainly due to the significant increase in intermediary agency fees, consultation fees and insurance costs as compared with last year.

LIQUIDITY AND CAPITAL RESOURCES

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

As at 31 December 2020, the Group's reserves amounted to approximately RMB20,520.9 million and short-term borrowings amounted to approximately RMB9,727.9 million. The bank balances and cash of the Group as at 31 December 2020 were approximately RMB3,032.2 million. Based on the following factors for consideration, the Directors were of the opinions that the Group will be able to have sufficient working capital to provide capital sources for future needs of financing and working capital: (a) the Group is expected to remain profitable, and thus will continue to generate operating cash flows from future business operations; (b) the Group has been maintaining long-term business relationships with its principal bankers.

In the opinions of the Directors, the Company has sufficient cash flows for the operation of the Group for the next 12 months, including its planned capital expenditure and current debt repayment. The borrowings of the Group include short-term loans due to related parties in an aggregate amount of approximately RMB445.9 million from SDG Group Finance at an interest rate ranging from 3.3% to 4.35% per annum. The Company has issued two tranches of corporate renewable bonds. Please refer to "Information of Corporate Bonds" below for details.

MANAGEMENT DISCUSSION AND ANALYSIS

Borrowings of the Group also include corporate bonds (the second tranche). 13,000,000 units of corporate bonds at par value of RMB100.0 each, interest rate of 4.80% per annum and repayable on 30 March 2020 were issued on 30 March 2015, generating total proceeds of RMB1,300.0 million. Interest payments was due for payment on 30 March each year for the subsequent five years. Interest rate was increased to 5.30% in 2018. The current outstanding balance of the Group's corporate bonds (the second tranche) is approximately RMB2,512.9 million. Meanwhile, the Group had arranged bank loans of approximately RMB8,446.2 million through a number of banks with interest rates ranging from 0.92925% to 4.5% per annum.

On 13 August 2018, the Shareholders approved our proposal to issue green bonds in accordance with the relevant CSRC laws and regulations. The fixed-rate (3.85%) green bonds with a term of three years amounting to RMB1.0 billion were issued on 22 March 2019. For further details, please refer to the Company's announcements published on 4, 19, 21 and 22 March 2019. As at 30 March 2021, out of the proceeds from the bonds after deducting the issuance expenses, the sum of RMB981 million have been used for the operation of the comprehensive recycling project of gold concentrate and the Group's green mines, with approximately RMB18 million remained unutilised.

Moreover, the Group utilized the following sources of capital to finance the Veladero Acquisition: (i) obtaining the Syndicated Term Loan of US\$740.0 million; and (ii) obtaining a term loan of US\$300.0 million from the China Development Bank Corporation, Hong Kong Branch ("**China Development Bank**"). The interest rate of the Syndicated Term Loan was LIBOR plus 1.25%, and the interest rate of the term loan from China Development Bank was LIBOR plus 1.23%. As at 31 December 2020, approximately RMB4,506.1 million of the proceeds raised from the listing of our H Shares on the Hong Kong Stock Exchange have been utilized to fully repay the three-year Syndicated Term Loan.

CASH FLOWS

The Group's bank balances and cash have increased from approximately RMB3,019.0 million as at 31 December 2019 to approximately RMB3,032.2 million as at 31 December 2020.

ASSETS AND LIABILITIES

As at 31 December 2020, the Group's:

- **prepayment, trade and other receivables** increased by 121.4% to approximately RMB4,244.7 million from approximately RMB1,916.8 million as at 31 December 2019, which was mainly due to the increase in prepayment for acquisition and payment for deposits by subsidiaries.
- **trade and other payables** increased by 22.2% to approximately RMB6,658.4 million from approximately RMB5,448.0 million as at 31 December 2019, which was mainly due to the increase in accrued and unpaid staff remuneration and corporate income tax payable during the period.
- **borrowings (including current and non-current liabilities)** increased by 39.7% to approximately RMB11,405.0 million from approximately RMB8,163.6 million as at 31 December 2019, which was mainly due to the increase in short-term borrowings and the issue of ultra short-term financing bonds during the period.

MANAGEMENT DISCUSSION AND ANALYSIS

- **non-current portion of other non-current liabilities** increased by 27.1% to approximately RMB539.5 million from approximately RMB424.5 million as at 31 December 2019, which was mainly due to the increase in payment for mining rights by subsidiaries.
- **financial liabilities at fair value through profit or loss** decreased by 34.0% to approximately RMB8,672.6 million from approximately RMB13,145.6 million as at 31 December 2019, which was mainly due to the decrease in the financings through gold leasing of the Company.

CAPITAL EXPENDITURE

The capital expenditure of the Group mainly relates to the acquisition of mining and exploration permits, property, plant and equipment, land use right and intangible assets, and investment properties. For the year ended 31 December 2020, in the contracted but not incurred capital expenditure of the Group, the total amount for the acquisition of mining and exploration permits, property, plant and equipment, was RMB645.9 million.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 31 December 2020, the Group recorded financial assets at fair value through profit or loss (“**FVTPL**”) amounting to approximately RMB8,626.8 million (31 December 2019: approximately RMB7,216.9 million), which included equity securities listed in the PRC, investment funds, asset management plans, trust plans and structured deposits. As at 31 December 2020, the Group, through its subsidiaries and two investment funds, held securities of Donghai Securities Co., Ltd. (“**Donghai Securities**”), a company listed on national equities exchange and quotations of the PRC which conducts principal business of brokerage business, online trading and investment consultation. The Group held 262,065,000 shares of Donghai Securities in aggregate, representing 15.7% of the total issued shares of Donghai Securities. According to the evaluation report issued by Beijing Zhongfeng Assets Appraisal Company Limited (北京中鋒資產評估有限責任公司), an independent valuer engaged by the Group, the fair value of the investment in Donghai Securities as at 31 December 2020 was approximately RMB3,598.2 million, which was approximately 5.6% of the Group’s total assets as at 31 December 2020. For the year ended 31 December 2020, there is a fair value loss of RMB169.3 million from the securities of Donghai Securities held by the Group and Donghai Securities did not distribute any dividend. We are optimistic about the on-going performance of Donghai Securities. Nevertheless, we will closely monitor the performance of Donghai Securities on an on-going basis.

The Group considers that, save for the investments in Donghai Securities, no other single investment that was designated as financial assets at FVTPL in our investment portfolio is a significant investment as none of such investments has a carrying amount that accounts for more than 5% of our total assets as at 31 December 2020.

The Group adopts prudent and pragmatic investment strategies over its investments. Significant investments as well as investments in other financial products are made with a purpose of maximizing the Group’s return after taking into account the level of risk, return on investment and the term to maturity. The Group’s investment strategy is to select financial products with relatively low risk in order to secure a stable investment income with relatively low risk. Prior to entering into any investment, the Group will also ensure that sufficient working capital will remain for the Group’s business, operating activities and capital expenditures.

MANAGEMENT DISCUSSION AND ANALYSIS

MAJOR INVESTMENT, ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Save as disclosed in this report, for the year ended 31 December 2020, the Group had no major investments (including investments with an asset ratio of more than 8% in any entities) nor major acquisitions or disposals of subsidiaries, associates and joint ventures.

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

The Company did not offer any financial assistance or guarantee with the total amount exceeding 8% of its assets for its subsidiaries during the Reporting Period.

DISCUSSION AND ANALYSIS ON OPERATING PERFORMANCE

In 2020, the Board upheld the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, strictly implemented the decision and deployment of the Shandong Provincial Party Committee and the provincial government, and adhered to the leadership of Party building, in an effort to focus on reform, accelerate the transformation of old growth drivers with new ones, establish global business presence and coordinate the epidemic prevention and control and social and economic development. The Company improved its operating results against the adverse trend and achieved new breakthroughs in various aspects, which opened up a new situation of high quality development, and achieved a perfect conclusion of the Thirteenth Five-year Plan strategy.

In 2020, the Company recorded a gold mine production volume of 37.8 tonnes, a decrease of 2.32 tonnes or 5.78% year on year due to the impact of the COVID-19 epidemic. Great efforts were exerted to the following work:

Firstly, the combat against the COVID-19 epidemic demonstrated our responsibility. In accordance with the requirements of the Party Central Committee to coordinate the prevention and control of the COVID-19 epidemic and socio-economic development, the Company has established a joint prevention and control mechanism to implement preventive and control measures comprehensively by imposing responsibilities to all levels. Through advance planning and deployment, formulation of special assessment and incentive policies, in-depth investigation and supervision by team members, and allocation of second- and third-line staff to the production line, the Company was the first in the national gold industry to achieve fully loaded production. The Company and its affiliated enterprises and employees made donations to charity organizations and local governments, including a donation of RMB6 million to Shandong Charity Federation, which has provided strong support for the prevention and control of the COVID-19 epidemic.

Secondly, the globalization layout has been further expanded. The Company insisted on the principle of openness and steadfastly implemented the “going out” strategy, making full use of both domestic and international resources. The Company established its first project in Africa region by acquiring 100% equity interest in Cardinal Resources Limited in Ghana through an off-market offer. By taking advantage of the convenience as a company listed on the Hong Kong Stock Exchange, the Company acquired 100% shares of Hengxing Gold Holding Company Limited through the issuance of additional H Shares, acquiring Gold Mountain Mine, the largest individual gold mine in Xinjiang and one of the top ten economically efficient mines in China, opening up a new path for capital operation and mergers and acquisitions. At the same time, the Company has completed the planning for and is in the process of advancing the construction of “a world-class gold production base” with the objective of integrating and developing resources and upgrading the production chain, which will provide strong support for the Company’s leapfrog development in the future.

MANAGEMENT DISCUSSION AND ANALYSIS

Thirdly, the leading power of scientific and technological innovation has been significantly enhanced. The Company has cooperated with Northeastern University to establish the Mining Technology Innovation Institute (礦業技術創新研究院), and has fully utilized the three key laboratories, being the deep underground mining laboratory, filling laboratory and beneficiation laboratory, and gave substantial credit to the filling laboratory team that has made outstanding contributions to the construction of a tailing-free mine, which helped to enhance the awareness of innovation and the burst of creative energy. In particular, the project of “5G Cloud-network Integration to Empower the New Ecology of the Mine Park” (5G雲網融合賦能礦山園區新生態) won the second prize in the national “Blooming Cup” 5G Application Competition; “Application of 5G Technology in Unmanned Underground Mining of Laixi Company” (5G技術在萊西公司井下無人開採中的應用) was selected as one of the top ten promotion cases in the 2020 World Industrial Internet Industry Conference (2020世界工業互聯網產業大會); and the “world-class exemplary mine” of Sanshandao has been basically completed, leading to the rapid development of “intelligent mine” and “ecological mining”.

Fourthly, the momentum of organic development has been strengthened. The Company actively adapted to the new requirements of strategic management and control, integrated the functions of the headquarters and business departments, reformed the management structure, and established a large project and certificate and permit management center, a resource management center, an international first-class exemplary mine promotion center and an investment and development business department, with continuous improvement in organizational efficiency. With a focus on promoting the younger cadre, the Company formulated a plan for the cultivation and selection of outstanding young cadres which specifies the proportion of young cadres to be selected, so as to improve the age gradient of the cadre. It established the self-assessment system for engineering professional and technical post system and professional workers with specialized skills in gold mining industry, which fills the gap of the provincial specialized skill assessment for professional workers in gold mining industry. The Company continued to promote “quality improvement and efficiency enhancement”, improve the quality development index system, optimize the mining and filling process, reduce ore impoverishment and enhance efficiency creation. It strengthened cost control on all fronts and tap the potential of cost saving and consumption reduction in an all-out effort.

Fifthly, the influence of corporate brand has been increasingly stronger. With the goal of “double zero” in safety and environmental protection, the Company increased investment in safety and environmental protection, strengthened the investigation and treatment of hidden dangers, and eliminated accident hazards. It organized a three-year campaign to replace workers with machineries, striving to improve the level of science and technology innovation. The Company vigorously promoted the construction of green mines, and all its mines in production have entered the national or provincial green mine list, and continuously improved the ecological and environmental protection level. The brand image of “Shandong Gold, Ecological Mining” has become more and more impressive.

Sixthly, Party construction was strengthened with a high standard. The Company strengthened the Party’s political construction and studied the latest important speeches of and instructions from General Secretary Xi Jinping in a timely manner. With the innovation and enhancement of Party building as the main line, the Company rolled out activities such as creating demonstration sites of excellent Party branches (創建過硬黨支部示範點), created Party branch brands (創建支部品牌) and “giving lessons on the Party” (我來講黨課), and revised the “Party Building Work Assessment Method” (《黨的建設工作考核辦法》) to include Party building at the primary level, ideology and Party conduct and clean government building into the unified assessment, so as to build the “Big Party Building” (大黨建) assessment system.

MANAGEMENT DISCUSSION AND ANALYSIS

MAJOR OPERATIONS DURING THE REPORTING PERIOD

In 2020, the gold mine production volume of the Company amounted to 37.80 tonnes (1,215.2 koz), representing a year-on-year decrease of 2.32 tonnes or 5.78% due to the impact of the COVID-19 epidemic. The Company completed processing (leaching) of 29.45 million tonnes, representing a year-on-year increase of 730,000 tonnes or 2.54%. Among which, processing amount in the PRC reached 17.43 million tonnes, representing a year-on-year increase of 2.30 million tonnes or 15.19%; leaching amount of Veladero Mine in Argentina amounted to 12.01 million tonnes, representing a year-on-year decrease of 1.57 million tonnes or 11.55%. The raw ore grade was 1.48g/t, representing a year-on-year decrease of 0.05g/t or 3.05%. The decrease in the raw ore grade was mainly attributable to the lower raw ore grade selected by the domestic enterprise, which has lowered the overall grade; the gold beneficiation recovery rate of domestic mines of the Company was 91.45%, representing a year-on-year increase of 0.38 percentage point or 0.42%, while the gold beneficiation recovery rate of Veladero Mine in Argentina Mine was 73.26%, representing a year-on-year decrease of 4.45 percentage points or 5.73%.

MANAGEMENT DISCUSSION AND ANALYSIS

ANNUAL PRODUCTION DATA AND ANALYSIS

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

Projects	Year ended 31 December					
	2019			2020		
	Ore mined volume	Ore processed volume	Gold production volume	Ore mined volume	Ore processed volume	Gold production volume
	(Mt)	(Mt)	(koz) ⁽⁵⁾	(Mt)	(Mt)	(koz) ⁽⁵⁾
Shandong Province						
Sanshandao Gold Mine	3.6	4.0	232.2	3.8	4.0	229.4
Jiaojia Gold Mine	3.8	3.6	238.6	4.5	4.7	240.2
Xincheng Gold Mine	1.3	2.0	139.5	1.0	2.3	145.2
Linglong Gold Mine	2.1	1.9	130.9	2.1	2.6	122.6
Guilaizhuang Gold Mine	0.3	0.3	41.3	0.1	0.2	24.1
Jinzhou Gold Mine	0.4	0.4	26.5	0.3	0.4	42.2
Qingdao Gold Mine ⁽²⁾	0.9	1.0	53.6	1.1	1.2	46.1
Penglai Gold Mine	0.4	0.4	44.4	0.4	0.4	27.2
Yinan Gold Mine	0.5	0.5	11.7	0.4	0.5	11.5
Other Provinces						
Chifengchai Gold Mine	0.5	0.5	40.5	0.6	0.6	45.0
Fujian Yuanxin Gold Mine	0.3	0.3	19.1	0.2	0.3	16.0
Xihe Zhongbao Gold Mine	0.2	0.2	20.9	0.3	0.3	25.9
Sub-total ⁽¹⁾	14.3	15.1	1,000.1	14.9	17.4	989.4
Attributable to the Company	12.9	13.6	889.9	13.4	15.7	878.4
Argentina						
Veladero Mine ⁽³⁾	16.1	13.6	274.5	13.7	12.0	225.8
Total	30.4	28.7	1,289.9⁽⁴⁾	28.6	29.4	1,215.2

Notes:

- Includes the ore mined volume, ore processed volume and gold production volume of each PRC Mine on a 100% basis.
- Qingdao Gold Mine includes Xinhui Gold Mine and Laixi Gold Mine.
- Includes the ore mined volume, ore processed volume and gold production volume of the Veladero Gold Mine on a 50% basis. As of 31 December 2020, the Company owned 50% interest in the Veladero Gold Mine.
- Total gold production in 2019 includes the gold production of 1,274.6 koz from mining enterprises and gold production from smelting of 15.3 koz from smelting enterprises.
- 1 ounce = 31.1035 grams.

MANAGEMENT DISCUSSION AND ANALYSIS

ANALYSIS OF MAIN BUSINESS

Operating results

Analysis of changes of related items in consolidated statement of profit or loss

Unit: RMB'000

Item	Amount of this Reporting Period	Amount of corresponding period in prior year	Increase/ (Decrease) (%)
Revenue	63,645,351	62,613,141	2%
Cost of sales	(57,088,914)	(57,601,794)	-1%
Selling expenses	(107,147)	(188,120)	-43%
General and administrative expenses	(2,319,331)	(1,768,667)	31%
Research and development costs	(387,558)	(333,050)	16%
Finance costs	(811,872)	(866,894)	-6%

Analysis on revenue and costs

The increase in revenue of the Company was mainly due to the increase in selling price of gold. The decrease in the cost of sales was mainly due to the lower costs as a result of a reduction in the procurement volume of the externally procured gold.

Information on major suppliers and customers

The sales to the top five customers amounted to RMB59,290.9 million, representing 93.16% of the total sales of the year, out of which there were no sales amount from connected persons among the top five customers.

The procurement amount from the top five suppliers amounted to RMB36,366.7 million, and the total procurement amount accounted for 63.70% of the cost of sales of the year, out of which there were no procurement amount from connected persons among the top five suppliers.

MANAGEMENT DISCUSSION AND ANALYSIS

Gearing ratio

Gearing ratio is defined as the ratio of consolidated total debt to consolidated total equity. As at 31 December 2020, the Group's consolidated total debt (including lease liabilities and borrowings) was approximately RMB11,505,050,000 (RMB8,271,537,000 as at 31 December 2019), and the Group's consolidated total equity was approximately RMB31,858,185,000 (RMB26,068,325,000 as at 31 December 2019). As at 31 December 2020, the Group's gearing ratio was 36.1% (31.7% as at 31 December 2019).

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

Unit: RMB'000

Item	Carrying amount as at the end of the Reporting Period	Reasons for restrictions
Monetary funds	88,895	Security deposits for bank acceptance
Monetary funds	2,700	Reserves for gold trading
Monetary funds	166,225	Security deposits for land reclamation and environmental governance
Monetary funds	100	Performance bond
Monetary funds	992	Fund frozen by court
Total	258,912	

Analysis on business information of the industry

Due to its scarcity and perfect natural properties, gold has, for a long period of time, assumed a monetary function as a symbol of personal wealth and social status. As society develops, gold's economic status changes, but it still occupies a position in the international reserves of all countries. As a special commodity with commodity, monetary and financial attributes at the same time, gold is also an important hedging instrument for countries, and is often a good value preservation and appreciation tool, especially in times of global economic and financial turmoil. Gold is also of great importance to the internationalization of RMB, helping to strengthen the confidence of the global market in RMB.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2020, the global economy contracted sharply due to the impact of the COVID-19 epidemic. Western economies, represented by the United States, adopted extremely easy monetary policies and large-scale fiscal stimulus: on the one hand, they injected liquidity into the financial markets and provided loans to small and medium-sized enterprises; on the other hand, they provided relief to the unemployed, assisted small and medium-sized enterprises and relieved the real economy. The abundant liquidity in the market and the demand for hedging triggered by the economic recession pushed the gold price to rise sharply, reaching a record high of US\$2,075.14/ounce in early August. Subsequently, as progress was made in the development of COVID-19 vaccine, market risk aversion subsided and the gold price fell back from the highs. In 2020, London spot gold reported an opening price of US\$1,517.18/ounce with the highest and lowest prices of US\$2,075.14/ounce and US\$1,451.13/ounce, respectively, and closed at US\$1,897.53/ounce, representing an annual increase of 25.07%. The average London spot gold price for 2020, as calculated based on the afternoon fixing price of London Bullion Market Association, was US\$1,769.59/ounce, representing a year-on-year increase of 27.07%. In 2020, the Shanghai Gold Exchange gold Au9999 reported an opening price of RMB341.95/g with the highest and lowest prices of RMB449.00/g and RMB278.39/g, respectively, and closed at RMB390.00/g, representing an annual increase of 14.44%. The weighted average price for the year was RMB388.10/g, representing a year-on-year increase of 25.72%.

In terms of supply and demand, the latest statistics of the China Gold Association shows that, the gold produced with domestic raw materials in 2020 was 365.34 tonnes, representing a year-on-year decrease of 14.88 tonnes or 3.91% as compared with the same period in 2019. Among them, gold mine-produced gold was 301.69 tonnes, and the non-ferrous by-products was 63.65 tonnes. In 2020, the actual national gold consumption was 820.98 tonnes, representing a year-on-year decrease of 18.13%. In 2020, the accumulated trading volume of all gold products on the Shanghai Gold Exchange was 58,700 tonnes (bilateral), representing a year-on-year decrease of 14.44%, with a turnover of RMB22.55 trillion (bilateral), representing a year-on-year increase of 4.91%. The accumulated trading volume of all gold products on the Shanghai Futures Exchange was 54,800 tonnes (unilateral), representing a year-on-year increase of 18.39%, with a turnover of RMB20.73 trillion (unilateral), representing a year-on-year increase of 38.26%.

Analysis on business information of the industry

Operations of respective region during the Reporting Period

Unit: RMB'000

	Revenue amount		% to total revenue	
	2020	2019	2020	2019
Revenue from contracts with customers within the scope of IFRS 15				
The PRC	61,339,722	59,920,478	96.3%	95.7%
Outside the PRC	2,293,251	2,673,997	3.6%	4.2%
	63,632,973	62,594,475		
Revenue from other sources				
The PRC	12,378	18,666	0.1%	0.1%
	63,645,351	62,613,141		

MANAGEMENT DISCUSSION AND ANALYSIS

Reserves and Resources of Self-owned Mines

The following table sets forth resources and reserves of Shandong Gold under the NI43-101 Code, as of 31 December 2020:

Name of mine	Major type	Resources ⁽¹⁾⁽²⁾					Reserves ⁽³⁾⁽⁴⁾					Remaining resources mining year (year)	Validity period of permits/mining rights			
		Measured (Mt)	Indicated (Mt)	Measured and Indicated (Mt)	Inferred (Mt)	Total (Mt)	Grade (g/t)	Gold content (100% basis) (koz)	Proven (Mt)	Probable (Mt)	Total (Mt)			Grade (g/t)	Gold content (100% basis) (koz)	Gold content (equity basis) ⁽⁵⁾ (koz)
Senshandao Gold Mine	Gold	-	21.96	21.96	41.24	63.20	3.09	6,275.73	5,981.40	-	19.35	3.03	1,887.83	1,799.29	7.0	Mining right (2043.09.01); Mining right (2022.11.11); Mining right (2022.06.01); Exploration right (2021.03.31)
Jiaojia Gold Mine	Gold	-	11.52	11.52	20.27	31.78	3.16	3,224.32	3,073.10	-	6.53	3.03	634.87	605.10	4.0	Mining right (2025.09.01); Mining right (2021.05.25); Mining right (2035.08.18); Exploration right (2020.06.30);
Xincheng Gold Mine	Gold	-	30.10	30.10	48.06	78.16	3.11	7,812.10	7,812.10	-	25.46	3.13	2,586.15	2,586.15	7.5	Mining right (2021.02.01); Exploration right (2021.06.28); Exploration right (2022.10.16)
Linglong Gold Mine	Gold	-	7.14	7.14	47.82	54.96	2.85	5,037.00	3,756.09	-	6.61	2.28	484.28	361.13	4.0	Mining right (2018.06.02) in the process of renewal; Mining right (2030.01.20); Mining right (2021.11.10); Exploration right (2018.05.06) in the process of renewal; Exploration right (2018.03.31) in the process of renewal
Guizhuang Gold Mine	Gold	-	0.65	0.65	1.78	2.43	3.50	273.92	193.52	-	0.44	3.62	50.79	35.88	2.0	Mining right (2023.12.31); Exploration right (2022.03.31)

MANAGEMENT DISCUSSION AND ANALYSIS

Name of mine	Major type	Resources ⁽¹⁾⁽²⁾					Reserves ⁽³⁾⁽⁴⁾					Remaining resources mining year (year)	Validity period of permits/mining rights				
		Measured (Mt)	Indicated (Mt)	Measured and Indicated (Mt)	Inferred (Mt)	Total (Mt)	Grade (g/t)	Gold content (100% basis) (koz)	Gold content (equity basis) (koz)	Proven (Mt)	Probable (Mt)			Total (Mt)	Grade (g/t)	Gold content (100% basis) (koz)	Gold content (equity basis) ⁽⁵⁾ (koz)
Jizhou Gold Mine	Gold	-	1.43	1.43	1.74	3.17	3.57	364.10	224.89	-	1.23	1.23	3.21	127.36	78.20	8.0	Mining right (2021.12.14); Mining right (2021.09.30); Mining right (2022.05.17); Mining right (2025.10.14); Mining right (2022.09.25); Mining right (2017.07.05) in the process of renewal; Exploration right (2017.03.16) in the process of renewal; Exploration right (2016.12.31) in the process of renewal
Qingdao Gold Mine	Gold	-	4.67	4.67	2.55	7.22	5.27	1,223.13	907.79	-	4.72	4.72	4.65	705.44	539.87	21.0	Mining right (2034.09.30); Mining right (2021.11.11)
Pengjia Gold Mine	Gold	-	1.13	1.13	0.88	2.01	7.03	454.94	454.94	-	1.19	1.19	5.09	195.40	195.40	2.0	Mining right (2022.07.11); Mining right (2018.04.07) in the process of renewal; Mining right (2022.04.28); Exploration right (2017.12.31) in the process of renewal
Yinan Gold Mine	Gold	-	1.84	1.84	4.38	6.21	1.57	314.56	314.56	-	1.73	1.73	1.36	75.52	75.52	9.0	Mining right (2021.11.11); Mining right (2031.07.15); Exploration right (2022.08.19)
Shandong Province		-	80.43	80.43	188.72	249.15	3.12	24,979.79	22,718.38	-	67.27	67.27	3.11	61,276.4	6,256.33		

MANAGEMENT DISCUSSION AND ANALYSIS

Name of mine	Major type	Resources ⁽¹⁾⁽²⁾					Reserves ⁽³⁾⁽⁴⁾					Validity period of permits/mining rights				
		Measured (Mt)	Indicated (Mt)	Inferred (Mt)	Total (Mt)	Grade (g/t)	Gold content (100% basis) (koz)	Gold content (equity basis) (koz)	Proven (Mt)	Probable (Mt)	Total (Mt)		Grade (g/t)	Gold content (100% basis) (koz)	Gold content (equity basis) ⁽⁵⁾ (koz)	Remaining resources mining year (year)
Chifengchai Gold Mine	Gold	-	0.45	0.45	0.63	1.08	5.04	174.81	128.52	-	0.46	5.83	86.52	63.61	2.0	Mining right (2025.12.08); Exploration right (2021.11.01); Exploration right (2021.02.14); Exploration right (2022.12.09); Exploration right (2023.04.06)
Fujian Yuanxin Gold Mine	Gold	-	0.50	0.50	0.24	0.75	4.41	106.03	95.76	-	0.46	3.55	52.52	47.44	5.0	Mining right (2029.06.21); Exploration right (2020.02.13)
Xihe Zhongbao Gold Mine	Gold	-	6.72	6.72	6.33	13.05	2.44	1,023.22	716.25	-	5.85	2.26	425.06	297.54	13.0	Mining right (2034.04.28); Exploration right (2022.02.11)
Total of other provinces		-	7.67	7.67	7.20	14.88	2.73	1,304.06	940.53	-	6.77	2.59	564.10	408.58		
China sub - total		-	88.11	88.11	175.92	264.03	3.10	26,293.86	23,658.91	-	74.04	3.06	7,291.74	6,665.12		
Veladero Gold Mine	Gold	24.89	268.48	293.36	64.30	357.67	0.64	7,377.28	3,688.64	21.32	194.57	0.75	5,184.59	2,592.30	14.0	
Total		24.89	356.59	391.47	240.22	621.70	1.68	33,661.14	27,347.55	21.32	288.61	1.34	12,476.33	9,257.41		

MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

1. Mineral resources are reported as in-place tonnes and do not take into account mining losses and dilution.
2. Mineral resources are inclusive of mineral reserves.
3. Due to the rounding of numbers, the total may not be equal to the sum of the numbers.
4. Mt = million tonnes; Koz = thousand ounces.
5. As of 31 December 2020, the Company owned 95.31%, 95.31%, 74.57%, 70.65%, 73.52%, 90.31% and 70% of Sanshandao Gold Mine, Jiaojia Gold Mine, Linglong Gold Mine, Guilaizhuang Gold Mine, Chifengchai Gold Mine, Fujian Yuanxin Gold Mine and Xihe Zhongbao Gold Mine, respectively. In view of the interest of the Company in Jinzhou Group, Fuling Mining and Qianling Mining, the resource of Jinzhou Gold Mine is also included. Jinzhou Gold Mine consists of mining rights owned by Jinzhou Group and its 100% and 90% owned subsidiaries, Fuling Mining and Qianling Mining, respectively. As of 31 December 2020, the Company beneficially owned 60.78% and 54.70% of Fuling Mining and Qianling Mining through its 60.78% interest in Jinzhou Group. The Company also owned 100% interests of the remaining four PRC mines companies as of the same date.

6. Mineral reserves: price is assumed to be US\$1,231.0 per ounce at an exchange rate of US\$1: RMB6.571.

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

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

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

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

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

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

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

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

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

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

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

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

7. Mineral reserve in Veladero Gold Mine was estimated based on a gold price of US\$1,200/oz and a silver price of US\$16.5/oz; cut-off grade: 0.3g/t for Type 1 ore and 0.37g/t for Type 2 ore; exchange rate: US\$/Argentine peso = 154.

Mineral resource was estimated based on a gold price of US\$1,500/oz and a silver price of US\$20/oz; cut-off grade: 0.173g/t for Type 1 ore and 0.297g/t for Type 2 ore; exchange rate: US\$/Argentine peso = 154.

MANAGEMENT DISCUSSION AND ANALYSIS

LISTING EXPENSES

The Group has paid listing expenses of RMB136.6 million during the year ended 31 December 2020 in relation to the Group's listing on the Main Board of the Hong Kong Stock Exchange on 28 September 2018.

USE OF PROCEEDS FROM GLOBAL OFFERING

The H Shares were listed on 28 September 2018 on the Main Board of the Hong Kong Stock Exchange with net proceeds amounted to approximately HK\$5,245.7 million (approximately RMB4,618.8 million) after deducting transaction fees and other expenses. As of the date of this report, the Company does not anticipate any change to its plan on the use of proceeds as stated in the Prospectus. As of 31 December 2020, approximately RMB4,602.6 million have been utilized, namely:

Item	Percentage	Net proceeds (RMB million)			Expected timeline for the use of the unutilised proceeds
		Available to utilise	Utilised	Unutilised	
Repayment of Syndicated Term Loan	97.6%	4,506.1	4,506.1	–	–
Payment of listing expenses	2.4%	111.7	94.0	17.8	On or before 31 December 2021
Payment of withholding taxes to listing expenses through the Company's basic account in China Construction Bank	0.0%	1.0	1.0	–	–
Exchange loss	0.0%	–	1.6	1.6	–
Total	100%	4,618.8	4,602.6	16.2	

Note: The expected timeline for the use of the remaining proceeds is based on the best estimates made by the Group and will be subject to change based on future development.

RESEARCH AND DEVELOPMENT EXPENDITURE

Table of research and development expenditure

	2020	2019
Expensed research and development expenditure for the period (RMB'000)	387,558	333,050
Number of research and development staff (persons)	1,181	777
Number of research and development staff to total number of staff of the Company (%)	7.49	4.81

BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

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

Name	Age	Position	Date of Appointment as Director	Month of Joining the Company
Li Guohong (李國紅)	50	Chairman, Non-executive Director	16 May 2016	May 2016
Liu Qin (劉欽)	52	Vice Chairman, Executive Director	30 December 2020	January 2008
Wang Shuhai (王樹海)	58	General Manager, Executive Director	30 December 2020	January 2008
Wang Lijun (王立君)	52	Non-executive Director	20 May 2014	January 2014
Wang Xiaoling (汪曉玲)	57	Non-executive Director	16 May 2016	July 2000
Tang Qi (湯琦)	43	Executive Director	21 November 2017	July 2000
Wang Yunmin (王運敏)	65	Independent Non-executive Director	30 December 2020	December 2020
Liew Fui Kiang (劉懷鏡)	54	Independent Non-executive Director	30 December 2020	December 2020
Zhao Feng (趙峰)	52	Independent Non-executive Director	30 December 2020	December 2020

BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

EXECUTIVE AND NON-EXECUTIVE DIRECTORS

Mr. Li Guohong (李國紅), successively served as the section chief of the auditing department of Anhui Huangshan Cigarette General Factory (安徽黃山捲煙總廠), the principal staff member of the auditing department of China Tobacco Anhui Industrial Co., Ltd. (安徽中煙工業公司), the chief financial officer of China Tobacco Anhui Industrial Co., Ltd. Hefei Cigarette Factory (安徽中煙工業公司合肥捲煙廠), the chairman of the board of supervisors and a director of Shandong International Trust Investment Co., Ltd. (山東國際信託投資有限公司), the chairman of Shanghai Shengju Asset Operation and Management Co., Ltd. (上海盛鉅資產經營管理有限公司), the general manager of SDG Capital Management Co., Ltd. (山金金控資本管理有限公司), the chairman of Shandong Gold Group Finance Co., Ltd. (山東黃金集團財務有限公司), the chairman of SDG (Shanghai) Precious Metals Investment Co., Ltd. (山金金控(上海)貴金屬投資有限公司), the deputy general manager of Shandong Gold Group Co., Ltd. (山東黃金集團有限公司), and temporarily held the position of deputy general manager of China Securities Inter-agency Quotation Systems Co., Ltd. (中證機構間報價系統股份有限公司). He currently serves as the general manager of Shandong Gold Group Co., Ltd. and the chairman of the Company.

Mr. Liu Qin (劉欽), successively served as the mine manager of Cangshang Gold Mine of Shandong Province Laizhou Jincang Mining Co., Ltd. (山東省萊州金倉礦業有限公司), mine manager of Sanshandao Gold Mine of Shandong Gold Group Co., Ltd. (山東黃金集團有限公司), mine manager of Sanshandao Gold Mine of Shandong Gold Mining (Laizhou) Co., Ltd. (山東黃金礦業(萊州)有限公司), vice chairman and general manager of Shanjin Mining Co., Ltd. (山金礦業有限公司), general manager and the secretary to CPC Committee of Xilingol League Shanjin Aerhada Mining Co., Ltd. (錫林郭勒盟山金阿爾哈達礦業有限公司), general manager and the secretary to CPC Committee of Non-ferrous Group Inner Mongolia Mining Construction Base (有色集團內蒙古礦業建設基地), vice chairman and general manager of Shandong Gold Non-ferrous Metal Mine Group Co., Ltd. (山東黃金有色礦業集團有限公司), vice chairman and general manager of Shandong Gold International Mining Co., Ltd. (山東黃金國際礦業有限公司), executive deputy general manager, vice chairman, general manager and vice secretary to CPC Committee of SDG Mineral Resources Group Co., Ltd. (山東黃金礦產資源集團有限公司), manager of Mineral Resources Department of Shandong Gold Group Co., Ltd. (山東黃金集團有限公司), chairman, general manager, secretary to CPC Committee of SDG Mineral Resources Group Co., Ltd. (山東黃金礦產資源集團有限公司), chairman, member and secretary to CPC Committee of Shandong Gold Geological Mine Exploration Co., Ltd. (山東黃金地質礦產勘查有限公司), president and secretary to CPC Committee of Resources Exploration Business Department of the Company, the deputy general manager of the Company, and the president and the secretary to CPC Committee of Overseas Mining Business Department of the Company. He currently serves as the vice chairman of the Company.

BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Wang Shuhai (王樹海), successively served as vice mine manager of Sanshandao Gold Mine of Shandong Gold Group Co., Ltd. (山東黃金集團有限公司), vice mine manager of Sanshandao Gold Mine of Shandong Gold Mining (Laizhou) Co., Ltd. (山東黃金礦業萊州有限公司), the secretary to CPC Committee and mine manager of Xincheng Gold Mine of the Company, the deputy general manager of the Company, the manager of the Engineering Management Department of Shandong Gold Group Co., Ltd. (山東黃金集團有限公司), vice secretary to CPC Committee and general manager of Shandong Gold Non-ferrous Metal Mine Group Co., Ltd. (山東黃金有色礦業集團有限公司), the president and secretary to CPC Committee of China Mining Business Department of the Company, and the deputy general manager, the president and the secretary to CPC Committee of Yantai Mining Business Department of the Company. He currently serves as a Director and the general manager of the Company.

Mr. Wang Lijun (王立君), successively served as the assistant mining engineer, a deputy director and a director of the mining workshop, an assistant to mine manager, a deputy mine manager, a mine manager and the secretary of CPC Committee of Xincheng Gold Mine of the Company, the general manager, the deputy secretary of CPC Committee, the chairman and the secretary of CPC Committee of Shandong Gold Non-ferrous Metal Mine Group Co., Ltd. (山東黃金有色礦業集團有限公司), and the vice chairman, the general manager, the chairman and the secretary of CPC Committee of the Company. He currently serves as a director and a standing member of the CPC Committee of Shandong Gold Group Co., Ltd. and a Director and a member of the CPC Committee of the Company.

Ms. Wang Xiaoling (汪曉玲), successively served as an accountant of Zhaoyuan Branch of the Agricultural Bank of China in Shandong Province (山東省招遠市農業銀行), the deputy head of the finance division of Jiaojia Gold Mine, the deputy general manager of the finance department, a manager, the chief financial officer and a member of the CPC Committee of the Company, and the general manager and the deputy chief accountant of the finance department of Shandong Gold Group Co., Ltd. (山東黃金集團有限公司). She currently serves as the deputy general manager of Shandong Gold Group Co., Ltd. (山東黃金集團有限公司), a Director of the Company and the chairman of Shandong Gold Group Finance Co., Ltd. (山東黃金集團財務有限公司).

Mr. Tang Qi (湯琦), successively served as a secretary of the Board office, the securities affairs representative of the Board, the deputy director and director of the Board office, a member of SDG Group Co.'s Reform Committee Office (山東黃金集團有限公司深化改革小組辦公室成員), and the head of the research and development department, the assistant to the general manager and the deputy general manager of SDG Venture Capital Co., Ltd. (山東黃金創業投資有限公司). He currently serves as a director, a joint company secretary, the secretary to the Board and the director of the Board office (Reform Committee Office) and the general manager of the capital operation department of the Company.

BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Yunmin (王運敏), once served as a scientific researcher of the open pit mining research office (露天採礦研究室) of Maanshan General Institute of Mining Research Co., Ltd under the Ministry of Metallurgical Industry (冶金工業部馬鞍山礦山研究院), a deputy project leader of the open pit mining research office (露天採礦研究室) of Maanshan General Institute of Mining Research Co., Ltd under the Ministry of Metallurgical Industry (冶金工業部馬鞍山礦山研究院), an assistant to the director of the Research and Technology Administration Office (科研管理處) of Maanshan General Institute of Mining Research Co., Ltd under the Ministry of Metallurgical Industry (冶金工業部馬鞍山礦山研究院), an assistant to the dean and director of the Research and Technology Administration Office (科研管理處) of Maanshan General Institute of Mining Research Co., Ltd under the Ministry of Metallurgical Industry (冶金工業部馬鞍山礦山研究院), an associate dean of Maanshan General Institute of Mining Research Co., Ltd under the Ministry of Metallurgical Industry (冶金工業部馬鞍山礦山研究院), the dean and the secretary to CPC Committee of Sinosteel Maanshan Institute of Mining Research Co., Ltd (中鋼集團馬鞍山礦山研究院有限公司). He currently serves as the director of the Science and Technology Innovation Committee of Sinosteel Group Corporation Limited (中國中鋼集團有限公司), the director of the State Key Laboratory of Metal Mine Safety and Health (金屬礦山安全與健康國家重點實驗室) and an independent non-executive Director of the Company.

Mr. Liew Fui Kiang (劉懷鏡), is a holder of a master degree in Business Administration and a bachelor degree in Laws. He is a solicitor in Hong Kong, China as well as England and Wales, and a fellow of the Hong Kong Institute of Directors. He served as the Chairman of PacRay International Holdings Limited, and an independent director of Baoshan Iron & Steel Company Limited. He currently serves as an independent director of the Company, Zhongchang International Holdings Group Limited, Zhengye International Holdings Company Limited and China Apex Group Limited.

Ms. Zhao Feng (趙峰), served as an auditor of Arthur Anderson Hua Qiang Certified Public Accountants (安達信華強會計師事務所), the chief financial officer of East Asiatic Company (PRC), the chief financial officer and the general manager of Denmark Wangtai Communications Technology (PRC) (丹麥網泰通訊科技(中國)), the chief financial officer of Apple Inc. (PRC), and the chief financial officer and the general manager of Infront Sports & Media (PRC). She is currently an independent non-executive Director of the Company and an independent director of Shenzhen Weiye Decoration Group Co., Ltd.

BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORS

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

Name	Age	Position	Date of Appointment as Supervisor	Month of Joining the Company
Li Xiaoping (李小平)	56	Chairman of the Supervisory Committee, Supervisor	16 May 2016	May 2016
Liu Yanfen (劉延芬)	41	Supervisor	8 November 2019	November 2019
Luan Bo (樂波)	48	Supervisor	24 February 2020	August 2003

Mr. Li Xiaoping (李小平), successively served as a deputy director and a researcher of the Business and Trade Office of the Planning Commission of Shandong Province (山東省計委經貿處), the deputy secretary of Linzi District, Zibo City, the deputy secretary, head of district, secretary, officer of SCNPC, and principal of Party School of Dongchangfu District, Liaocheng City. He currently serves as a standing committee member of the CPC Committee of SDG Group Co., Ltd. and the chairman of the Supervisory Committee and a member of the CPC Committee of the Company.

Ms. Liu Yanfen (劉延芬), served as an Integrated Service Department Specialist of Shandong Gold Wufeng Mountain Tourism Company (山東黃金五峰山旅遊公司), the legal director of the legal affairs department and deputy general manager (presided over work) of Shandong Assets Management Co., Ltd. (山東省資產管理有限公司), an Operational Department Specialist of Shandong Gold Mineral Resources Company (山東黃金礦產資源公司), the Mergers and Acquisition (“M&A”) director of the strategic planning department of Shandong Gold Group Co., Ltd (山東黃金集團有限公司) and the M&A director of the legal affairs department of the Company. She currently serves as the deputy general manager of the legal affairs department and a supervisor of the Company, a supervisor of Xiwu Zhumuxinqi Baoshan Mining Development Co., Ltd. (西烏珠穆沁旗寶山礦業開發有限責任公司) of SDG Group Co., Ltd. and Keshike Tengqi Jinda Mining Development Co., Ltd. (克什克騰旗金達礦業開發有限責任公司).

Mr. Luan Bo (樂波), successively served as the head of finance department of Xincheng Gold Mine of the Company, audit head of audit department of SDG Group Co., vice manager of audit department of the Company, manager of audit department of SDG Real Estate Tourism Group Co., Ltd. (山東黃金地產旅遊集團有限公司) and a special auditor of auditing and risk control department of SDG Group Co., Ltd. and the Company. He currently serves as the vice general manager of the auditing and risk control department and a supervisor of the Company, the executive supervisor of Shandong Guang’an Fire Technology Service Co., Ltd. (山東省廣安消防技術服務有限公司) of SDG Group Co., Ltd. and the supervisor of Shandong Gold Industrial Development Group Co., Ltd. (山東黃金產業發展集團有限公司) and Shandong Gold Group Finance Co., Ltd. (山東黃金集團財務有限公司).

BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

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

Name	Age	Position	Date of Appointment as Senior Management	Month of Joining the Company
Wang Shuhai (王樹海)	58	General manager	30 December 2020	January 2008
Tang Qi (湯琦)	43	Secretary to the Board	November 2017	July 2000
Song Zengchun (宋增春)	56	Deputy general manager and chief informatization expert	May 2016	September 2013
Wang Deyu (王德煜)	55	Deputy general manager	October 2013	October 2013
Liu Qin (劉欽)	52	Deputy general manager	August 2019	January 2008
Xu Jianxin (徐建新)	48	Deputy general manager	August 2019	April 2016
Lyu Haitao (呂海濤)	48	Deputy general manager	August 2019	August 2003
Huang Weimin (黃衛民)	46	Financial controller	December 2020	October 2009

Mr. Wang Shuhai (王樹海) – for biographical details of Mr. Wang Shuhai, please see the section “– Directors – Executive and Non-executive Directors”.

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

Mr. Liu Qin (劉欽) – for biographical details of Mr. Liu Qin, please see the section “– Directors – Executive and Non-executive Directors”.

BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Song Zengchun (宋增春), served as the mine manager and the secretary of the general Party branch of Shandong Province Laizhou Jincang Mining Co., Ltd. (山東省萊州金倉礦業有限公司), the general manager of Shandong Jincang Mining Co., Ltd. (山東金倉礦業股份有限公司), the executive deputy general manager of Shandong Zhonghai Jincang Mining Co., Ltd. (山東中海金倉礦業有限公司) and Laizhou Jincang Mining Co., Ltd. (萊州金倉礦業有限公司), the executive deputy general manager of SDG Group Jincang Mining Co., Ltd. (山東黃金集團金倉礦業有限公司) and SDG Group Laizhou Mining Co., Ltd. (山東黃金集團萊州礦業有限公司), the deputy mine manager and a member of the CPC Committee of Jiaojia Gold Mine, the general manager and the secretary of the CPC Committee of SDG Group Changyi Mining Co., Ltd. (山東黃金集團昌邑礦業有限公司), the deputy general manager and a member of the CPC Committee of Shandong Gold Non-ferrous Metal Mine Group Co., Ltd. (山東黃金有色礦業集團有限公司), the deputy general manager of the Company, the mine manager and secretary of the CPC Committee of Xincheng Gold Mine, and the manager of operation management department and the general manager of the enterprise management department of SDG Group Co., Ltd. He currently serves as the deputy general manager and the chief informatization expert of the Company.

As of 31 December 2020, Mr. Song was interested in 158,994 Shares under the Employee Shareholding Scheme, representing approximately 0.0036% of our total share capital.

Mr. Wang Deyu (王德煜), served as a deputy director and a director of beneficiation and smelting plant of Jiaojia Gold Mine, a director of tailings development office, the head of the refinery plant and the deputy head of Jiaojia Gold Mine, and the head of the refinery plant and the secretary of the CPC Committee of the Company. He currently serves as the deputy general manager, the chief beneficiation and smelting expert of the Company and the chairman of Shandong Gold Mining Science and Technology Co., Ltd.

As of 31 December 2020, Mr. Wang was interested in 119,245 Shares under the Employee Shareholding Scheme, representing approximately 0.0027% of our total share capital.

Mr. Xu Jianxin (徐建新), successively served as office political officer, deputy director and director of general administration office of SDG Group Co., deputy general manager of Shandong Gold Resources Development Co., Ltd., deputy general manager of Shandong Gold Resources Group Co., Ltd. (山東黃金資源集團有限公司), first deputy manager (manager level) of Corporate Culture Department (stability maintenance office, publicity department of CPC Committee), manager of Corporate Culture Department (stability maintenance office, publicity department of CPC Committee), general manager of Corporate Culture Department (publicity department of CPC Committee, complaint letter and request handling office), head of publicity department of CPC Committee of SDG Group Co., Ltd. He currently serves as the deputy general manager, the human resources director, member of CPC Committee and general manager of Human Resources Department of the Company.

Mr. Lyu Haitao (呂海濤), successively served as the deputy head, secretary of Youth League Committee and head of the Publicity Department of Xincheng Gold Mine of the Company, deputy director of general administration office of SDG Group Co., manager of Integrated Service Department of Shandong Gold Mining Development Co. Ltd. (山東黃金礦業開發有限公司) (Shanjin Mining Co., Ltd. (山金礦業有限公司)), manager of Corporate Culture Department (stability maintenance office, publicity department of CPC Committee), office (office of CPC Committee) director, director of economic development research office, general manager of Security Department of SDG Group Co., Ltd. He currently serves as the deputy general manager, the secretary of CPC Committee of the overseas business division and the chief executive officer of the Company.

BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Huang Weimin (黃衛民), served as the head of accounting of the finance department of Shandong Gold Mining Co., Ltd., the chief financial officer of Fujian Yuanxin Mining Co., Ltd. (福建源鑫礦業有限公司), the deputy manager of the finance department of Shandong Gold Group Co., Ltd. and the deputy manager of the finance department of the Company. He is currently the financial controller and general manager of the finance department of the Company.

JOINT COMPANY SECRETARIES

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

Ms. Ng Sau Mei (伍秀薇) is one of the joint company secretaries of the Company and was appointed in December 2017 with her appointment to take effect on the Listing Date of our H shares. She is an associate director of TMF Hong Kong Limited, a company secretarial service provider and is responsible for provision of corporate secretarial and compliance services to listed company clients. Ms. Ng has over 19 years of experience in the company secretarial field and has extensive knowledge and experience in dealing with corporate governance, regulatory and compliance affairs of listed companies. She currently serves as the company secretary or joint company secretary of several companies listed on the Hong Kong Stock Exchange.

Ms. Ng obtained a master’s degree in Laws from University of London in December 2017 and a bachelor’s degree in Laws from City University of Hong Kong in November 2001. She is a Chartered Secretary, a Chartered Governance Professional and a fellow member of The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom.

REPORT OF THE DIRECTORS

The Directors hereby present the Report of the Directors and the audited consolidated financial statements of the Group for the year ended 31 December 2020.

PRINCIPAL BUSINESS

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

During the Reporting Period, the Company's approved business scope was mainly: mining and beneficiation of gold, production and sales of specialized equipment for gold mines and construction and decoration materials (excluding products restricted by national laws and regulations). The Company mainly produces standard gold bullions and investment gold bars and silver ingots and other products of various specifications.

On the one hand, the Company endeavors to leverage on the core advantage of domestic resources. On the other hand, it implements the "going global" strategy and participates in global resource allocation in an active manner. The mining enterprises under the Company's management are located in Shandong, Fujian, Inner Mongolia, Gansu, Xinjiang and other provinces in the PRC, and in Argentina, South America and Ghana, Africa, forming an integrated industry chain covering exploration, mining, processing, smelting (refining) of gold and deep processing and sales of gold products, as well as the production and sales of mining equipment and materials, with a supporting scientific and technological research and development system.

RESULTS

Results of the Group for the year ended 31 December 2020 and the consolidated financial position of the Group as at that date are set out in the audited consolidated statement of profit or loss on page 128 and the audited consolidated statement of financial position on pages 130 to 131, respectively in this annual report.

ANALYSIS ON INVESTMENT STATUS

Overall analysis on external equity investment

In accordance with the development idea of "strengthening and expanding through domestic exploration and external acquisition", the Company actively conducted resource acquisitions externally, firmly implemented the "going global" strategy, and actively participated in global resource allocation with a more open and accommodating attitude, further expanding its global resource deployment.

During the Reporting Period, the Company acquired Cardinal Resources Limited ("**Cardinal Resources**") and Hengxing Gold Holding Company Limited ("**HXG**"); the Company issued additional H Shares on 29 January 2021 which have been listed on the Hong Kong Stock Exchange since 5 February 2020; Streamers Gold Mining Corporation Limited ("**Streamers Gold**") was incorporated in Canada by SDG Hong Kong, an overseas wholly-owned subsidiary of the Company, for the purpose of completing the acquisition of TMAC Resources Inc., ("**TMAC**") and the acquisition project of TMAC was subsequently terminated; SDG Capital Management, a wholly-owned subsidiary of the Company, and its wholly-owned subsidiary, Shandong Gold Futures Co., Ltd. jointly invested in the establishment of Shandong Gold Risk Management Co., Ltd. (山金風險管理有限公司); the share capital of Minera Andina del Sol SRL. ("**MAS**"), a company jointly operated by the Company and Barrick Gold Corporation, was increased by 15.709 billion Argentine pesos (equivalent to RMB1.234 billion) by way of capitalization of capital reserve and was subsequently reduced.

REPORT OF THE DIRECTORS

Key equity investments

① *Acquisition of TMAC Resources Inc.*

The 33rd meeting of the fifth session of the Board held on 8 May 2020 considered and approved the Resolution on the Acquisition of TMAC Resources Inc. and the Signing of Documents related to the Acquisition under the Arrangement Agreement and the Resolution on the Subscription of Additional Shares of TMAC Resources Inc. by a Wholly-owned Subsidiary. On 8 May 2020, the Company, SDG Hong Kong, an overseas wholly-owned subsidiary of the Company, and TMAC entered into an Arrangement Agreement. The Company, through a subsidiary newly established by SDG Hong Kong in Canada, proposed an acquisition arrangement to TMAC Resources Inc. to acquire all shares in issue and to-be-diluted shares of TMAC Resources Inc. in cash at a price of CAD1.75 per share, and the Company will provide guarantee for SDG Hong Kong for its performance of the Arrangement Agreement. At the same time, SDG Hong Kong and TMAC entered into the Concurrent Non-public Placement and Subscription Agreement to subscribe for ordinary shares additionally issued by TMAC at a price of CAD1.75 per share with the total subscription price of USD15 million. TMAC is a gold mining company in Canada, headquartered in Canada and listed on the Toronto Stock Exchange of Canada (stock code: TMR). It is principally engaged in the exploration, mining and production of gold resources in Canada. Upon completion of all the above transactions, SDG Hong Kong will hold 100% equity interests in TMAC in aggregate through direct and indirect ways.

On 18 December 2020, Investment Review Bureau Canada (加拿大投資審查局), for the purpose of safeguarding national security, ordered Streamers Gold not to proceed with the arrangement plan pursuant to the Arrangement Agreement. The 2nd meeting of the sixth session of the Board held on 5 January 2021 considered and approved the Resolution on the Transfer of Arrangement Agreement under the TMAC Project. The Company, SDG Hong Kong and Streamers Gold jointly as the transferors entered into the Assignment, Assumption and Novation Agreement (《轉讓、受讓和約務更替協議》) with Agnico Eagle Mines Limited and TMAC on 5 January 2021, pursuant to which, the Company, SDG Hong Kong and Streamers Gold transferred all rights and obligations under the Arrangement Agreement and the relevant agreements to Agnico Eagle Mines Limited. Agnico Eagle Mines Limited will acquire all outstanding shares of TMAC at a price of CAD2.2 per share. The agreement came into effect officially on 20 January 2021 and is being performed. For details, please refer to the announcements of the Company published on the website of the Hong Kong Stock Exchange on 8 May 2020, 27 November 2020, 22 December 2020, 24 December 2020 and 5 January 2021.

② *Establishment of Canada subsidiary*

The 34th meeting of the fifth session of the Board held on 25 May 2020 considered and approved the Resolution on the Establishment of a Canadian Company by a Wholly-owned Subsidiary, Streamers Gold Mining Corporation Limited was incorporated as a wholly-owned subsidiary in Toronto, Canada by SDG Hong Kong, a wholly-owned subsidiary of the Company with an investment of CAD210 million. Streamers Gold is principally engaged in the exploration, development and sales of gold resources, and was incorporated mainly for completing the acquisition of TMAC. As of the end of the Reporting Period, the registration has been completed. For details, please refer to the announcement of the Company published on the website of the Hong Kong Stock Exchange on 25 May 2020.

REPORT OF THE DIRECTORS

③ *Establishment of Shandong Gold Risk Management Co., Ltd.*

The 36th meeting of the fifth session of the Board held on 18 June 2020 considered and approved the Resolution on the Establishment of a Risk Management Company by a Wholly-owned Subsidiary, SDG Capital Management, a wholly-owned subsidiary of the Company, and its wholly-owned subsidiary Shandong Gold Futures Co., Ltd. jointly invested in the establishment of Shandong Gold Risk Management Co., Ltd., of which the registered capital is RMB100 million with RMB51 million (51%) contributed by Shandong Gold Futures Co., Ltd. and RMB49 million (49%) contributed by SDG Capital Management. The scope of business of Shandong Gold Risk Management Co., Ltd. is: basis difference trading; warehouse order services; cooperative hedging; over-the-counter derivatives business; market-making business; consulting business; other business related to risk management services, etc. (for business activities which require approval by law, they can only be commenced after approval by the relevant authorities). For details, please refer to the announcement of the Company published on the website of the Hong Kong Stock Exchange on 18 June 2020. As of the end of the Reporting Period, the company registration of Shandong Gold Risk Management Co., Ltd. has not been completed.

④ *Offer to acquire Cardinal Resources Limited*

The 36th meeting of the fifth session of the Board considered and approved the Resolutions in relation to the Acquisition of Cardinal Resources and the Signing of Relevant Documents. SDG Hong Kong, an overseas wholly-owned subsidiary of the Company, and Cardinal Resources entered into a bid implementation agreement on 18 June 2020, pursuant to which, SDG Hong Kong proposed an off-market conditional takeover offer to shareholders holding all shares in issue of Cardinal Resources Limited at a price of AUD0.60 per share by way of off-market takeover offer, and subscribed for 26 million ordinary shares newly issued by Cardinal Resources Limited at a price of AUD0.46 per share, with a total subscription price of AUD12 million. The Company provided guarantee for SDG Hong Kong for its performance of the bid implementation agreement. Cardinal Resources is a gold exploration and development company founded in 2010 and headquartered in Perth, Australia. The shares of Cardinal Resources are listed on the Australian Securities Exchange (stock code: CDV.AX) and Toronto Stock Exchange (stock code: CDV.TO). The major assets of Cardinal Resources are three gold projects in Ghana, Africa, namely Namdini development project and Bolgatanga exploration project in the Bole-Nangodi metallogenic belt in the northeast of Ghana, and Subranum exploration project in the Sefwi metallogenic belt in the southwest of Ghana.

The subscription of SDG Hong Kong for 26 million new ordinary shares of Cardinal Resources was completed on 7 July 2020 with the total subscription price of AUD11.96 million. In view of the fact that during the offer period, Nord Gold S.E., the largest shareholder of Cardinal Resources, and Engineers & Planners Company Limited, a Ghanaian company, had made offers to Cardinal Resources, in order to facilitate the acquisition, as considered and approved at the 38th meeting, 40th meeting, 42nd meeting, 44th meeting, 45th meeting, 47th meeting, 49th meeting, 50th meeting and 51st meeting of the fifth session of the Board, the Company eventually increased the offer price from AUD0.66 per share originally to AUD1.075 per share, extended the offer period, and amended relevant terms of the bid implementation agreement. As of 30 March 2021, the Company has completed the acquisition of 100% shares of Cardinal Resources. Cardinal Resources has become a wholly-owned subsidiary of SDG Hong Kong. For details, please refer to the announcements of the Company published on the website of the Hong Kong Stock Exchange during the period from 18 June 2020 to 15 March 2021.

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⑤ *Acquisition of Hengxing Gold Holding Company Limited*

The 43rd meeting of the fifth session of the Board held on 30 September 2020 considered and approved the Resolution on the Acquisition of Hengxing Gold Holding Company Limited and the Resolution on Issue of and the Listing of the New H Shares on the Hong Kong Stock Exchange. The Company privatized HXG by way of a scheme of arrangement and acquired all the shares of HXG. The consideration of the acquisition was settled fully by the issue of H Shares of the Company. The share exchange ratio for the acquisition was determined as follows: 5/29 H Shares of the Company will be issued for each scheme share cancelled. All the new H Shares issued by the Company were used to pay the consideration of acquisition of HXG, and the total number of H Shares issued did not exceed 159,482,759 Shares (inclusive) with a nominal value of RMB1 each. The issue was made to the shareholders of HXG under the scheme of arrangement (subject to the joint announcement issued on the same day by the Company and HXG). HXG is a company incorporated in the Cayman Islands with limited liability and its shares are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 02303). It is principally engaged in gold mining and production, and its core asset is the mining right project of Gold Mountain Mine located in Yining County, Kazakh Autonomous Prefecture, Xinjiang Uygur Autonomous Region. As of 30 June 2020, HXG had 925,000,000 shares in issue. Ke Xiping and his son Ke Jiaqi indirectly controlled 75% of the shares of HXG and other shareholders held 25% of the shares of HXG, and Ke Xiping, the chairman, was the de facto controller of HXG.

As of the 30 March 2021, HXG has become a wholly-owned subsidiary of the Company. The shares of HXG had been delisted on the Hong Kong Stock Exchange. The 159,482,759 new H Shares issued by the Company are listed and traded on the Hong Kong Stock Exchange, and the total number of Shares of the Company has been changed from 4,313,946,766 Shares to 4,473,429,525 Shares.

For details, please refer to the announcements of the Company published on the website of the Hong Kong Stock Exchange during the period from 30 September 2020 to 30 January 2021.

⑥ *Capital increase and decrease to MAS*

The 51st meeting of the fifth session of the Board held on 25 December 2020 considered and approved the Resolution on the Capitalization of Capital Reserve and the Capital Reduction of Andes Sun Mining. MAS is a company jointly operated by the Company and Barrick Gold Corporation and the entity that is responsible for the operation of the Veladero Mine in Argentina. The Company directly and indirectly holds an aggregate of 50% interest in it through the overseas wholly-owned subsidiary SDG Hong Kong. To better safeguard the shareholder interests of both parties, MAS capitalized the capital reserve by adopting 31 December 2019 as the base date and subsequently reduced the capital on the same basis. Through the transfer of capital reserve, the capital was increased by Argentine Peso 15.709 billion (equivalent to RMB1.234 billion), and reduced after the relevant local legal procedures have been fulfilled. For details, please refer to the announcement of the Company published on the website of the Hong Kong Stock Exchange on 26 December 2020.

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DISCUSSION AND ANALYSIS ON THE COMPANY'S FUTURE DEVELOPMENT

Landscape and Development Trend in the Industry

Competitive landscape in the industry

The world today is going through changes of a kind unseen in a century, and the international landscape is in the midst of profound and complex changes, which underscores the gold's strategic importance and role.

As to the international supply and demand, according to the data released by the World Gold Council, the total global gold demand was 3,759.6 tonnes in 2020, representing a decrease of 14% as compared with 2019. According to segment information, the demand of the gold jewelry was 1,411.6 tonnes, representing a year-on-year decrease of 34%; the demand of the technology sector was 301.9 tonnes, representing a year-on-year decrease of 7%; the demand of the investment industry was 1,773.2 tonnes, representing a year-on-year increase of 40%; the significant increase in the demand of the investment industry partially offset the decrease in the demands of the gold jewelry and the technology sector. The global central banks purchased a total of 272.9 tonnes of gold, representing a year-on-year decrease of 59%. The total global gold supply was 4,633.1 tonnes in 2020, representing a year-on-year decrease of 4% and marking the greatest annual decrease since 2013. The decrease in supply was mainly attributable to the shock of COVID-19 to the production of gold mines. In respect of domestic supply and demand, according to the data released by China Gold Association, in 2020, the gold produced with domestic raw materials was 365.34 tonnes; the gold produced from imported raw materials was 114.16 tonnes. The aggregate was 479.50 tonnes, representing a year-on-year decrease of 4.18%. The nationwide actual gold consumption was 820.98 tonnes in 2020, representing a decrease of 18.13% as compared with the same period of 2019, which included: gold jewelry of 490.58 tonnes, representing a year-on-year decrease of 27.45%; gold bars and gold coins of 246.59 tonnes, representing a year-on-year increase of 9.21%; industrial and other gold products of 83.81 tonnes, representing a year-on-year decrease of 16.81%.

As the COVID-19 pandemic cast greater uncertainty on the economic outlook of countries across the world, central banks continued to increase their gold reserves in 2020 for hedging risks, but the overweight scale was smaller than that of the previous two years. China maintained its gold reserve unchanged since November 2019. Data as at December 2020 showed that China's official gold reserve was 1,948.32 tonnes and ranked 7th in the world.

In terms of economic structure, the pandemic is still raging in the world, and some countries are still extending the lockdown measures. Despite the availability of vaccines, the vaccination is subject to uncertainties due to the production capacity and distribution, and it still takes a longer time to realize community immunity. As to the monetary policy, given that the negative impact of COVID-19 to the economy will last for a longer period, it is expected that the short-term monetary policy will maintain the current state of quantitative easing and the market will continue to see ample liquidity. From the perspective of risk hedging, the outlook of Sino-US, US-Iraq, US-Russia and US-DPRK relations are still uncertain after Biden takes office; on top of that, the Middle East geopolitics may also escalate in the future. In the backdrop of increasing uncertainties the world's economy and politics are facing, gold has a relatively higher value in asset allocation.

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Industry development trend

In recent year, China's gold industry actively responds to the requirement of high-quality development for the new era, deepens the supply-side reform, improves the industry structure, closes down backward production facilities, continuously pursues technology innovation, expedites the "going global" strategy, promotes the green mine construction, and puts forth efforts to build large bases and cultivate large groups, and the pattern that large enterprises lead the industry development has taken shape.

The new development pattern raises new requirements to technology innovation. Large gold enterprises play a key role in scientific research, increase the technology input to boost the productivity, and becomes the driving force of the industry's sustainable development. Under the new pattern, the State encourages enterprises to cooperate with "Belt and Road Initiative" countries and achieve high-level opening up. The gold industry will continue to promote the "going global" strategy, reinforce the "Belt and Road" construction for gold, leverage both domestic and international resources and participate in both domestic and international markets, improve the level of guarantee to gold resource security, optimize the productivity distribution and strengthen the industry chain advantage to enhance the risk-resistance capability and the international competitiveness of the industry.

Currently, the global gold market is in the upward cycle; the global mineral resource pattern is reshaping itself at a faster pace; digital intelligence and green ecology has become the development focus of the gold industry; win-win cooperation is even an inevitable trend. As a leader of China's gold industry, Shandong Gold has been following this development trend, puts forth efforts to construct "world-class demonstration mines" and world-class gold production bases and build the brand image "Shandong Gold, Ecological Mining" in all-round manner, steadfastly implements the "going global" strategy, actively develops in-depth cooperation with global gold companies, and comprehensively deepens the communication and cooperation in all fields and regions of the global mining market, building on the past achievements, breaking through with pioneering spirit, and contributing to the post-pandemic era with a new layout of high-quality development for the gold industry.

Development Strategies of the Company

Strategic goal for 14th Five-Year Plan period: becoming a global leader, and ranking among the world's top five

Strategic initiatives: The Company will adhere to the core business principle that "mining is fundamental and gold is the root", and further strengthen, focus on and improve the core business. It will concentrate on the gold business, gather resources to enable improvement, and cultivate globally leading advantages, trying to ascend to the world's top five as soon as possible.

The first stage (from 2021 to 2023)

The Company will complete one or two overseas mining takeovers with an increase in annual production volume of approximately 13 tonnes and steadily promote the construction of Laizhou world-class gold production base. It will increase the resource volume by approximately 300 tonnes via independent exploration activities, and add approximately 350 tonnes of resource volume to the total by resource acquisition.

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The second stage (from 2024 to 2025)

The Company will complete one or two overseas mining takeovers with an increase in annual production volume of approximately 10 tonnes, increase the output of Laizhou world-class gold production base by more than 12 to 13 tonnes, acquire 400 tonnes of additional resource volume each by joint exploration and resource acquisition, and expand the scale of one or two mines to the level of the world's top 30.

In the meantime, it will strengthen the industry chain finance business, focus on both industry cooperation and profit generation, improve the risk control system and the risk management capability, expand further to businesses related to the gold and non-ferrous metal segments, including industry investment, asset management and exploration funds. While moderately developing derivative trading and gold lease that will generate better synergy, the Company will steadily promote internal financial services including metal sales and fund settlement, with prudence on the development of supply chain finance and finance lease that generate less synergy. It will appropriately adjust the businesses of metal trading, non-standard transactions and gold brokerage.

The above future plans, development goals and other forward-looking statements do not constitute the Company's profit forecast or actual commitments to investors. The realization depends on macroeconomic environment, policy environment, market conditions, operating conditions of the Company and other factors and is therefore uncertain. The Company may make adjustments accordingly depending on future developments.

Business Plans

As a result of the safety accidents occurred in early 2021 in Qixia Hushan Gold Mine (栖霞市笏山金礦) of Shandong Wucaolong Investment Company Limited (山東五彩龍投資有限公司) and Caojiawa Gold Mine (曹家窪金礦) of Shandong Zhaoyuan (山東招遠), two local enterprises which are not owned by the Company, the mines in Shandong Province owned by the Company have started to carry out safety inspections since February 2021 in accordance with the requirements of the local authorities. As of 29 March 2021 Shandong Gold Mining (Laixi) Co., Ltd. and Shandong Jinzhou Mining Group Co., Ltd. of the Company in Shandong Province have resumed normal production, the main mining areas of Sanshandao Gold Mine, Dongfeng mining area of Linglong Gold Mine, Xincheng Gold Mine and Jiaojia Gold Mine, have passed the inspection and acceptance of the resumption of work and gradually resumed production. The four enterprises, namely Yinan Gold Mine, Penglai Gold Mine, Guilaizhuang Gold Mine and Xinhui Gold Mine, and the other mining areas of Linglong Gold Mine in the province are planning to promote the resumption of work and production, and the specific schedule of resumption has not yet been confirmed.

The four mines, namely Sanshandao Gold Mine, Jiaojia Gold Mine, Xincheng Gold Mine, Linglong Gold Mine are the Company's domestic main gold mines, the aggregate gold production volume of these mines over the total gold production volume for the year 2020 is 61%. The following four entities which have not received resumption acceptance, namely Yinan Gold Mine, Penglai Gold Mine, Guilaizhuang Gold Mine and Xinhui Gold Mine, the aggregate gold production volume of these mines over the total gold production volume for the year 2020 is 9%. The Company's production capacity was greatly affected due to the above-mentioned shutdown safety inspection, the Company has not yet determined the gold production capacity for the year 2021. The Company will closely monitor the resumption of mine's gold production and timely follow-up on determining the production plan.

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Key measures adopted in 2021:

- (i) **Converge of the organization of production and proactively respond to new circumstances.** In light of the Company's production halt of the mines in Shandong Province for safety inspection, the Company will continue to be aware of the production and operation trends in a timely manner and create all conditions to help entities resume work and production as soon as possible. At the same time, for the enterprises which have returned to production, the Company further organized the production system, acknowledged and managed the "shortcomings" in management, and supervised them to forcefully eliminate the "bottleneck" in the development, to achieve production target as soon as possible on the basis of work and production resumption. Various forms of production incentives have been adopted to stimulate the enthusiasm of various entities in production and operation. The management of the newly acquired Xinjiang Jinshan Gold mine shall be properly controlled in order to form a new growth point. With the continuous promotion on merger and acquisition work by the resource within and outside the country, the ability of resource reserve shall enhance in all aspects.
- (ii) **Focus on innovation-driven development and cultivate stronger driving forces.** The Company will vigorously promote the innovation-driven development strategy, and further cultivate new driving forces and develop new spaces via world-class exemplary mine, digitalization transition and technology innovation, so as to further improve the overall construction level of mines. In accordance with the construction principles of "overall planning, step-by-step implementation, continuous improvement", the Company will expedite the ERP project phase I construction, and accelerate the data standardization project, to build the unified data standard and management system. It will fully leverage the innovation platforms, the innovation institute, the three laboratories and the postdoctoral center, to develop key technologies of deep resource exploration and exploitation, green mines and intelligent mining, and actively promote the application of research achievements. The Company will steadily advance the supply chain finance business, moderately develop the business of emerging industry investment, and focus on investment in new technologies, to provide support to the digitalization and intelligence of mines. It will facilitate the corporatization of transaction center, improve the gold market research level, and maximize sales profits.
- (iii) **Emphasis on tapping into the inner potential to make up for the shortcomings, and make breakthroughs and upgrades in improving quality and efficiency.** Fully benchmarking international well-known mining companies, accurately tapping into the internal potential in production management and base construction, and achieving quality upgrades in technical management, material equipment, and remote control. Actively promote the full coverage of underground 5G networks, speed up underground transportation, drainage and power supply system automation, and intelligent construction, vigorously improve the level of mechanized operations, and promote mining efficiency and productivity. In accordance with the construction planning and arrangement of the "world-class gold production base", coordinate the preliminary work of the development and utilization of relevant resources and the construction of Sanshandao Gold Mine, Jiaojia Gold Mine, Xincheng Gold Mine and Shandong Gold Smelting Company, and focus efforts to advance the process of warrant processing and strive to be included as key projects of Shandong Province's "14th Five-Year Plan". Highlight risk prevention and control, focus on the unification of pre-event, during events, and post-event audits, strengthen the intensity and depth of auditing of important business links, and promote enterprises at all levels to establish a full-process internal audit and supervision mechanism for business.

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- (iv) **Focusing on supply-side structural reforms, and make breakthroughs and upgrades in improving the quality of development.** Firmly grasp the main line of supply-side structural reform, highlight “quality first, efficiency first”, and promote the realization of a new improvement in the quality of development. It is necessary to firmly establish the idea of “all costs are controllable”, continue to deepen the special activity of “Anatomy Sparrow”, and promote the systemic cost control of “all staff, all foundations, all-round, and all-process”, and strengthen the use of funds, material and energy consumption, material procurement, tax planning and management, actively revitalizing idle assets, optimizing production indicators, strengthening capital budgeting and capital management and control, etc., to comprehensively increase the overall cost and profit margin. Vigorously broaden financing channels, scientifically formulate and implement a diversified financing model that matches the long-term and short-term.
- (v) **Centering on the reform of state-owned enterprises, and make breakthroughs and upgrades in stimulating the vitality of the main body.** Vigorously optimize the organizational structure, reduce the management level, and comprehensively build a streamlined and efficient management and control system. Strengthen the application of assessment results, reasonably widen the income distribution gap, and emphasizing on leaning income distribution to outstanding talents, backbone talents, and front-line positions. Vigorously promote the tenure system and contract management of corporate managers, and accelerate the establishment of a sound professional manager system and market-based compensation incentive mechanism. Further clear up the employment channels for market-oriented personnel, and vigorously introduce high-end international talents in the fields of technology and mining.
- (vi) **Focus on open cooperation and make greater achievement in building the world-class enterprise.** With the international vision and the international standard, the Company will comprehensively improve resource integration, capital operation, corporate management and safety and environmental protection level, and endeavor to build a world-class gold enterprise with global competitiveness. Applying the model of “small steps but faster pace”, the Company will focus on West Africa, North and South America, Central Asia and domestic important mature mines when conducting resource acquisitions, and strive for greater achievement in the year. It will make use of the platform of international mining acquisition funds to diversify financing channels, improve the capital structure and the financial strength, thereby providing support to overseas resource acquisitions. After the comprehensive analysis of excellent practices of the world’s top-rank gold enterprises and the in-depth examination of the current corporate management weaknesses, the Company will develop corresponding improvement actions and implementation plans that accord with its actual conditions, to improve the management capability and level in all-round manner.
- (vii) **Strengthen the safety foundation, focus on environmental protection construction, and strengthen the brand image.** The Company will take this year’s comprehensive safety inspection as an opportunity to firmly adhere to “double zero” safety and environmental goal, further advance the three-year special rectification action, increase safety and environmental investment, urge every level to fulfill the responsibility fully and faithfully, strengthen, improve and perfect the construction of risk hierarchy control and hidden danger investigation and management system, improve the overall level of safety, and resolutely curb all kinds of accidents. It will consciously practice the concept of green development, vigorously promote the experience of green mine construction, continuously consolidate and enhance the achievements of green mining construction, and build a dynamic and long-term management mechanism for green development. It will always uphold the environmental protection concept of “lucid waters and lush mountains are invaluable assets”, and further enhance the brand of “Shandong Gold, Ecological Mining”.

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Possible Risks

The year of 2021 is a critical year for the Company to accelerate the transformation and upgrading, deepen the reform and realize high-quality development, in which, we will be faced with severe challenges of economic slowdown and complex conflicts and will embrace development opportunities to release vitality and enhance momentum.

Risks in gold prices fluctuation

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

Countermeasures: Firstly, further enhance the study and judgment on domestic and international economic development and commence research on professional areas. Secondly, implement the gold transaction decision-making procedure, rely on the transaction decision-making committee and the transaction center, accurately follow the price trend and conduct centralized sales of gold. Thirdly, use gold forward and futures contracts or other instruments to avoid risks in price fluctuation.

Safety management risks

Currently, the Company has established a complete "three-in-one" safety accountability system, improved the safety management system, formed a professional safety management team and shaped an effective safety management model, which contributes to the continuous improvement of work safety management level. However, if compared to the Company's development requirements, the work safety management still has some weaknesses and improvement points. For instance, the work safety mechanism lacks innovation; there is a gap between the relevant requirements and the actual mine safety standardization work; the safety education and training methods need to be improved, etc. These weaknesses have an impact on the achievement of the mine's essential safety objectives, and the occurrence of personal injury and property damage would have a profound impact on the Company's brand and social reputation.

Countermeasures: Firstly, sign the safety responsibility contract to urge the true fulfillment of responsibility at every level, and strengthen the work safety process management and assessment at the same time. Secondly, release the Key Tasks of Safety and Environmental Protection Work 2021 to guide the safety work of the year. Thirdly, increase safety input to ensure the smooth progress of safety technology upgrading of each unit and the implementation of special safety improvement actions. Fourthly, strengthen the research and development of safety technologies, offer generous rewards to safety technological achievements, and address safety issues in the process of production with technology innovation. Fifthly, enhance safety inspections to reinforce the identification of potential safety risks and the relevant improvements. Sixthly, promote adequate and effective safety trainings to improve the safety quality of safety management personnel and operation personnel. Seventhly, improve the six major systems for mines, strengthen emergency response drills to improve the work safety management level and the accident response capability. Eighthly, identify safety issues, focus on special improvement actions including the explosive items management, the fire operation management, the construction project safety management and the hazardous chemicals management, and gradually address the safety and environmental protection issues of mining enterprises. Ninthly, strengthen the building of safety culture, and create a safe atmosphere.

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Environmental management risk

Currently, the Company has established the environmental protection accountability system and improved the environmental management system, and the ecological and environmental management level witnesses continuous improvement. However, if compared to the Company's development requirements, the ecological and environmental management still needs further improvement. Various international and domestic environmental pollution accidents send all mines and smelting enterprises the warning message that the inadequate and ineffective ecological and environmental management can lead to significant environmental pollution accidents. Major environmental risk factors include hazardous chemical leakage, non-compliant and excessive discharge of mine shaft water/tailings waste water and other production waste water, non-compliant and excessive emissions of waste gas, irregular disposal of hazardous wastes and tailings and destruction of the ecological environment.

Countermeasures: Firstly, sign the environmental protection responsibility contract to urge the true fulfillment of responsibility at every level, and strengthen the whole-process ecological and environmental management and assessment. Secondly, establish and improve various ecological and environmental protection systems, improve the management systems, strengthen the pollution prevention and compliant emission in respect of hazardous chemicals, tailings pond, "three wastes", the utilization and disposal of hazardous wastes, and the management of pollutant discharge permit, green mine construction and "three simultaneous" environmental protection, to reduce the environmental risk. Thirdly, establish and improve the inspection system and the assessment system for environmental protection, conduct environmental inspection and assessment on regular basis, and establish the long-term dynamic management mechanism. Fourthly, establish and improve the "one license" management model for pollutant discharge permit, practice the licensed pollutant discharge and the pollutant discharge in compliance with the license, in order to reduce the environmental risk. Fifthly, organize self-monitoring to collect information of the pollutant discharge and the surrounding environment, and take prompt actions to address any issues identified. Sixthly, consolidate the green mine construction achievements, promote the construction of mining ecological civilization, and practice the green development concept. Seventhly, strengthen environmental protection promotion, training and education to improve employees' awareness of environmental protection, root the environmental protection concept in the mind of everyone and make environmental protection a conscious activity of employees. Eighthly, intensify technology innovation and environmental protection input, continuously improve the pollution prevention level, further reduce pollution discharge, and continue to improve the ecological environment of mining areas (plants). Ninthly, build the identification and improvement system for potential ecological and environmental risks, establish the long-term dynamic management mechanism, and strengthen the emergency response capability in unexpected environmental accidents, so as to prevent the environmental risk.

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Risk of mining enterprise shutdown

As enterprises in the industry report accidents frequently and become the public focus again and again, the State rolls out much stricter regulation to the industry, which may require enterprises to suspend operation or shut down the facilities or make rectifications to mine shafts; enterprises may be shut down due to safety and environmental events caused by factors including the roof fall and wall collapse, water inrush, poisoning choke, collapse, dangerous chemical leakage, waste water discharge, surface subsidence, irregular disposal of hazardous wastes and environmental pollution in the production.

Countermeasures: Firstly, draw lessons from the accidents that have happened on other enterprises in the industry, organize comprehensive inspection and improvement for eliminating potential safety risks and work safety and special inspection of explosive items management, offer advice to the safety management of outsourced construction teams and the underground fire operation management of mines. Secondly, increase safety input to ensure the smooth progress of safety technology upgrading of each unit and the implementation of special safety improvement actions. Thirdly, strengthen the research and development of safety technologies, and address safety issues in the process of production with technology innovation. Fourthly, enhance safety inspections, launch special improvement actions, strengthen inspection and improvement for eliminating potential risks, and reduce safety and environmental risks of mining enterprises. Fifthly, improve the six major systems for mines, and strengthen emergency response drills to improve the safety management level and the accident response capability. Sixthly, intensify the training for outsourced construction teams, strengthen the safety management of outsourced construction teams, to prevent the safety risk. Seventhly, urge construction projects to complete the safety and environmental protection “three simultaneous” procedures and the application of other certificates, to prevent the safety legal risk to the greatest extent. Eighthly, conduct environmental monitoring, and strengthen hazardous waste management. Ninthly, take prompt actions in response to national work safety policies and principles, and strengthen communication with local authorities.

EXCHANGE RATE VOLATILITY RISK

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

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RELATIONSHIP WITH CONTROLLING SHAREHOLDER AND CONNECTED TRANSACTIONS

As at the date of preparation of this annual report, SDG Group directly and indirectly held 45.08% of the total issued Shares.

SDG Group (excluding our Group) engages in gold mining related operations, including geological exploration and mining of gold, gold processing, gold smelting and technical services, and production and sales of specialized equipment and supplies and construction materials for gold mines (the “**Retained Businesses**”). The gold resources of SDG Group (excluding our Group) are mainly located in the PRC. As at 31 December 2020, it owned 30 gold mine exploration permits in the PRC with an aggregate of approximately 579.35 tonnes of gold resources initially measured with reference to PRC mining permit appraisal methods and filed with relevant authorities; and 17 gold mine mining permits in the PRC with an aggregate of approximately 132.11 tonnes of measured gold resources (excluding one mining permit already leased to us). Except a few exploration permits under which the gold mines are either with insignificant resources detected or subject to government approval for consolidation, all the exploration and mining permits held by SDG Group (excluding our Group) have been under entrustment arrangement pursuant to the Equity Entrustment Framework Agreement between our Company and SDG Group Co.. The Company will continue to disclose the status of the transfer of the exploration and mining permits in its interim and annual reports after listing, including but not limited to, any change in the list of entrusted targets, whether the relevant permits granted to the Company under the non-competition undertaking have been exercised, the status of boundary and capacity expansion (if applicable). Transfer of the exploration and mining permits from SDG Group to our Group is generally expected to commence by the end of 2020, however, due to insignificant resources detected in certain gold mines, decision on whether to transfer the corresponding permits attached to such gold mines is expected to be made by the end of 2023 based on the then exploration results. For details of the relevant permits held by SDG Group, please refer to the paragraph headed “Exploration and Mining Permits Held by SDG Group (excluding our Group) in the PRC as of the date of preparation of this annual report” below.

In addition, SDG Group holds a controlling interest in Focus Minerals Limited (an Australian listed company principally engaged in gold exploration and production, stock code: FML) through SDG International. Focus Minerals Limited is owned as to approximately 49.53% by SDG International, and SDG International is owned as to approximately 65% by SDG Group Co.. On 23 January 2017 and on 25 September 2017, SDG Group Co. pledged its 196,000,000 Shares and 313,600,000 Shares respectively to the Industrial and Commercial Bank of China, Shandong Branch (中國工商銀行山東省分行). Such pledged Shares were used as the security for borrowing of SDG Group Co. for its own use, which accounted for approximately 11.39% of total number of our Shares as at the date of this annual report. Industrial and Commercial Bank of China is an authorized institution under the meaning of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

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

REPORT OF THE DIRECTORS

NON-COMPETITION UNDERTAKING

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

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

REPORT OF THE DIRECTORS

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

Statistics of the resources under the exploration permits of SDG Group

No.	Name of exploration permit	Holder of exploration permit	Location	Gold content (tonnes) based on the latest assessment date	Status of mine development	Whether trusted under the Equity Entrustment Framework Agreement
1	The gold mine at deep level and outer rim of southern Jiaojia mine area in Laizhou, Shandong Province (general exploration) (山東省萊州市焦家礦區深部及外圍金礦南部詳查)	SDG Group Co. Ltd.	Laizhou, Shandong Province	0.972	In the process of exploration	No (to be transferred to the Company together with Jiaojia mining right)
2	The gold mine at the deep level and outer rim of Hongbu mine area in Laizhou, Shandong Province (exploration) (山東省萊州市紅布礦區深部及外圍金礦勘探)	Shandong Tiancheng Mining Co., Ltd.	East of Hongbu Village in Jincheng Town, Laizhou, Shandong Province	19.37	In the process of exploration	Yes
3	The gold mine at the deep level and outer rim of the Matang II mine area in Laizhou, Shandong Province (exploration) (山東省萊州市馬塘二礦區深部及外圍金礦勘探)	Shandong Tiancheng Mining Co., Ltd.	East of Matang Village in Jincheng Town, Laizhou, Shandong Province	Not detected yet	The general prospecting report was submitted in April 2019	Yes
4	The gold mine at Cangshang-Panjiawuzi District in Laizhou, Shandong Province (exploration) (山東省萊州市倉上-潘家屋子地區金礦勘探)	Shandong Gold Geological Mine Exploration Co., Ltd.	Jincang Street, Laizhou City, Shandong Province	0.39	The general prospecting report was submitted in April 2019	Yes
5	The middle and deep level of Liucun gold mine at Laizhou, Shandong Province (general exploration) (山東省萊州市留村金礦中深部詳查)	Shandong Gold Geological Mine Exploration Co., Ltd.	Hutouya Town, Laizhou, Shandong Province	2.00	The resources reserves report was submitted in April 2016	Yes
6	Zhaojia gold mine in Laizhou, Shandong Province (exploration) (山東省萊州市趙家金礦勘探)	Shandong Gold Geological Mine Exploration Co., Ltd.	Pinglidian Town, Laizhou, Shandong Province	Not detected yet	The geological report was submitted in March 2019	Yes
7	Shangmajia gold mine in Laizhou, Shandong Province (exploration) (山東省萊州市上馬家金礦勘探)	Shandong Gold Geological Mine Exploration Co., Ltd.	Zhacun Town, Laizhou, Shandong Province	0.22	The general prospecting report was submitted in November 2017	Yes

REPORT OF THE DIRECTORS

No.	Name of exploration permit	Holder of exploration permit	Location	Gold content (tonnes) based on the latest assessment date	Status of mine development	Whether trusted under the Equity Entrustment Framework Agreement
8	Xiling Village gold mine in Laizhou City, Shandong Province (exploration) (山東省萊州市西嶺村金礦勘探)	Shandong Gold Geological Mine Exploration Co., Ltd.	Sanshandao, Laizhou, Shandong Province	382.58	The general exploration report was submitted in December 2016 and in the process of exploration	Yes
9	The gold mine at Nanlv - Xinmu District in Laizhou City, Shandong Province (exploration) (山東省萊州市南呂-欣木地區金礦勘探)	Shandong Gold Laizhou Ludu Gold Mine Co., Ltd.	Jincheng Town, Zhuqiao Town, Laizhou, Shandong Province	133.14	The exploration report was filed	Yes
10	The gold mine at Dayinjia mine area in Laizhou City, Shandong Province (exploration) (山東省萊州市大尹家礦區金礦勘探)	Shandong Jindi Mining Co., Ltd.	Pinglidian Town, Zhuqiao Town, Laizhou, Shandong Province	Not detected yet	The summary report was submitted in November 2017	Yes
11	The gold mine at Cishan mine area in Penglai, Shandong Province (exploration) (山東省蓬萊市磁山礦區金礦勘探)	Shandong Gold Jinchuang Group Co., Ltd.	East Tuwu Village, Daliuhang Town, Penglai, Shandong Province	3.86	The general exploration report was submitted in July 2017	Yes
12	The gold mine at Shanglanzi mine area in Penglai, Shandong Province (exploration) (山東省蓬萊市上嵐子礦區金礦勘探)	Shandong Gold Jinchuang Group Co., Ltd.	Yanzikuang Village, Daliuhang Town, Penglai, Shandong Province	3.6	The general exploration report was submitted in January 2015	Yes
13	The gold mine at the deep level of Tuwu gold mine area in Penglai, Shandong Province (general exploration) (山東省蓬萊市土屋金礦區深部金礦詳查)	Shandong Gold Jinchuang Group Co., Ltd.	West Tuwu Village, Penglai, Shandong Province	0.57	The general exploration report was submitted in April 2013	Yes
14	The gold mine at the deep level and outer rim of Qigouyifen mine area in Penglai City, Shandong Province (exploration) (山東省蓬萊市齊溝一分礦區深部及外圍金礦勘探)	Shandong Jinchuang Co., Ltd.	Xiaomenjia Town, Penglai, Shandong Province	0.87	The resources reserves report was submitted in December 2019	Yes
15	The deep level and outer rim of Heilangou gold mine in Penglai City, Shandong Province (general exploration) (山東省蓬萊市黑崗溝金礦深部及外圍詳查)	Shandong Jinchuang Co., Ltd.	Daxindian Town, Penglai, Shandong Province	1.48	The resources reserves report was submitted in July 2018	Yes

REPORT OF THE DIRECTORS

No.	Name of exploration permit	Holder of exploration permit	Location	Gold content (tonnes) based on the latest assessment date	Status of mine development	Whether trusted under the Equity Entrustment Framework Agreement
16	Baolun gold mine in Ledong County, Hainan Province (general exploration) (海南省樂東縣抱倫金礦詳查)	Hainan Shanjin Mining Co., Ltd.	Qianja Town, Ledong County, Hainan Province	10.04	The general exploration report was submitted in March 2017	Yes
17	Yishan Forest Farm gold mine in Oroqen Autonomous Banner, Hulunbuir, Inner Mongolia (general exploration) (內蒙古呼倫貝爾鄂倫春自治旗伊山林場金礦詳查)	Hulunbuir Shanjin Mining Co., Ltd.	Alihe Town, Oroqen Autonomous Banner, Hulunbuir, Inner Mongolia	Not detected yet	The geological summary report was prepared in 2013	Yes
18	The silver (gold) mine in Xiangluping mine area, Zhenghe, Fujian Province (general exploration) (福建省政和縣香爐坪礦區香爐坪礦區銀(金)礦詳查)	Fujian Zhenghe Xiangluping Mining Co., Ltd.	Chengyuan Village, Chengyuan Town, Zhenghe County, Fujian Province	Au: 0.77 tonne	The general exploration report was submitted in August 2020	Yes
19	The gold mine at the peripheral rim of Dayaokeng mine area in Zhenghe County, Fujian Province (general exploration) (福建省政和縣大藥坑礦區金礦外圍地質詳查)	Fujian Province Zhenghe Hongkun Mining Co., Ltd.	Dayaokeng Village, Xingxi Town, Zhenghe County, Fujian Province	Not detected yet	N/A	Yes
20	The gold mine at the deep level of Dayaokeng mine area in Zhenghe County, Fujian Province (general exploration) (福建省政和縣大藥坑礦區金礦深部詳查)	Fujian Province Zhenghe Hongkun Mining Co., Ltd.	Dayaokeng Village, Xingxi Town, Zhenghe County, Fujian Province	Au: 0.89 tonne Ag: 21.09 tonnes	The report was submitted in November 2020	Yes
21	The gold mine at Asiha (Kere) District in Dulan County, Qinghai Province (general prospecting) (青海省都蘭縣阿斯哈(可熱)地區金礦普查)	Qinghai Shanjin Mining Co., Ltd.	Gouli Town, Dulan County, Qinghai Province	2.27	The general prospecting report was submitted in December 2017	Yes
22	Walega gold mine in Dulan County, Qinghai Province (general exploration) (青海省都蘭縣瓦勒尕金礦詳查)	Qinghai Shanjin Mining Co., Ltd.	Gouli Town, Dulan County, Qinghai Province	2.78	The general prospecting report was submitted in December 2017	Yes
23	The gold mine at Daligigetang District in Dulan County, Qinghai Province (general prospecting) (青海省都蘭縣達里吉格塘地區金礦普查)	Qinghai Shanjin Mining Co., Ltd.	Gouli Town, Dulan County, Qinghai Province	Not detected yet	In the process of prospecting physical workload	Yes

REPORT OF THE DIRECTORS

No.	Name of exploration permit	Holder of exploration permit	Location	Gold content (tonnes) based on the latest assessment date	Status of mine development	Whether trusted under the Equity Entrustment Framework Agreement
24	Guoluolongwa gold mine in Dulan County, Qinghai Province (general exploration) (青海省都蘭縣果洛龍窪金礦詳查)	Qinghai Shanjin Mining Co., Ltd.	Gouli Town, Dulan County, Qinghai Province	12.94	The general exploration report was submitted in March 2010	Yes
25	Annage gold mine in Dulan County, Qinghai Province (general prospecting) (青海省都蘭縣按納格金礦普查)	Qinghai Shanjin Mining Co., Ltd.	Gouli Town, Dulan County, Qinghai Province	1.67	The general prospecting report was submitted in December 2017	Yes
26	Dachaidan Hangwei Shengligou gold mine in Qinghai Province (general exploration) (青海省大柴旦行委勝利溝金礦詳查)	Shanjin Western Geological and Minerals Exploration Co., Ltd.	Dachaidan Hangwei, Haixi Prefecture, Qinghai Province	0.56	The general prospecting report was submitted in December 2012	Yes
27	Dachaidan Hangwei Hongdenggou west gold mine in Qinghai Province (general exploration) (青海省大柴旦行委紅燈溝西金礦詳查)	Shanjin Western Geological and Minerals Exploration Co., Ltd.	Dachaidan Hangwei, Haixi Prefecture, Qinghai Province	0.04	The general prospecting report was submitted in August 2019	Yes
28	The gold mine at south Asiha in Dulan County, Qinghai Province (pre-prospecting) (青海省都蘭縣阿斯哈南金礦預查)	Shanjin Western Geological and Minerals Exploration Co., Ltd.	Gouli Town, Dulan County, Qinghai Province	Not detected yet	N/A	
29	The gold mine at south Walega in Dulan County, Qinghai Province (pre-prospecting) (青海省都蘭縣瓦勒爾南金礦預查)	Shanjin Western Geological and Minerals Exploration Co., Ltd.	Gouli Town, Dulan County, Qinghai Province	Not detected yet	N/A	
30	The gold mine at Hongqidian, Tuoli County, Xinjiang (新疆托裏縣紅旗點金礦普查)	Shanjin Western Geological and Minerals Exploration Co., Ltd.	Tuoli County, Tacheng District, Xinjiang	Not detected yet	N/A	
Total				582.27		

REPORT OF THE DIRECTORS

Statistics of the resources under the mining permits of SDG Group

No.	Name of mining permit	Holder of mining permit	Location	Gold content (tonnes) based on the latest assessment date	Status of mine development	Whether trusted under the Equity Entrustment Framework Agreement
1	Shandong Tiancheng Mining Co., Ltd. Hongbu mine area (山東天承礦業有限公司紅布礦區)	Shandong Tiancheng Mining Co., Ltd.	Jincheng Town, Laizhou, Shandong Province	1.153	In commercial production stage. The annual resources reserves report was submitted to the Land and Resources Bureau of Laizhou City in January 2021	Yes
2	Shandong Tiancheng Mining Co., Ltd. Dongji mine area (山東天承礦業有限公司東季礦區)	Shandong Tiancheng Mining Co., Ltd.	Jincheng Town, Laizhou, Shandong Province	1.358	In commercial production stage. The annual resources reserves report was submitted to the Land and Resources Bureau of Laizhou City in January 2021	Yes
3	Shandong Tiancheng Mining Co., Ltd. Matang mine area (山東天承礦業有限公司馬塘礦區)	Shandong Tiancheng Mining Co., Ltd.	Jincheng Town, Laizhou, Shandong Province	0.706	In commercial production stage. The annual resources reserves report was submitted to the Land and Resources Bureau of Laizhou City in January 2021	Yes
4	Shandong Tiancheng Mining Co., Ltd. Matang II mine area (山東天承礦業有限公司馬塘二礦區)	Shandong Tiancheng Mining Co., Ltd.	Jincheng Town, Laizhou, Shandong Province	0.795	In commercial production stage. The annual resources reserves report was submitted to the Land and Resources Bureau of Laizhou City in January 2021	Yes
5	Laizhou Ludi Mining Investment and Development Co., Ltd. Jincheng Gold Mine (萊州魯地礦業投資開發有限公司金城金礦)	Laizhou Ludi Mining Investment and Development Co., Ltd.	Jincheng Town, Laizhou, Shandong Province	85.54	-	Yes
6	Shandong Gold Jinchuang Group Co., Ltd. Yanshan mine area (山東黃金金創集團有限公司燕山礦區)	Shandong Gold Jinchuang Group Co., Ltd.	Yanshan area, Daliuhang Town, Penglai, Shandong Province	3.484	In commercial production stage. The annual resources reserves report was submitted to the Land and Resources Bureau of Penglai City in January 2021	Yes
7	Shandong Gold Jinchuang Group Co., Ltd. Yankou mine area (山東黃金金創集團有限公司奄口礦區)	Shandong Gold Jinchuang Group Co., Ltd.	Yankou area, Daliuhang Town, Penglai, Shandong Province	6.25	In commercial production stage. The annual resources reserves report was submitted to the Land and Resources Bureau of Yantai City in January 2021	Yes

REPORT OF THE DIRECTORS

No.	Name of mining permit	Holder of mining permit	Location	Gold content (tonnes) based on the latest assessment date	Status of mine development	Whether trusted under the Equity Entrustment Framework Agreement
8	Shandong Jinchuang Co., Ltd. Shangkouwangli gold mine area (山東金創股份有限公司上口王李金礦區)	Shandong Jinchuang Co., Ltd.	Daxindian Town, Penglai, Shandong Province	3.879	In commercial production stage. The annual resources reserves report was submitted to the Land and Resources Bureau of Penglai City in January 2021	Yes
9	Shandong Jinchuang Co., Ltd. Heijinding mine area (山東金創股份有限公司黑金頂礦區)	Shandong Jinchuang Co., Ltd.	Daxindian Town, Penglai, Shandong Province	1.538	In commercial production stage. The annual resources reserves report was submitted to the Land and Resources Bureau of Penglai City in January 2021	Yes
10	Shandong Jinchuang Co., Ltd. Heilangou mine area (山東金創股份有限公司黑崗溝礦區)	Shandong Jinchuang Co., Ltd.	Daxindian Town, Penglai, Shandong Province	6.721	In commercial production stage. The annual resources reserves report was submitted to the Land and Resources Bureau of Yantai City in January 2021	Yes
11	Shandong Jinchuang Co., Ltd. Qigouyifen mine (山東金創股份有限公司齊溝一分礦)	Shandong Jinchuang Co., Ltd.	Daxindian Town, Penglai, Shandong Province	1.645	In commercial production stage. The annual resources reserves report was submitted to the Land and Resources Bureau of Penglai City in January 2021	Yes
12	Qingdao Jinxing Mining Co., Ltd. (青島金星礦業股份有限公司)	Qingdao Jinxing Mining Co., Ltd.	Jiudian Town, Pingdu, Shandong Province	4,354	In commercial production stage. The annual resources reserves report was submitted in January 2021	Yes
13	Hainan Shanjin Mining Co., Ltd. Baolun gold mine in Ledong County (海南山金礦業有限公司樂東縣抱倫金礦)	Hainan Shanjin Mining Co., Ltd.	Ledong County, Hainan Province	5.661	In commercial production stage. The annual resources reserves report was submitted to the Land and Resources Bureau of Ledong County, Hainan Province in January 2020	Yes
14	Songxian Shanjin Mining Co., Ltd. (嵩縣山金礦業有限公司)	Songxian Shanjin Mining Co., Ltd.	Shuigou Village, Dazhang Town, Song County, Luoyang	5.99	In commercial production stage. The annual dynamic reserves monitoring report was submitted to the Land and Resources Bureau of Luoyang City, Henan Province in January 2021, pending for the review opinions of experts	Yes

REPORT OF THE DIRECTORS

No.	Name of mining permit	Holder of mining permit	Location	Gold content (tonnes) based on the latest assessment date	Status of mine development	Whether trusted under the Equity Entrustment Framework Agreement
15	Fujian Province Zhenghe Hongkun Mining Co., Ltd. Dayaokeng gold mine (福建省政和縣宏坤礦業有限公司大藥坑金礦)	Fujian Province Zhenghe Hongkun Mining Co., Ltd.	Dayaokeng Village, Xingxi Town, Zhenghe County, Fujian Province	1.203	In commercial production stage. The reserves report was submitted to the Land and Resources Bureau of Zhenghe County, Fujian Province in January 2021	Yes
16	Qinghai Shanjin Mining Co., Ltd. Guoluolongwa gold mine in Dulan County (青海山金礦業有限公司都蘭縣果洛龍窪金礦)	Qinghai Shanjin Mining Co., Ltd.	Gouli Town, Dulan County, Qinghai Province	1.705	In commercial production stage. The annual reserves report was submitted to the Land and Resources Bureau of Haixi Prefecture, Qinghai Province in January 2021	Yes
17	Fujian Province Zhenghe Xiangluping Mining Co., Ltd. Xiangluping silver mine (福建省政和縣香爐坪礦業有限公司香爐坪銀礦)	Fujian Province Zhenghe Xiangluping Mining Co., Ltd.	Chengyuan Village, Chengyuan Town, Zhenghe County, Fujian Province	Au: 0.126 Ag: 11.12	The annual reserves report was submitted to the Land and Resources Bureau of Zhenghe County, Fujian Province in January 2021	Yes
Total				132.11		

Note: SDG Group is in the process of sorting out the resources and perfecting the certificates and permits of the above-mentioned mineral rights and will actively promote the transfer of eligible mineral rights to the Company and disclose them in due course.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS

One-off connected transaction – exploration permit transfer agreement

On 1 November 2017, each of the Company, Linglong Mining and Yinan Mining entered into an exploration permit transfer agreement with SDG Group Co., respectively, pursuant to which SDG Group Co. agreed to transfer three exploration permits, namely “Gold mine exploration in peripheral and deep level areas of Xincheng Mining Area, Laizhou City, Shandong Province (Exploration)” (山東省萊州市新城礦區外圍及深部金礦勘探), “Gold mine exploration in deep level areas of Linglong Mining Area, Zhaoyuan City, Shandong Province (Exploration)” (山東省招遠市玲瓏礦區深部金礦勘探) and “Gold mine detail inspection at Tongjing – Jinchang Mining Area, Yinan County, Shandong Province (General Exploration)” (山東省沂南縣銅井–金場礦區金礦詳查) to the Company, Lingling Gold Mine and Yinan Gold Mine, for a consideration of RMB569,848,000, RMB79,637,200 and RMB5,397,700, respectively (the “**Consideration**”). Linglong Mining is owned as to 74.57% by the Company while Yinan Mining is a wholly-owned subsidiary of the Company. As at the date of this annual report, the Company, Linglong Mining and Yinan Mining have paid RMB569,848,000, RMB56,000,000 and RMB5,397,700, respectively, representing approximately 96% of the Consideration. It is expected that the remaining 4% of the consideration will be paid with internal funds and the transfer will be completed in due course.

One-off connected transaction- mining right leasing fee

On 16 April 2020, the Board approved the renewal of Mining Right Leasing Agreement between Shandong Gold Mining (Laizhou) Co., Ltd. (山東黃金礦業(萊州)有限公司) and SDG Group Co. (controlling shareholder of the Company), pursuant to the said agreement, SDG Group Co. leased a mining permit of Jiaoja Gold Mine to the Company.

Pursuant to the mining right leasing agreement dated 27 July 2004, the agreement took effect from 27 July 2004 until successful transfer of such mining right from SDG Group Co. to the Company, which was expected to start in 2020. Such mining right had not been transferred to the Company due to the failure to meet statutory conditions for the disposal of state mining rights, therefore, in order to ensure the continuing operation of Jiaoja Gold Mine, the Company has agreed to pay a one-off payment of cumulative mining rights’ price of RMB132,026,400 (“**One-off Payment**”) and an annual leasing fee. As at 31 December 2020, the One-off Payment has been fully paid. For details of the annual leasing fees, please refer to the header titled “Continuing Connected Transaction- Mining Right Leasing Agreement” below.

Continuing connected transaction – mining right leasing agreement

On 16 April 2020, the Company approved the renewal of the mining right leasing agreement between Laizhou Mining Jiaoja Gold Mine, a subsidiary of the Company, and the SDG Group Co. (the “**Mining Right Leasing Agreement**”), pursuant to which, SDG Group Co. leased a mining permit of Jiaoja Gold Mine.

The annual caps for the transactions under the Mining Right Leasing Agreement for the three years ended/ ending 31 December 2020, 2021 and 2022 are as follows.

	For the financial year ended/ending 31 December (RMB million)		
	2020	2021	2022
Annual caps of leasing fees	38.3	38.3	38.3

For the year ended 31 December 2020, the Company has paid the historical amount of the transaction under the Mining Right Leasing Agreement of RMB36.1 million to the SDG Group Co.

REPORT OF THE DIRECTORS

Financial Services Framework Agreement

The Company has entered into a new financial services framework agreement with SDG Group Finance (the “**Financial Services Framework Agreement**”) on 16 April 2020, pursuant to which SDG Group Finance will provide the Company and/or our associates with financial services, among others, (i) deposits and related services (the “**Deposit Services**”), (ii) loan and related financing services (the “**Loan and Other Financing Services**”), (iii) overdraft services (the “**Overdraft Services**”), and (iv) other financial services for a term from 1 January 2020 to 31 December 2022 to facilitate the Group’s operational needs of financial services.

The annual caps for the transactions under the Financial Services Framework Agreement for the three years ended/ending 31 December 2020, 2021 and 2022 are as follows.

	Annual cap (RMB million)		
	For the year ended/ending 31 December		
	2020	2021	2022
Maximum Daily Balance of Deposit Services	2,000	2,500	2,700
Interest Income from Deposit Services on an actual basis	33	35	42
Maximum Daily Balance of Loan and Other Financing Services	1,200	1,600	1,800
Interest Expenses for Loan and Other Financing Services and Overdraft Services on an actual basis	37	45	65
Maximum Daily Balance of Overdraft Services	800	900	900
Handling Fees and Other Financial Services	50	50	50

For the year ended 31 December 2020, the historical amounts of the transactions are as follows:

	Historical amount for the year ended 31 December 2020 (RMB million)
Maximum Daily Balance of Deposit Services	1,999.983
Interest Income from Deposit Services on an actual basis	16.8
Maximum Daily Balance of Loan and Other Financing Services	1,000.2
Interest Expenses for Loan and Other Financing Services and Overdraft Services on an actual basis	17.0
Maximum Daily Balance of Overdraft Services	528.7
Handling Fees and Other Financial Services	38.0

SDG Group Finance is 70% owned by SDG Group Co. and 30% owned by the Company. SDG Group Finance is therefore a connected person of the Company. As each of the percentage ratio(s) (as defined in Rule 14.07 of the 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 Group Finance to the Group are subject to the reporting and announcement requirements as set out in Rule 14A.35 of the Hong Kong Listing Rules but exempt from the independent shareholders’ approval requirement under Rules 14A.36 to 14A.39 of the Hong Kong Listing Rules. For details, please refer to the announcement of the Company dated 16 April 2020.

REPORT OF THE DIRECTORS

Procurement and Sale Framework Agreement

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

The Procurement and Sale Framework Agreement is valid for a term of three years commencing from the Listing Date to 31 December 2020. On 16 April 2020, the Company revised the annual cap for the year ended 31 December 2020 in light of the acquisition of SDG Capital Management by the Company and that the transactions made between SDG Capital Management with SDG Group Co. and/or its associates will become connected transactions of the Group.

Procurement by our Group from SDG Group Co. and its associates

Set out below are the historical annual caps of the relevant procurements by our Group from SDG Group Co. and its associates for the supplies, products and services for the year ended 31 December 2020 and the historical transaction amounts of the procurements by our Group from SDG Group Co. and its associates for the supplies, products and services for the year ended 31 December 2020.

	Annual cap for the financial year ended 31 December 2020 (RMB million)
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Annual cap of procurements of supplies, products and services by our Group	2,700.0
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	Historical amount for the financial year ended 31 December 2020 (RMB million)
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Historical transaction amounts of procurements of supplies, products and services by our Group	2,895.4585
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REPORT OF THE DIRECTORS

Sales from our Group to SDG Group Co. and its associates

Set out below are the historical annual caps of the relevant sales from our Group to SDG Group Co. and its associates for the supplies, products and services for the year ended 31 December 2020 and the historical transaction amounts of the relevant sales from our Group to SDG Group Co. and its associates for the supplies, products and services for the year ended 31 December 2020.

	Annual cap for the financial year ended 31 December 2020 (RMB million)
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Annual cap of sale of supplies, products and services by our Group	850.0
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	Historical amount for the financial year ended 31 December 2020 (RMB million)
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Historical transaction amount of sales of supplies, products and services from our Group	39.5
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SDG Group Co. is a controlling Shareholder and therefore a connected person of the Company. As the percentage ratio(s) (as defined in Rule 14.07 of the Listing Rules) applicable to the Procurement and Sale Framework Agreement is more than 0.1% but less than 5%, the annual caps for the procurement and sales of supplies, products and services 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. For details, please refer to the announcement of the Company dated 16 April 2020.

REPORT OF THE DIRECTORS

Exceeding of Annual Cap

It has come to the attention of the Company that the historical amount for the procurements of supplies, products and services by our Group for the year ended 31 December 2020 was RMB2,895.4585 million (the **“2020 Transaction Amount”**) and therefore the annual cap for procurements of supplies, products and services by our Group for the year ended 31 December 2020 (the **“2020 Annual Cap”**) of RMB2,700 million is exceeded.

The 2020 Transaction Amount has exceeded the 2020 Annual Cap due to the global outbreak of the COVID-19 pandemic for which loose monetary policies were adopted in many countries. The gold price in 2020 witnessed a significant increase, bringing an increase in price for the gold purchased by SDG Capital Management in 2020, which enlarged the scale of connected transactions.

In light of the 2020 Transaction Amount, the Company proposes that the revised 2020 annual cap for the financial year ended 31 December 2020 is RMB2,895.4585 million (the **“Revised 2020 Annual Cap”**). Accordingly, the Directors (including the independent non-executive Directors) have ratified the transactions under the Procurement and Sales Framework Agreement and approved the Revised 2020 Annual Cap for the financial year ended 31 December 2020.

MEASURES ADOPTED BY THE COMPANY FOR FUTURE COMPLIANCE

The Directors consider that the failure to re-comply with the requirements under Rule 14A.54(1) of the Listing Rules on a timely basis in respect of transactions under the Procurement and Sale Framework Agreement for the year ended 31 December 2020 was an inadvertent oversight and an isolated event. In order to avoid any similar incidents in the future, the Directors and senior management of the Company will closely monitor and regularly verify the connected transactions and take timely measures to comply with the relevant disclosure obligations and obtain the approval of the independent non-executive Directors in a timely manner as required by the Hong Kong Listing Rules. At the same time, the Company has taken necessary measures to strengthen the reporting mechanism and internal control procedures of the Company and its subsidiaries, and facilitate training for and communication among the management personnel in compliance with the requirements of the Hong Kong Listing Rules.

Please refer to the announcement of the Company dated 31 March 2021 in relation to exceeding of annual cap for the year ended 31 December 2020 for more details.

Annual review of continuing connected transactions

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

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

REPORT OF THE DIRECTORS

- (iii) nothing has come to their attention that causes the auditor to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and
- (iv) with respect to the aggregate amount of each of the disclosed continuing connected transactions, nothing has come to their attention that causes the auditor to believe that the disclosed continuing connected transactions have exceeded the annual caps as set by the Company, except for the Procurement and Sale Framework Agreement entered into with SDG Group Co. and its subsidiaries, for the details of which, please refer to the above disclosure of “Procurement and Sale Framework Agreement”.

The independent non-executive Directors have reviewed the above-mentioned continuing connected transactions and confirmed that for the year ended 31 December 2020:

- (i) these transactions were entered into in the ordinary and usual course of business of the Group;
- (ii) these transactions were entered into either on normal commercial terms, or on terms no less favourable to the Group than terms available to or from independent third parties; and
- (iii) these transactions were entered into according to the agreements governing them on terms that were fair and reasonable and in the interests of the Shareholders as a whole.

Save as disclosed above, none of the related-party transactions or continuing related-party transactions set out in note 43 to the consolidated financial statements in this annual report fall within the scope of discloseable connected transaction or continuing connected transaction under the Hong Kong Listing Rules. The connected and continuing connected transactions of the Group are in compliance with the disclosure requirements under Chapter 14A of the Hong Kong Listing Rules.

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

Analysis and explanation on changes in accounting policies of the Company are set out in note 2.1.3 to the consolidated financial statements.

REPORT OF THE DIRECTORS

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

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

On 17 October 2016, our Company completed registration and custody procedures at the Shanghai branch of China Securities Depository and Clearing Corporation Limited (中國證券登記結算有限責任公司) of 11,645,629 Shares to 128 individuals at the price of RMB14.30 per Share under the Employee Shareholding Scheme for a subscription amount of RMB166,532,494.70. The relevant Shares were subject to a lockup period of 36 months and were unlocked and vested to the said participants. As of 30 March 2021, there were 11,424,214 unsold shares under the Employee Shareholding Scheme (inclusive of the bonus shares issued in accordance with the 2019 and 2018 equity distribution plan). These Shares accounted for approximately 0.26% of the total number of our Shares. As of 31 December 2020, no further Shares under the Employee Shareholding Scheme have been granted, lapsed or cancelled. Certain Directors and senior management of the Company are currently interested in our Shares under the Employee Shareholding Scheme. For details of their shareholding, please see the sections headed “Disclosure of Interests and Short Positions of the Directors, Supervisors and Chief Executive of the Company” and “Brief Biographies of Directors, Supervisors and Senior Management” in this annual report. The Employee Shareholding Scheme does not constitute a share option scheme pursuant to Chapter 17 of the Hong Kong Listing Rules.

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

BUSINESS REVIEW

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

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

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

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

REPORT OF THE DIRECTORS

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

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

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

SHARE CAPITAL

Details of the movements in the share capital of the Group for the year ended 31 December 2020 are set out in note 37(a) to the consolidated financial statements in this annual report.

RESERVES

Details of the movements in the reserves of the Group for the year ended 31 December 2020 are set out in the consolidated statement of changes in equity on page 132 of this annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2020, pursuant to the relevant laws and regulations, the Group’s distributable reserves amounted to RMB13,466,355,000 (31 December 2019: RMB11,583,572,000). Details of the Company’s distributable reserves are set out on page 243 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of changes in property, plant and equipment of the Group during the year ended 31 December 2020 are set out in note 17 to the consolidated financial statements of this annual report.

SUMMARY FINANCIAL INFORMATION

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

DONATIONS

During the Reporting Period, the Group made charitable and other donations of approximately RMB8.62 million.

REPORT OF THE DIRECTORS

BANK AND OTHER BORROWINGS

Details of the Group's bank and other borrowings for the year ended 31 December 2020 are set out in note 31 to the consolidated financial statements.

ASSETS PLEDGED OR CHARGED

As of 31 December 2020, the Group did not have any material pledge of assets.

FINANCIAL ASSISTANCE AND GUARANTEES TO AFFILIATED COMPANIES

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

EQUITY-LINKED AGREEMENTS

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

MAJOR SUPPLIERS AND CUSTOMERS

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

PERMITTED INDEMNITY PROVISION

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

REPORT OF THE DIRECTORS

DIRECTORS AND SUPERVISORS

The Directors and Supervisors during the year ended 31 December 2020 and up to the date of this annual report are as follows:

Executive Directors:

Mr. Liu Qin (appointed on 30 December 2020)
Mr. Wang Shuhai (appointed on 30 December 2020)
Mr. Tang Qi (re-appointed on 30 December 2020)
Mr. Wang Peiyue (retired on 30 December 2020)
Mr. Li Tao (retired on 30 December 2020)

Non-Executive Directors:

Mr. Li Guohong (*Chairman*) (re-appointed on 30 December 2020)
Mr. Wang Lijun (re-appointed on 30 December 2020)
Ms. Wang Xiaoling (re-appointed on 30 December 2020)

Independent Non-Executive Directors:

Mr. Wang Yunmin (appointed on 30 December 2020)
Mr. Liew Fui Kiang (appointed on 30 December 2020)
Ms. Zhao Feng (appointed on 30 December 2020)
Mr. Gao Yongtao (retired on 30 December 2020)
Mr. Lu Bin (retired on 30 December 2020)
Ms. Hui Wing (retired on 30 December 2020)

Supervisors:

Mr. Li Xiaoping (re-appointed on 30 December 2020)
Ms. Liu Yanfen (re-appointed on 29 December 2020)
Mr. Luan Bo (re-appointed on 30 December 2020)

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

BRIEF BIOGRAPHIES OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

Pursuant to Rule 13.51B(1) of the Hong Kong Listing Rules, the changes in Directors' and Supervisors' information during the Reporting Period and up to the date of this annual report are as below:

On 30 December 2020, the Shareholders approved the election of the sixth session of the Board, pursuant to which, Mr. Wang Peiyue, Mr. Li Tao, Mr. Gao Yongtao, Mr. Lu Bin and Ms. Hui Wing have retired as Directors of the sixth session of the Board, while Mr. Li Guohong, Mr. Wang Lijun, Ms. Wang Xiaoling were elected and re-appointed as non-executive Directors, Mr. Tang Qi was elected and re-appointed as executive Director, Mr. Liu Qin and Mr. Wang Shuhai were appointed as executive Directors, Mr. Wang Yunmin, Mr. Liew Fui Kiang and Ms. Zhao Feng were appointed as independent non-executive Directors. On the even date, the Shareholders approved the sixth session of the Supervisory Committee, and Mr. Li Xiaoping and Mr. Luan Bo were elected and re-appointed as Supervisors.

Ms. Liu Yanfen was re-elected as an employee representative supervisor of the Company at the employees' representative meeting on 29 December 2020.

REPORT OF THE DIRECTORS

Save as disclosed above, during the Reporting Period and up to the date of this annual report, there were no changes to information which are required to be disclosed by the Directors pursuant to Rule 13.51B(1) of the Hong Kong Listing Rules.

SERVICE CONTRACTS OF THE DIRECTORS AND SUPERVISORS

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

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

REMUNERATION OF THE DIRECTORS, SUPERVISORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the remuneration of the Directors, Supervisors and the five highest paid individuals in the Group and remuneration payable to members of senior management by band are set out in note 12 to the consolidated financial statements in this annual report.

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

No Director has waived or has agreed to waive any emoluments during the year ended 31 December 2020.

REMUNERATION POLICY

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

REPORT OF THE DIRECTORS

COMPETING BUSINESS

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

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

As at 31 December 2020, the interests and short positions of the Directors, Supervisors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors, Supervisors and chief executive of the Company are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO to be entered into the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Hong Kong Listing Rules, to be notified to the Company and the Hong Kong Stock Exchange are as follows:

Name	Title	Nature of Interest	Class of Shares	Number of Shares	Long/Short Positions	Approximate percentage of shareholding in the relevant class Shares	Approximate percentage of shareholding in the total issued share capital
Mr. Tang Qi ⁽¹⁾	Executive Director	Beneficial Interest	A Shares	149,056	Long	0.0041%	0.0034%

Note:

(1) Mr. Tang Qi is interested in 149,056 Shares as a participant under the Employee Shareholding Scheme.

Save as disclosed above, as at 31 December 2020, none of the Directors, Supervisors and chief executives of the Company or their associates has any interest or short position in any shares, underlying shares or debentures of the Company or its associated corporations which were required to be recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

REPORT OF THE DIRECTORS

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

As at 31 December 2020, so far as the Directors, Supervisors and chief executive of the Company are aware, the following persons (not being a Director, Supervisor or chief executive of the Company) had interests and long/short positions in the Shares or underlying Shares which required, pursuant to Section 336 of the SFO, to be entered into the register to be kept by the Company referred to therein, or required to be notified to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholders	Nature of Interest	Class of Shares	Number of Shares or underlying Shares held directly or indirectly	Long/Short Positions	Approximate Percentage of Shareholding in the Relevant Class of Shares	Approximate Percentage of Shareholding in the Total Issued Share Capital
SDG Group Co.	Beneficial owner ⁽¹⁾	A Shares	1,671,709,197	Long	46.25%	38.75%
	Interest held by controlled corporation ⁽²⁾	A Shares	345,073,733	Long	9.55%	8.00%
Shandong Gold Geological Mine Exploration Co., Ltd. ("SDG Exploration")	Beneficial owner	A Shares	194,872,049	Long	5.39%	4.52%
Shandong Gold Resources Development Co., Ltd. ("SDG Resources Development")	Interest held by controlled corporation ⁽³⁾	A Shares	194,872,049	Long	5.39%	4.52%
China Structural Reform Fund Corporation Limited (中國國有企業結構調整基金股份有限公司)	Beneficial owner ⁽⁴⁾	H Shares	76,639,270	Long	10.96%	1.78%
CEB-GFAM-China Structural Reform Fund Asset Management Account No. 1	Trustee ⁽⁴⁾	H Shares	76,639,270	Long	10.96%	1.78%
Postal Savings Bank of China Co., Ltd.	Beneficiary of a trust ⁽⁴⁾	H Shares	76,639,270	Long	10.96%	1.78%
Jianxin Trust Co., Ltd. (建信信託有限責任公司)	Interest held by controlled corporation ⁽⁴⁾	H Shares	76,639,270	Long	10.96%	1.78%
Jianxin (Beijing) Investment Fund Management Co., Ltd. (建信(北京)投資基金管理有限責任公司)	Interest held by controlled corporation ⁽⁴⁾	H Shares	76,639,270	Long	10.96%	1.78%
Schroders Plc	Investment Manager	H Shares	84,353,050	Long	12.06%	1.96%

REPORT OF THE DIRECTORS

Notes:

- (1) On 23 January 2017 and 25 September 2017, SDG Group Co. pledged its 196,000,000 Shares and 313,600,000 Shares to the Industrial and Commercial Bank of China, Shandong Branch (中國工商銀行山東省分行) respectively. Such pledged Shares were used as the security for borrowing of SDG Group Co. for its own use, which accounted for approximately 11.81% of total number of our Shares as of 31 December 2020. Industrial and Commercial Bank of China is an authorized institution under the meaning of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).
- (2) These 345,073,733 A Shares comprise 194,872,049 A Shares held by SDG Exploration, 115,477,482 A Shares held by SDG Non-ferrous, 31,467,157 A Shares held by Shandong Gold Group Qingdao Gold Co., Ltd. ("**Qingdao Gold**") and 3,257,045 A Shares held by SDG (Beijing) Industry Investment Co., Ltd. ("**SDG Beijing**"). SDG Exploration is wholly-owned by SDG Resources Development. Each of SDG Resources Development, Qingdao Gold and SDG Beijing is wholly-owned by SDG Group Co.. SDG Group Co. holds 95.65% interest of SDG Non-ferrous. As such, SDG Group Co. is deemed to be interested in the Shares held by SDG Exploration, SDG Non-ferrous, Qingdao Gold and SDG Beijing for the purpose of the SFO.
- (3) SDG Exploration is wholly-owned by SDG Resources Development, and therefore SDG Resources Development is deemed to be interested in all the Shares held by SDG Exploration for the purpose of the SFO.
- (4) Each of Jianxin (Beijing) Investment Fund Management Co., Ltd. (建信(北京)投資基金管理有限責任公司) (the largest shareholder of China Structural Reform Fund Corporation Limited (中國國有企業結構調整基金股份有限公司) ("**China Structural Reform Fund**") held as to 38.2% as at the end of the Reporting Period) and Jianxin Trust Co., Ltd. (建信信託有限責任公司) (the sole shareholder of Jianxin (Beijing) Investment Fund Management Co., Ltd. (建信(北京)投資基金管理有限責任公司) as at 31 December 2020) is deemed to be interested in the Shares held by China Structural Reform Fund for the propose of the SFO. The remaining approximately 58.0% of shares of China Structural Reform Fund were ultimately controlled by State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會) ("**SASAC**"). The controlling person of Postal Savings Bank of China Co., Ltd. is the trust settlor who can influence the rights of Jianxin Trust Co., Ltd. and Jianxin (Beijing) Investment Fund Management Co., Ltd. to exercise its voting powers in China Structural Reform Fund. China Structural Reform Fund has engaged GF Securities Asset Management Guangdong Co., Ltd., an asset manager that is qualified domestic institutional investor as approved by the relevant PRC authority, in the name of CEB-GFAM-China Structural Reform Fund Asset Management Account No. 1 to subscribe for and hold such Shares on a discretionary basis on behalf of the China Structural Reform Fund.

Save as disclosed above, as at 31 December 2020, the Directors are not aware of any person (who were not Directors, Supervisors and chief executive of the Company) who had an interest or short position in the Shares or underlying Shares which would be required to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or were interested in 10% or more of the nominal value of any class of the share capital carrying the rights to vote in all circumstances at general meetings of the Company or had an interest or short position which would be required to be entered into the register to be kept by the Company pursuant to section 336 of the SFO.

REPORT OF THE DIRECTORS

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

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

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed under the paragraphs headed "Continuing connected transactions", no controlling Shareholder or its subsidiary had a material interest, either directly or indirectly, in any contract of significance, whether for the provision of services or otherwise, to the business of the Group to which the Company or any of its subsidiaries was a party during the year ended 31 December 2020.

MANAGEMENT CONTRACTS

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board is of the view that the Company has complied with the code provisions in the CG Code as set out in Appendix 14 to the Hong Kong Listing Rules during the year ended 31 December 2020.

For details of the Corporate Governance Report, please refer to pages from 103 to 120 of this annual report.

STAFF OF THE GROUP

As of 31 December 2020, the Group had a total of 15,770 full-time employees (31 December 2019: 16,134 employees). For the year ended 31 December 2020, the staff cost (including Directors' remuneration in the form of salaries and other benefits) was approximately RMB2,438.8 million (2019: RMB2,451.3 million).

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

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

Staff

The number of current staff of the parent company	2,100
The number of current staff of the major subsidiaries	13,670
Total number of current staff (including staff of domestic enterprises and Chinese staff of overseas enterprises)	15,770
The number of retired employees that parent company and the major subsidiaries are responsible for the retirement expenses	0

REPORT OF THE DIRECTORS

Professional Structure

Classification	Number of Staff
Production	11,048
Sales	78
Technical	1,732
Finance	243
Administration	2,669
Total	15,770

Education

Classification	Number of Staff
Postgraduate or above	491
Bachelor degree	3,002
Tertiary education	2,960
Technical secondary school, high school or below	9,317
Total	15,770

TRAINING PROGRAMMES

In order to facilitate the personnel training and adhere to the key task of the year on the Group's "Thirteenth Five-year" plan, the Group has made plans based on an extensive research on training needs, with targets to strengthen weaknesses, improve capability and enhance efficiency of its employees. The Group's training covered "three teams" including operation management personnel, professionals and technicians. During 2020, 17,304 individuals received training from the 220 training sessions held with a rating of satisfaction of 98.76% in general.

Training for operation management was based on the guiding principles of the Nineteenth National Congress with targets of going international and securitization as well as refined management. The Group aimed at enhancing its strategic planning and creativity through focusing on corporate governance, overseas merger and acquisitions, capital operations, strategic exits, transformation development, basic management etc. During the year, 7,076 individuals received training from the 57 training sessions held.

REPORT OF THE DIRECTORS

Trainings for professionals focused on providing updates on current knowledge and creative enhancement. New trainings on geology, survey, mining, processing, smelting, machinery, electronic, safety, finance and others were provided with focus on enhancing capabilities in profession, implementation and creativity. During the year, 6,443 individuals received training from the 88 training sessions held.

With a focus on the skill training of the unique types of work in mines and by way of skill competitions and skill appraisals, the training of skilled personnel highlights the standardization of practical operation and continuously improves the ability and quality of skilled personnel. 3,785 individuals received training from the 75 training sessions held throughout the year. The effect of training was remarkable, as shown by the fact that 3 individuals were awarded the title of Qilu Chief Technician (齊魯首席技師) in Shandong Province, 5 individuals were awarded the title of Technical Expert of Shandong Province (山東省技術能手), 50 individuals were awarded the title of Gold Industry Technical Expert of Shandong Province (山東省黃金行業技術能手), and 5 individuals were awarded the title of Shandong Gold Group Chief Technician (山東黃金集團首席技師).

OUTSOURCING STATUS

Total working hours of outsourcing services	34,640,606.50 Hours
Total outsourcing payment	RMB1,196,257,400

SHARE CAPITAL

Changes in ordinary Shares

Details of changes in ordinary Shares of the Group for the year ended 31 December 2020 are set out in note 37(a) to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

On 15 December 2020, the Company repurchased and cancelled 25,509,517 A Shares at a total consideration of RMB1 pursuant to the authorization granted by the 2020 second extraordinary general meeting, 2020 third class meeting of A Shares and H Shares held on 25 August 2020. For details of the share buy-back, please refer to the announcement of the Company dated 14 December 2020 and the circular of the Company dated 31 July 2020.

Save as disclosed above, the Board confirmed that neither the Company nor any of its subsidiaries purchased, sold, redeemed or cancelled any of the Company's listed securities during the Reporting Period.

AUDIT COMMITTEE

The audit committee currently comprises of two non-executive Directors, Mr. Li Guohong and Ms. Wang Xiaoling and three independent non-executive Directors, Mr. Wang Yunmin, Mr. Liew Fui Kiang and Ms. Zhao Feng. The chairman of the audit committee is Ms. Zhao Feng.

The audit committee has reviewed the audited annual results of the Group for the year ended 31 December 2020 and further discussed the auditing, internal control and financial reporting matters. The audit committee considers that the annual results of the Group for the year ended 31 December 2020, which have been agreed by the Company's auditors, are in compliance with the applicable accounting standards and relevant laws and regulations and have made sufficient disclosure.

REPORT OF THE DIRECTORS

ISSUANCE AND LISTING OF SECURITIES

Issuance of Securities during the Reporting Period

Types of Shares and their derivative securities	Date of issue	Issue price (or interest rate)	Number of Shares issued	Date of listing	Number of Shares permitted to be listed for trading
Renewable Corporate Bonds	3 December 2020	4.80%	27,000,000	8 December 2020	27,000,000
Renewable Corporate Bonds	21 December 2020	4.69%	13,000,000	24 December 2020	13,000,000

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

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

INFORMATION OF CORPORATE BONDS

Overview of corporate bonds

Unit: RMB

Name of Bonds	Abbreviation	Code	Date of Issuance	Date of Maturity	Outstanding Balance	Interest Rate (%)	Payment of Principal and Interest	Place of Listing
The 2013 Corporate Bond (the Second Tranche)	13 Lujin 02	122284	2015.3.30	2020.3.30	0.00	5.30	Interest to be paid annually, principal to be repaid at maturity	Shanghai Stock Exchange
The 2019 Public Issuance of Green Corporate Bonds	G19 Lujin 1	155270	2019.3.22	2022.3.22	1,000,000,000.00	3.85	Interest to be paid annually, principal to be repaid at maturity	Shanghai Stock Exchange
The 2020 Public Issuance of Renewable Corporate Bonds (for Professional Investors) (the First Tranche)	20 Lujin Y1	175514	2020.12.3	2023.12.3	2,700,000,000.00	4.80	Interest to be paid annually, principal to be repaid at maturity	Shanghai Stock Exchange
The 2020 Public Issuance of Renewable Corporate Bonds (for Professional Investors) (the Second Tranche)	20 Lujin Y2	175566	2020.12.21	2023.12.21	1,300,000,000.00	4.69	Interest to be paid annually, principal to be repaid at maturity	Shanghai Stock Exchange

As at 31 December 2020, the Company issued certain ultra short-term financing bonds in aggregate of approximately RMB1,500,000,000 which are carried interests at fixed market rates of 1.55% to 2.3% per annum and repayable in June 2021 (2019: nil).

Settlement of interests and principals of the corporate bonds

On 30 March 2020, the Company paid the interest for the final annual period from 30 March 2019 to 29 March 2020 and principal of the 2013 Corporate Bond (the Second Tranche) of Shandong Gold Mining Co., Ltd. issued by the Company on 30 March 2015 and the said corporate bond was delisted. For details, please refer to the announcement of the Company published on the website of the Hong Kong Stock Exchange on 20 March 2020.

REPORT OF THE DIRECTORS

On 23 March 2020, the Company paid the interest for the period from 22 March 2019 to 21 March 2020 of the 2019 Green Corporate Bonds of Shandong Gold Mining Co., Ltd. issued by the Company on 22 March 2019; and on 22 March 2021, the Company paid the interest for the period from 22 March 2020 to 21 March 2021 of the said corporate bond. For details, please refer to the Announcement on the 2020 Settlement of Interests and Principals of the 2019 Public Issuance of Green Corporate Bonds of Shandong Gold Mining Co., Ltd. (LIN 2020-012) and the Announcement on the 2021 Settlement of Interests and Principals of the 2019 Public Issuance of Green Corporate Bonds of Shandong Gold Mining Co., Ltd. (LIN 2021-015) published on China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily and the website of Shanghai Stock Exchange at <http://www.sse.com.cn> on 13 March 2020 and 12 March 2021, respectively.

There was no interest payment date due for “20 Lujin Y1” during the Reporting Period.

There was no interest payment date due for “20 Lujin Y2” during the Reporting Period.

Description of the Employee Shareholding Scheme

The procedures of registration and custody for the newly-added shares under the Phase One Employee Shareholding Scheme of Shandong Gold were completed with the Shanghai Branch of China Securities Depository and Clearing Corporation Limited on 17 October 2016. There are a total of 11,645,629 Shares subscribed for under the Employee Shareholding Scheme with a subscription amount of RMB166,532,494.70 and a final issue price of RMB14.30 per Share. The newly-added Shares are floating Shares subject to trading moratorium for a period of 36 months. The listing and trading of Shares subject to trading moratorium under the non-public issue commenced on 21 October 2019.

SHARE OPTION SCHEME

During the Reporting Period, the Group has no share option scheme.

PRE-EMPTIVE RIGHTS

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

DEBENTURES

Details of debenture are set out in note 31 to the consolidated financial statements.

ACQUISITIONS, DISPOSALS AND MERGERS

Save as to the discloseable and connected transaction of SDG Capital Management under “Events during the Reporting Period”, the Company has no other material acquisitions, disposal or merger of subsidiaries, associates and joint ventures during the Reporting Period.

REPORT OF THE DIRECTORS

RETAINED PROFITS

As at 31 December 2020, details of the Group's retained profits are set out on page 131 of this annual report.

CONTINGENCIES

Details of contingent liabilities are set out in note 40 to the consolidated financial statements.

TAXATIONS

Details of the Group's taxation are set out in note 10 to the consolidated financial statements.

DIVIDEND POLICY

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

TAX RELIEF AND EXEMPTION

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

RESULTS AND DIVIDENDS DISTRIBUTION

The results of the Group for the year ended 31 December 2020 are set out in the consolidated statement of profit or loss and the consolidated statement of comprehensive income on pages 128 to 129 of this annual report.

A payment of cash dividend of RMB0.5 per 10 Share (inclusive of taxes) is proposed to be paid to all Shareholders. As at 31 December 2020, the Company has a total share capital of 4,313,946,766 Shares. The Company issued additional 159,482,759 H Shares on 29 January 2021, the Company's total share capital increased to 4,473,429,525 Shares. At the board meeting held on 30 March 2021 that a resolution in relation to the payment of cash dividend was passed, the Company has a total share capital of 4,473,429,525 Shares, and the proposed payment of cash dividends in the amount of approximately RMB223.7 million is calculated on such basis. The remaining undistributed profits are carried forward for the subsequent annual distribution. The above proposal will be put forward at the forthcoming annual general meeting of the Company for consideration and approval. The specific arrangements regarding the final dividend and its distribution and the time and arrangement of the closure of register of members of H Shares will be disclosed separately in the circular for the annual general meeting. If approved at the annual general meeting, the Company shall distribute the dividend within two months after the date of the annual general meeting. The Company shall announce separately the exact expected dividend payment date.

REPORT OF THE DIRECTORS

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.

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.

REPORT OF THE DIRECTORS

PROFIT DISTRIBUTION TO INVESTORS OF SOUTHBOUND TRADING

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

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

PUBLIC FLOAT

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

AUDITOR

TianYuanQuan Certified Public Accountants (Special General Partnership) (“**Tianyuanquan**”) and SHINEWING (HK) CPA Limited (“**Shinewing**”) have been acting as domestic and international auditor of the Company during the year ended 31 December 2020, respectively.

Tianyuanquan and Shinewing shall retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-appointment. Due to the Company's acquisition of SDG Capital Management, which increased the scope and business volume of the domestic auditor, and increased the scope and workload of the internal control audit, the audit fee for annual report of the accounting firm for 2020 increased from RMB3 million to RMB3.4 million. Internal control audit fees for 2020 increased from RMB1.4 million to RMB1.55 million. If there will be no change in the scope and business volume of auditing, as well as the scope and business volume of internal control audit in 2021, the annual report audit fee for 2021 will continue to be implemented at RMB3.4 million; and the internal control audit service fee for 2021 will continue to be implemented at RMB1.55 million. Shinewing and its affiliate firm's audit fee for 2020 was RMB4.28 million, and the audit fee for 2021 is estimated be remained at RMB4.28 million. If the asset scale and audit business volume change, the Company will determine the financial report verification fee for 2021 based on the change. A resolution for the re-appointment of Tianyuanquan and Shinewing as domestic and international auditor of the Company, respectively will be proposed at the forthcoming annual general meeting.

REPORT OF THE DIRECTORS

EVENTS DURING THE REPORTING PERIOD

Provision of Guarantee for Financing of SDG Hong Kong

On 18 September 2020, the Shareholders approved a loan of the Company with a term of one year and the provision of guarantee of no more than US\$1,100 million. As of 31 December 2020, the Company has provided counter-guarantee for SDG Hong Kong in a sum of US\$935 million. For details, please refer to the circulars of the Company dated 23 January 2020 and 28 August 2020.

EVENTS AFTER REPORTING PERIOD

Completion of Compulsory Acquisition of Cardinal Resources Limited

On 15 March 2021, the Company announced that SDG Hong Kong has conducted and completed the compulsory acquisition on the shares of Cardinal in accordance with the Corporations Act 2001. For details, please refer to the announcement of the Company dated 15 March 2021.

By order of the Board of Directors

Li Guohong

Chairman

Jinan, the PRC

30 March 2021

REPORT OF THE SUPERVISORY COMMITTEE

In 2020, the Fifth Supervisory Committee of Shandong Gold Mining Co., Ltd. strictly complied with the requirements of the PRC Company Law, the Articles of Association, the Rules of Procedures of the Supervisory Committee and other relevant laws, regulations and departmental rules, adhered to the principle of good faith, earnestly performed their supervisory duties, and actively carried out various tasks, effectively protected the Shareholders' rights and corporate interests of the Company and the legitimate rights and interests of its employees. Due to the expiration of the term of office of the Fifth Supervisory Committee, the Company held the sixth extraordinary general meeting on 30 December 2020, and elected 2 shareholder Supervisors of the Sixth Session of the Supervisory Committee and elected 1 employee Supervisor through the Workers' Congress, with a term of three years. The main work report of the Supervisory Committee in 2020 is as follows:

I. DAILY WORK OF THE SUPERVISORY COMMITTEE

During the Reporting Period, the Supervisory Committee held a total of ten meetings mainly to supervise and inspect on lawful operation of the Company, significant acquisition, the Company's financial position, connected transactions, the use of proceeds of the Company, the implementation of decisions made by the Board of Directors, the establishment of risk management and control system and major business management issues. The specific matters were reviewed as follows:

Convening of the Meeting	Participants	Resolution of the Meeting
On 7 January 2020, the 14th meeting of the Fifth Session of the Supervisory Committee was held in the Company's conference room by means of on-site	3 Supervisors should attend the meeting and 3 Supervisors actually attended the meeting	Reviewed and approved 3 resolutions, including the "Resolution on the Provision of Guarantee for the Financing of an Overseas Subsidiary", "Resolution on the Replacement of 2019 H Share Accounting Firm of the Company to SHINEWING (HK) CPA LIMITED" and the "Resolution on the Resignation of Supervisor and By-election of Supervisor for the Fifth Session of the Supervisory Committee".
On 16 April 2020, the 15th meeting of the Fifth Session of the Supervisory Committee was held in the Company's conference room by means of on-site	3 Supervisors should attend the meeting and 3 Supervisors actually attended the meeting	Reviewed and approved 16 resolutions, including the "2019 Work Report of the Supervisory Committee", the "2019 Final Financial Report", the "2019 Financial Budget Report", the "Resolution on the Reviewing of the Annual Report and its Summary of the Company for 2019", the "Resolution on the Plan of Profit Distribution for 2019 and the Issue of Shares by way of Conversion of Capital Reserve", the "Resolution Regarding the Estimation of Normal Connected Transactions in 2020", the "Resolution Regarding Re-appointment of the Accounting Firms for 2020", the "Resolution Regarding Re-appointment of Internal Control Auditor for 2020", the "Resolution Regarding the 2019 Appraisal Report on Internal Control", the "Social Responsibility Report for 2019", the "Special Audit Report Regarding the Commitment of the Company on Results Performance for 2019", the "Resolution Regarding the Special Report on Saving and Use of Proceeds of the Company for 2019", the "Resolution Regarding Impairment Test of the Company's Major Asset Restructuring Target Assets", the "Resolution Regarding the Provision for Impairment of Assets for 2019", the "Resolution Regarding the Signing of Mining Right Leasing Agreement of Jiaojia Gold Mine Between Jiaojia Gold Mine of Shandong Gold Mining (Laizhou) Co., Ltd. and Shandong Gold Group Co., Ltd." and the "Resolution Regarding the Signing of Financial Service Framework Agreement with Finance Company".

REPORT OF THE SUPERVISORY COMMITTEE

Convening of the Meeting	Participants	Resolution of the Meeting
On 28 April 2020, the 16th meeting of the Fifth Session of the Supervisory Committee was held in the Company's conference room by means of on-site	3 Supervisors should attend the meeting and 3 Supervisors actually attended the meeting	Reviewed and approved the "Full Text and Main Text of the First Quarterly Report of the Company for 2020".
On 8 May 2020, the 17th meeting of the Fifth Session of the Supervisory Committee was held in the Company's conference room by means of on-site	3 Supervisors should attend the meeting and 3 Supervisors actually attended the meeting	Reviewed and approved 2 resolutions, including the "Resolution on the Acquisition of TMAC Resources Inc. and the Signing of Documents related to the Acquisition under the Arrangement Agreement" and the "Resolution on the Subscription of Additional Shares of TMAC Resources Inc. by a Wholly-owned Subsidiary".
On 18 June 2020, the 18th meeting of the Fifth Session of the Supervisory Committee was held in the Company's conference room by means of on-site	3 Supervisors should attend the meeting and 3 Supervisors actually attended the meeting	Reviewed and approved the "Resolutions on the Acquisition of Cardinal Resources and the Signing of Relevant Documents".
On 27 August 2020, the 19th meeting of the Fifth Session of the Supervisory Committee was held in the Company's conference room by means of on-site	3 Supervisors should attend the meeting and 3 Supervisors actually attended the meeting	Reviewed and approved 2 resolutions, including the "Resolution on the Reviewing of the Annual Report and its Summary of the Company for 2020" and the "Resolution on the Provision of Guarantee for the Financing of An Overseas Subsidiary".
On 18 September 2020, the 20th meeting of the Fifth Session of the Supervisory Committee was held in the Company's conference room by means of on-site	3 Supervisors should attend the meeting and 3 Supervisors actually attended the meeting	Reviewed and approved 2 resolutions, including the "Resolution on the Company's Satisfaction of the Conditions for Public Issuance of Renewable Corporate Bonds" and the "Resolution on the Company's Proposed Issuance of Renewable Corporate Bonds".

REPORT OF THE SUPERVISORY COMMITTEE

Convening of the Meeting	Participants	Resolution of the Meeting
On 30 September 2020, the 21st meeting of the Fifth Session of the Supervisory Committee was held in the Company's conference room by means of on-site and communication	3 Supervisors should attend the meeting and 3 Supervisors actually attended the meeting	Reviewed and approved 4 resolutions, including the "Resolution on the Acquisition of Hengxing Gold Holding Company Limited", reviewed and approved the "Resolution on the Issue of and the Listing of the New H Shares on the Hong Kong Stock Exchange" item by item, reviewed and approved the "Resolution on the Report on the Use of Proceeds Previously Raised by the Company" and the "Resolution on Hong Kong Wholly Owned Subsidiaries' Borrowing from Related Parties".
On 28 October 2020, the 22nd meeting of the Fifth Session of the Supervisory Committee was held in the Company's conference room by means of on-site and communication	3 Supervisors should attend the meeting and 3 Supervisors actually attended the meeting	Reviewed and approved 2 resolutions, including the "Full Text and Main Text of the Third Quarterly Report of the Company for 2020" and the "Resolution Regarding the Temporary Use of Certain Idle Funds from the Fundraising to Replenish Working Capital of the Company".
On 3 December 2020, the 23rd meeting of the Fifth Session of the Supervisory Committee was held in the Company's conference room by means of on-site and communication	3 Supervisors should attend the meeting and 3 Supervisors actually attended the meeting	Reviewed and approved 2 resolutions, including the "Resolution Regarding the Election of Shareholder Supervisors of the Sixth Session of the Supervisory Committee" and the "Resolution Regarding Signing of Integrated Service Framework Agreement and the Confirmation of the Caps for Normal Connected Transactions of the Company in 2021-2023".

II. INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE ON THE RELEVANT MATTERS OF THE COMPANY IN 2020

(I) Lawful operation of the Company

In 2020, the Supervisors attended the general meetings and Board meetings of the Company in accordance with laws, and supervised the decision-making procedures of the meetings, the implementation of resolutions of the general meeting by the Board of Directors and the duty performance of the Directors and senior management of the Company. The Supervisory Committee believes that, the Company's decision-making procedures were in strict accordance with the PRC Company Law, the Securities Law, the Articles of Association and other relevant laws and regulations, and the operation of the Board of Directors was compliant, its operational decisions were reasonable and effective, it has conscientiously implemented the resolutions of the general meeting. The Directors and senior management worked diligently during the Reporting Period, without any violation of laws and regulations and the Articles of Association or any prejudice to the interests of the Company and its Shareholders. In order to further standardize the operation, the Company was constantly improving and perfecting the internal control system.

REPORT OF THE SUPERVISORY COMMITTEE

(II) Inspection of the Company's financial position

The Supervisory Committee supervised the financial operation of the Company in 2020 through careful examination and review of the Company's accounting statements, financial reports and other financial information. The Supervisory Committee believes that, the Company strictly implemented the Accounting Standards for Business Enterprises. The financial system and internal control system of the Company were relatively sound, its financial operation was compliant, and its financial position was healthy. The periodic reports and review procedures of the Company were formulated in compliance with the requirements of laws, regulations and the Articles of Association. The audit report with compliant unqualified opinion for 2019 issued by Tianyuanquan and Shinewing gave a fair and objective view of the financial position and operating results of the Company.

(III) The use of proceeds

During the Reporting Period, the Supervisory Committee supervised the saving and use of proceeds of the Company, reviewed the Company's Special Report on Saving and Use of Proceeds for 2019. The Supervisory Committee believes that, the Company formulated the Measures for the Management of Proceeds, established the management system of proceeds, and managed and used the proceeds in strict accordance with the requirements of the system. The procedures for the use of proceeds were compliant, and the Company saved the proceeds in a special account for special use. The actual investment project was in line with the committed investment project, without any changes in the use of the proceeds and any prejudice to the interests of the Shareholders as well as violations in the use of proceeds. The Board of Directors and the Supervisory Committee of the Company reviewed and approved the Resolution of the Company Regarding Temporary Use of Certain Idle Funds from the Fundraising to Replenish Working Capital in strict accordance with the decision-making procedures, and the procedure was compliant, lawful and effective. The use of part of the unused proceeds to temporarily replenish its working capital improved the proceeds utilization efficiency and saved the financial costs of the Company.

(IV) Connected transactions of the Company

The Supervisory Committee supervised and verified the connected transactions conducted during the Reporting Period, and reviewed the "Resolution Regarding the Estimation of Normal Connected Transactions in 2020" and the "Resolution Regarding Signing of Integrated Service Framework Agreement and Confirmation of the Caps for Normal Connected Transactions of the Company in 2021-2023". The Supervisory Committee believes that, the Company's connected transactions followed the objective, just and fair trading principles. The connected transactions conducted by the Company were fully demonstrated and cautiously decided by the Board of Directors and the management, and those transactions were necessary for the normal production and operation of the Company. The price, content, pricing method and basis of the connected transactions were objective and fair and in the interests of the Company and all of its Shareholders, without any prejudice to the interests of the medium and minority Shareholders and other non-connected Shareholders. The resolutions involved connected transactions fulfilled corresponding legal procedures and the resolutions were voted through in the absence of related parties. The independent non-executive Directors made objective and independent judgments over the connected transactions, and the relevant information disclosure was adequately made in a timely manner, without any prejudice to the interests of the Company and its Shareholders.

REPORT OF THE SUPERVISORY COMMITTEE

(V) The acquisition of major assets by the Company

The Supervisory Committee has reviewed the acquisition of major assets by the Company during the Reporting Period. The Supervisory Committee is of the view that, the relevant resolutions and decision-making procedures for the Company's acquisition of TMAC Resources Inc., Cardinal Resources Limited and Hengxing Gold Holding Company Limited were lawful and compliant, and the prices were fair and reasonable without any insider trading or prejudice to the rights and interests of the Shareholders, and without resulting in any loss of assets of the Company.

(VI) Opinions on the internal control evaluation report

The Supervisory Committee reviewed the evaluation report on internal control of the Company, and the establishment and operation of the internal control system of the Company for 2020. The Supervisory Committee believes that the Company's internal control organization was set up completely and scientifically with a sound and effective internal control system. The Evaluation Report on Internal Control for 2020 has comprehensively, objectively, truly and accurately reflected the actual situation of the establishment, improvement and operation of the Company's internal control system.

(VII) Establishment and implementation of the insider information management system

The Supervisory Committee verified the Company's implementation of the Insider Information Management System during the Reporting Period. The Supervisory Committee believes that, the Company has formulated the Insider Information Management System, the Company's inside information management was compliant and sound, and all insiders of each link were truthfully and completely registered before the disclosure of inside information. No violation of regulations such as insider trading by relevant personnel with inside information was found.

(VIII) External guarantee

During the Reporting Period, the Supervisory Committee verified the Company's provision of guarantee for financing of Shandong Gold Mining (Hong Kong) Co., Limited. The Supervisory Committee believes that, the guarantee was approved by the Board of Directors and the resolution of the general meeting, the procedures were compliant and legal, and there was no violation of external guarantee. The Company's provision of guarantee for SDG Hong Kong would meet the capital demand of overseas merger and acquisition as well as operation, effectively use overseas capital market for financing, reduce financing cost and improve decision-making efficiency.

REPORT OF THE SUPERVISORY COMMITTEE

III. THE WORK PLAN FOR 2021

In 2021, we will continue to fulfill our duties diligently in strict accordance with the PRC Company Law, the Securities Law and other laws and regulations as well as the Articles of Association, urge the Board of Directors and management of the Company to make decisions and operate according to law, enhance information management, prevent insider trading, improve internal control and corporate governance, and protect the interests of the Company and all of its Shareholders.

(I) Perform duties of Supervisors diligently and promote compliant operation

Attend the general meetings and the Board meetings in a timely manner to earnestly perform the duties of the Supervisory Committee. Firstly, carry out daily supervision work, strengthen the work communication with the Board of Directors and the management, and have a timely understanding on major matters of the Company and each decision-making procedure, supervise the Board of Directors and senior managers according to law, to make their decision-making and business activities more standardized and legal, so as to better protect the interests of the Shareholders; secondly, comprehensively grasp the establishment and operation of the internal control system of the Company, pay attention to the legitimacy, effectiveness and adaptability of the internal control system, and inspect the implementation of the internal control system. Thirdly, continue to maintain communication with the internal and external auditing firms through supervising and inspecting financial position of the Company, keep strengthening the supervision and inspection on the corporations, prevent operational risks and further protect the interests of the Company and its Shareholders.

(II) Strengthen supervision and inspection to prevent operational risks

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

(III) Practically strengthen self-improvement to raise the supervisory level

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

Shandong Gold Mining Co., Ltd.
Supervisory Committee

30 March 2021

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

This is the Environmental, Social and Governance Report (ESG Report) of Shandong Gold Mining Co., Ltd. for 2020. For readers' convenience, "Shandong Gold Mining Co., Ltd." is also referred to in this report as "Shandong Gold", the "Company" or "we/us".

■ Statement of the Board of Directors

The Board of Directors of Shandong Gold continues to promote and facilitate the Company's compliance with its obligations, including the fulfillment of relevant information disclosure obligations.

■ Reporting Scope

This report covers the economic, environmental and social performance of Shandong Gold and its subsidiaries. This report covers the period from 1 January 2020 to 31 December 2020, with some information beyond above-mentioned reporting period.

■ Reporting Principles

This report has been prepared in accordance with the principles of materiality, quantification, consistency and balance, and substantive issues have been screened and identified to ensure that the information in this report is objective, standardised, true and transparent.

■ Reference Standards

This report is prepared in strict compliance with the requirements of Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the Hong Kong Listing Rules to provide a comprehensive and systematic disclosure of the guidelines of Shandong Gold on ESG as well as the actions taken and results achieved in 2020, for the purpose of facilitating communication and exchange with the stakeholders.

■ Information Sources

All the information and data adopted in this report was derived from the official documents, statistical reports and financial reports of Shandong Gold, which has been summarized and reviewed by the relevant functional departments of the Company. Should there be any discrepancy between the financial data and that in the annual report, the latter shall prevail.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

I. ESG MANAGEMENT SYSTEM

(I) ESG Philosophy

Shandong Gold has a firm belief in its principle known as “Caring for Employees, Repaying Shareholders, Contributing to the Well-being of the Society and to the Country’s Prosperity” and its core values of “Openness, Accommodation, Dedication and Responsibility”, with equal concern placed on economic, social and environmental benefits. We have been striving for standardized governance and innovation in capital operation, making relentless effort towards our goal of “Double Zeros” (zero accident on safety and zero accident on environmental protection), actively participating in the causes of ecological environmental protection and targeted poverty alleviation, pursuing high-quality sustainable development and benefiting as many people as possible with our efforts and contributions.

Shandong Gold adheres to its green development philosophy of “Commitment to Protecting Our Environment, and Making the World a Better Place with Love”, maintaining the balance between resource development and comprehensive utilization, energy conservation and environmental protection, technological transformation and safe production, and vigorously developing circular economy and low-carbon economy, promoting clean production and protecting our ecological civilization.

In addition to its responsibility of creating value for the stakeholders, the Company adheres to its talent guidelines of “Selecting Talents with both Capability and Integrity”, with the aim of protecting the rights and interests of its employees, safeguarding their occupational well-being, so that they can grow happily with the Company; we operate honestly and insist on transparent procurement, maintaining a mutually beneficial relationship with our partners along the supply chain; we blend in with the community and participate in public welfare activities such as charitable donations, supporting students in need, targeted poverty alleviation and fight against the pandemic, making joint efforts to keep peace and harmony in the community.

The Company received two distinguished awards, namely “Top 50 Most Popular Listed Companies by Institutions” and “Top 5 of the Materials Industry” under the Wind China 2020 Listed Companies Ranking, and other awards, including “China Top 100 Enterprises Award” and “China Top 100 20 Years Special Contribution Enterprise Award”, “Evergreen Awards – Sustainable Development Inclusion Award”, “Top 10 Management Teams on the Main Board” and the “Social Responsibility Award” under The 14th China Listed Companies Value Awards, “Best Board of Directors on the Main Board” in the 11th Tianma Awards for Investor Relations of Listed Companies in China, etc..

(II) ESG Management Structure

In order to put our ESG philosophy into practice, the Board of Directors of Shandong Gold has established the Strategic Development Committee, with the Chairman of the Board of Directors acting as the head of the Committee. The Committee is responsible for, among others, the implementation of the Company’s strategies, decision-making on important issues, resolution of cross-division issues, setting forward-looking targets, discussing business and strategic plans for sustainable development in a timely manner, identifying opportunities and risks for sustainable development in a comprehensive way, and enhancing the Company’s capability of sustainable development. In addition, the Company regularly organizes its functional departments including corporate management, scientific and technological research and development, safety and environmental protection, material procurement, human resources, and corporate culture development to discuss and exchange views on the implementation of sustainable development strategies, settlement of important issues, etc., aiming to continuously improve our corporate governance for sustainable development.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

(III) Stakeholder Communication

Shandong Gold has established a sound communication mechanism with its stakeholders, responded to their requests and expectations through various channels and platforms, strengthened its own capacity building and joined hands with stakeholders to promote economic development, environmental friendliness and social harmony so as to ensure the stable development of the Company.

Mechanism for Communication with Stakeholders

Type of Stakeholders	Main ESG concerns	Communication channels/ means of feedback
Government and regulatory authorities	Emissions, use of resources, environment and natural resources, climate change, employment, labor standards, product responsibility, anti-corruption and community investment	Special reports, on-site visits, policy consultation, information disclosure, correspondence and participation in meetings of government authorities
Investors and shareholders	Employment, anti-corruption and product responsibility	General meetings, investors' meetings, business announcement meetings, official website
Employees	Employment, labor standards	Communication meetings, performance review, independent research and investigation
Suppliers, contractors and intermediaries	Product responsibility, supply chain management and anti-corruption	Market research, supplier investigations, supplier meetings
Media and non-government organizations	Emissions, use of resources, environment and natural resources, climate change, health and safety, employment, labor standards, community investment	Official website, news reports, social media, communication meetings
Community members	Emissions, use of resources, environment and natural resources, health and safety and community investment	On-site visits, charitable activities and social media

(IV) Identification of Substantive Issues

Based on the 12 ESG issues listed in the “Environmental, Social and Governance Reporting Guide” issued by the Hong Kong Stock Exchange, we have conducted substantive analysis on the “importance to the Company’s development” and the “importance to the stakeholders” and use this as an important basis for information disclosure. Our analysis found that the most important ESG issues for Shandong Gold are “emission”, “use of resources”, “environment and natural resources”, “climate change”, “health and safety”, “employment” and “labor standards”. The next most important issues include “anti-corruption”, “product responsibility”, “development and training”, “supply chain management” and “community investment”.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

II. ENVIRONMENTAL RESPONSIBILITY

Shandong Gold has always believed that its leading position in gold production must be achieved through a circular mining development model guided by the concept of ecological civilization and that we must always insist on “Commitment to Protecting Our Environment, and Making the World a Better Place with Love” to become a first-class international gold enterprise. As a responsible company, Shandong Gold complies strictly with the relevant laws and regulations such as the Environmental Protection Law of the People’s Republic of China, the Law of the People’s Republic of China on Appraising of Environment Impacts, the Energy Conservation Law of the People’s Republic of China and the Cleaner Production Promotion Law of the People’s Republic of China, trying to build a sustainable mineral resources industry chain and establish a brand image of “Building Shandong Gold into an Eco-friendly Mining Company”.

The Company has formulated the “Accountability System for Ecological Environment Protection of Shandong Gold” and established a hierarchical management system for its environmental protection efforts. The Company and its subsidiaries set up an eco-mining construction committee, established an eco-mining departments or arranged for full-time environmental management staff to be responsible for the day-to-day work of environmental protection and eco-mining construction. In addition, the Company and its subsidiaries frequently organized environmental protection training programs and emergency drills to enhance their employees’ awareness of environmental protection. In 2020, the total investment of the Company’s domestic subsidiaries in environmental protection amounted to RMB166,616,100, and 60 training sessions on environmental protection were held with 7,623 participants accumulated; the total investment of the Company’s offshore subsidiaries in environmental protection amounted to RMB55,600,000, and 48 training sessions on environmental protection were held with 3,693 participants accumulated.

(I) Emission Management

The Company strictly complies with the Water Pollution Prevention and Control Law of the People’s Republic of China, the Air Pollution Prevention and Control Law of the People’s Republic of China, the Law of the People’s Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste and other relevant laws and regulations, treats domestic sewage, industrial wastewater and waste gas in compliance with the regulations, and treats the waste generated from production and operation in a reduced and harmless manner. The subsidiaries of the Company continued to implement “three wastes” compliance special rectification activities, upgraded 87 sets of waste gas and waste water treatment facilities, completed 32 closed pile sheds for ore and 52 storage facilities for hazardous waste. In 2020, the Company and its subsidiaries achieved 100% compliance with standards in respect of “three wastes” discharge, with solid waste completely reused or safely disposed of.

1. Waste Gas Treatment

The Company strictly controls the dust/smoke, acid gas and nitrogen oxides generated during the mining and smelting processes by carrying out comprehensive treatment of waste gas to ensure the total density and rate of emissions meet the relevant standards.

Sanshandao Gold Mine of Shandong Gold Mining (Laizhou) Co., Ltd. invested RMB5 million to upgrade the de-dusting system of the fine crushing plant in the Xinli processing workshop by replacing the original wet type deduster with a high efficiency bag type deduster, the testing results of which show that it meets the emission standards, reduces dust emissions and satisfies the requirements of the key control area of the Comprehensive Standards for Regional Air Pollutant Emission in Shandong Province. Shandong Gold Smelting Co., Ltd. implemented the concept of “smoke-free emission” and invested more than RMB700,000 to apply electromagnetic de-whitening technology for comprehensive waste gas treatment, and completed the installation and commissioning of the equipment in June. According to the result of third-party testing, the concentration of external pollutants was reduced by more than 20% compared to the first quarter, effectively achieving the target of meeting the emission standards for clean gas.

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2. Wastewater Treatment

The wastewater discharged by the Company is mainly domestic sewage, underground water and industrial wastewater, among which the domestic sewage is used for watering the plant, spraying on the road for dust suppression and flushing the toilet after being treated by sewage treatment facilities, the underground water is used in underground mining and production, the condensed water for production and return water from tailings are recycled, the water for flotation process is directly recycled to the gold concentrate pulping section, the water for cyanidation process is treated and reused in the cyanidation section, and the water for refining process is neutralized and treated and then returned to the cyanidation and flotation section. In 2020, the Company had no external wastewater discharge from beneficiation-metallurgy process with a 100% recycle rate.

Jiaojia Gold Mine of Shandong Gold Mining (Laizhou) Co., Ltd. was listed as key pollutant discharge unit of water environment in 2020 by the Shandong Provincial Department of Ecology and Environment. Part of the underground gushing water is used for mining and spraying for dust suppression at the Jiaojia Gold Mine, part of mine water is transferred to the processing plant as supplementary water for processing and production and the excess mine water is treated to meet the standards before discharge; a 1,000m³/d domestic wastewater treatment plant has been built and the treated water is used for afforestation irrigation with a 100% wastewater treatment rate.

3. Non-hazardous Waste Storage and Disposal

The non-hazardous waste produced by the Company is mainly the waste rocks and tailings produced during the production process. Waste rocks from the mining process are mainly used for underground backfilling, dam construction for tailings depot, or as stones for construction. Tailings produced during processing are mainly used for underground filling and cavity filling, which have all been used or safely disposed of.

In response to the problem of insufficient storage capacity in the mine tailings depots, Xinhui Company, a subsidiary of the Company, proposed a model of reuse by dewatering coarse-grained tailings filled with a high concentration of fine-grained tailings, and creatively developed fast-setting and early-strengthening cementing materials for fine-grained tailings, filling the gap of cementing materials for fine-grained tailings in China and realising “zero” discharge of tailings from the gold mine tailings depots.

4. Hazardous Waste Storage and Disposal

The main hazardous wastes generated by the Company are cyanide tailings and waste motor oil. The Company strictly complies with the national standards such as the “Pollution Control Standards for Storage of Hazardous Waste (GB18579-2001)” and strengthened the standardised management of hazardous waste and cyanide tailings in accordance with the requirements of the new Law of the People’s Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste and the Hazardous Waste List. It strictly follows the rule of “five-sheet bill for hazardous waste transfer”, with hazardous waste depots set up by its subsidiaries and companies with operating qualifications engaged to safely handle the hazardous waste.

Shandong Gold Guilaizhuang Mining Co., Ltd. was named by the Department of Ecology and Environment of Shandong Province as key soil-impairing pollutant dischargers in 2020. The Company uses sodium coke thiosulfate + sulphuric acid for cyanide removal from the whole ore cyanidation tailings and discharges them to tailings depots that satisfy the anti-leakage requirements if standards are met. Other hazardous wastes are stored in the hazardous waste depot in accordance with the standard and managed in a regulated manner to reduce the generation of hazardous wastes at source.

5. Noise Control

The Company adopts noise reduction, vibration reduction and sound insulation measures for the main noisy equipment to reduce the impact of noise on the surrounding environment.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

(II) Use of Resources

The Company takes science and technology as its guide, relies on innovative energy management, improves the construction of related systems of energy-saving management, strengthens the management of energy consumption indicators, carries out related trainings on energy management and publicity of energy-saving concepts, and continuously improves the level of energy management; it accelerates the elimination of outdated technologies and equipment with high energy consumption, actively develops and promotes the application of new technologies, new technics, new equipment and new materials for energy-saving, seeking to improve the utilization rate of resources.

1. Use of Mineral Resources

Mineral resources are the foundation resource of the Company's operation. The Company continues to enhance its scientific and technological innovation ability, insistently optimizes its mining methods and processing procedure and rationalise its production layout, so as to continuously improve the level of conservation and comprehensive utilisation of mineral resources.

Jiaojia Gold Mine launched a "low grade resources" integrated utilization project to prepare "low grade resources", previously defined as waste rock, into sand and gravel aggregates for underground tunnel support engineering, improving support engineering efficiency and reducing support engineering costs.

2. Use of Natural Resources

Water-saving management: The water resources used by the Company mainly include municipal water supply and recycled water in the production process. The Company vigorously develops a circular economy, further explores the water-saving capacity of its installations and promotes the "full cycle" of industrial water to improve water efficiency. In daily office work, we create an atmosphere of water conservation and enhance staff awareness of water conservation, thereby continuously creating a "water-saving" enterprise.

Electricity-saving management: The Company advocates electricity-saving and constructs green office building. The electricity-saving measures carried out by the Company mainly include: the lighting facilities used by the Company are all LED light tubes; the air-conditioning temperature in summer shall not be lower than 26°C; computers, printers, and photocopiers are turned off during lunch breaks and the power supply of office equipment will be cut off completely after eight hours of work; employees are reminded to turn off the power facilities after work and designated personnel are arranged to inspect after work so as to avoid "keeping lights on at all times" in unmanned office areas; and employees are encouraged not to use elevators when travelling within 3 floors. The subsidiaries of the Company have taken the initiative of "cut the peaks and fill the valleys" through peak avoidance, peak shifting and other orderly electricity consumption measures to achieve electricity saving.

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3. Resource Conservation Measures and Their Effectiveness

The subsidiaries of the Company actively carried out energy conservation and technological transformation work in 2020. The followings are some examples of the resource conservation measures our Company have taken and their effectiveness:

Xinhui Company: The company cooperated with Pingdu Tongwei Company to complete the construction of the second phase of the distributed photovoltaic power station (5MW) and the grid connection with the company's 35KV transformer substation, saving over RMB1.28 million of electric charge through photovoltaic power generation for the year.

Shandong Gold Smelting Co., Ltd.: The company recovers a large amount of waste heat from the operation of the air compressor by equipping it with water heater and a corresponding circulating pipe network system and electronic control system, which is used to heat the feed water for electric boiler.

Sanshandao Gold Mine: The mine has implemented the application of underground microwave induction lighting through an intelligent lighting and high-efficiency energy-saving lamp comprehensive utilization project, which has achieved an energy saving rate of 72.6% and well solved the underground environmental factors of high temperature and high humidity, realizing the intelligent control of timing and point.

(III) Environment and Natural Resources

The Company adheres to the concept of harmonious unity of man and nature and commits itself to reducing its business impact on the surrounding environment and natural resources, so as to reduce environmental risks effectively.

1. Environmental Emergency Response Plan

The subsidiaries of the Company carried out environmental risk assessment in accordance with relevant national regulations, established scientific and standardised emergency management systems, formulated the "Environmental Emergency Response Plan" and conducted regular emergency drills towards environmental emergency events, thereby effectively enhancing the ability to deal with environmental emergencies.

2. Hazardous Chemicals Management

In accordance with the "Regulations on Safety Management of Hazardous Chemicals" (State Council of the PRC Order No. 591), the Company strictly manages the hazardous chemicals generated from production and operation, including sodium cyanide and sulphuric acid with special storage facilities for hazardous chemicals.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3. Green Mine Construction

The Company strictly abides by relevant laws and regulations such as the “Water and Soil Conservation Law of the People’s Republic of China”, “Provisions of the Protection of the Geologic Environment of Mines” and “the Wildlife Protection Law of the People’s Republic of China”, and follows the requirements of “2018-2020 Opinions on the Implementation of Eco-mining Green Mine Construction Plan” and the “Specification Requirements of Green Mine Construction”. The Company reasonably exploits mining resources, prevents soil erosion and protects ecological diversity. At the same time, in accordance with the requirements of the Group’s Notice on the Launching of the “Green Mines, Beautiful Shandong Gold” afforestation program, the Company has been doing a good job in greening the mine area and improving the ecological environment of the mine.

In 2020, Fujian Yuanxin, Xihe Zhongbao and other mines were listed in the national and provincial green mines list. All of the 14 mines in production of the Company were included in the national or provincial green mine list, making the construction of green mines a successful conclusion. The Group was awarded the title of “China Green Mining Group 2020” by the Green Mine Promotion Association and Zhongguancun Green Mine Industry Alliance.

(IV) Coping with Climate Change

In response to the National Strategy for Adaptation to Climate Change, Shandong Gold has been actively addressing the risks and challenges brought about by climate change. The Company and its subsidiaries formulated and published the Energy Management Measures in accordance with their actual situation and established an energy management system. Through measures such as mine greening, green office and equipment renovation, the Company has been practising carbon dioxide emission reduction in order to help achieve the carbon peak and carbon neutrality targets.

III. SOCIAL RESPONSIBILITY

(I) Employee Responsibility

Talents are the primary resources for a company’s development. Upholding the core values of “fairness, openness, honesty, responsibility, inclusiveness, harmony”, the Company creates a career development platform that discovers, trains and cultivates talents to achieve win-win outcome for employees and the Company.

1. Employment and Labor Standards

The Company strictly follows relevant national and regional laws and regulations such as the Labor Law of the People’s Republic of China, the Labor Contract Law of the People’s Republic of China and the Law of the People’s Republic of China on the Protection of Women’s and Children’s Rights. The Company has formulated a number of employee management systems to ensure that the labor contracts are signed legally, and the basic rights including equal employment, legal labor salaries and wages, rest and holidays are effectively and practically safeguarded.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

(1) Equal Employment

The Company advocates the talent concept of “selecting talents with both capability and virtue”, and stimulates the vitality by the employment mechanism of “internal trainings, external recruitment, reflux of talent, and competitive recruitment”. With the institutional measures including the Recruitment Management System of Shandong Gold Group Co., Ltd. and the Notice on the Implementation of Recruitment Work 2020, the Company promotes the diversified equal employment, does not discriminate against anyone for race, gender, age or religious belief, and prohibits the employment of child labor and forced labor. In 2020, the Company recorded no case of employment of child labor and forced labor.

Employee Structure in 2020		
Category		Number of employees
By gender	Male	12,678
	Female	3,092
By management level	Senior management	244
	Middle management	871
	Primary-level staff	14,655
By age	30 and below	1,778
	31 to 40	4,140
	41 to 50	6,539
	51 to 53	1,590
	54 to 56	1,062
By region	57 and above	661
	Shandong Province	14,200
	Provinces within China (other than Shandong Province)	1,565
	Other countries and regions	5

Employee Turnover in 2020		
Category		Employee turnover rate (%)
By gender	Male	0.74
	Female	0.30
By age	30 and below	0.42
	31 to 49	0.48
	50 and above	0.13
By region	Shandong Province	0.51
	Provinces within China (other than Shandong Province)	0.51
	Other countries and regions	0.01

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(2) *Salary and Benefits*

The Company actively builds a harmonious labor relation, follows national laws and regulations strictly to conduct labor and employment management, makes full contributions to pension insurance, unemployment insurance, medical insurance, work-related insurance and maternity insurance, establishes the housing fund system and guarantees employees' rights to have breaks and holidays in accordance with national regulations. In 2020, the Company released the Measures of SDG Group for the Management of Science and Technology Rewards for the purpose of boosting employees' motivation and creativity, thus further stimulating the innovation vitality of research personnel and improving the overall technology R&D and application level.

2. Occupational Health and Safety

Strictly complying with laws and regulations including the Law on Mine Safety of the People's Republic of China, the Law on Work Safety of the People's Republic of China, the Regulations on Work Safety Permits and the Provisions on Accountability towards Safe Production of Production and Operation Units in Shandong Province, the Company continually strengthens the work safety management, conducts inspections to identify potential risks and take corresponding measures, organises work safety trainings, improves the work safety emergency response mechanism, so as to safeguard employees' rights of life and health.

Occupational Health of Employees		2020	2019
Work-related fatalities	person	0	0
Percentage of work-related fatalities to total workforce	%	0	0
Lost days due to work-related injuries	day	445	4,280

(1) *Occupational Health*

The Company adheres to the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases, the Provisions on the Administration of Occupational Health at Workplaces, the Measures for the Supervision and Administration of Employers' Occupational Health Surveillance and other relevant regulations, and develops and implements a set of institutional documents including the Measures for the Management of Occupational Disease Prevention and Control (《職業病防治管理制度》) and the Procedures for the Occupational Health Operation of Positions (《崗位職業衛生操作規程》) to enhance occupational health management.

While improving the occupational disease prevention and control system and regulations, the Company actively promotes occupational disease prevention and control trainings, improves process facilities and working environment, provides adequate protective equipment, organises occupational health examinations in a timely manner, and monitors and assesses occupational health risks, so that it can truly protect the physical and mental health of employees. In 2020, the health examination rate of employees exposed to occupational hazards reached 100%.

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(2) Work Safety

Work safety management: The Company further strengthens the efforts in work safety. It has developed a number of safety management systems, such as the Safe Production Inspection System and the Interim Regulations on Graded Management and Control of Safe Production Risk, established a safe production committee headed by the Chairman of the Company, constructed the “three-in-one” safety responsibility certificate assessment format and the ranking model of safety director assessment, formulated the notification system of the main person in charge of mining enterprises, safety director and safety assessment indicators, carried out monthly and quarterly safety inspection, and systematically coordinated the epidemic control and the work safety. In 2020, the total safety investment of the domestic subsidiaries of the Company amounted to RMB417,570,400, and that of the overseas subsidiaries the Company amounted to RMB10,425,000. No work safety liability accident occurred throughout the year.

Identification of potential safety risks and corresponding measures: The Company advances potential risk identification and special safety inspections that focus on operation sites, takes special rectification actions to top slope support, ventilation system, machinery equipment and vehicles, and promotes the special improvement of fire prevention system, which effectively prevents natural disasters and work safety accidents and ensures that the Company maintains work safety at a stable level throughout the year.

The Company strengthens the potential risk assessment, conducts inspection and supervision more frequently and implements stricter standards when assessing potential risks. A total of more than 93,000 potential risks have been identified; 99.93% of them have been addressed by taking rectification measures. During the 13th Five-Year Plan period, the Company reported 48 major potential risks, with 36 of them rectified and a rectification rate of 75%. For the other 12 potential risks, relevant plans have been adopted, and the improvement measures is now being advanced.

Work safety training: The Company continually promotes the upgrading of training system and adopts a new model that combines online and offline trainings. It cultivates the safety culture via safety meetings, safety education and the work safety month to improve employees’ safety awareness and capability. Throughout the year, domestic subsidiaries of the Company organised 823 work safety training sessions, which recorded 123,795 attendees cumulatively, and overseas subsidiaries of the Company organised 99 work safety training sessions and recorded 3,700 attendees in aggregate. In 2020, 862 safety management specialists passed the online tests and obtained the certificates. The Company sent specialists to the first nationwide training of new regulations; the Gold Training Centre offered 61 training sessions and accumulated more than 20,000 trainees. As at the end of 2020, the Company had five subsidiaries accredited as national-level work safety model enterprises.

Work safety emergency response: The Company establishes and improves the relevant emergency management system, clarifies the responsibilities of emergency management department, unit and personnel, disseminates emergency management knowledge, and conducts emergency drills, to improve the emergency response capability of all employees and the capability of emergency management personnel to cope with accidents properly.

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3. Training and Career Development

The Company attaches great importance to the training and career development of employees, and establishes scientific career promotion channels and reasonable employee training system to help employees realise rapid career development. In 2020, the Company organised 220 training sessions in total, recording 17,304 attendees and 98.76% of overall satisfaction.

(1) Staff Career Development

Optimizing the introduction of talents: The Company actively launched an all-round in-depth cooperation between schools and enterprises and established the “Shandong Gold – Mining Technology Innovation Institute of Northeastern University (山東黃金-東北大學礦業技術創新研究院)” to promote the cultivation of high-end talents; fully utilised the market mechanism to vigorously implement the project of introducing high-end talents; attached importance to the role of the existing talent resources platform, strengthened communication and cooperation and broadened the channels of introducing talents.

Smooth promotion channels: The Company has built a multi-dimension development channel of “management + specialty + skill” and established a full staff competitive recruitment process to provide a platform for employees to show their talents. It has vigorously selected young cadres to further optimise its talent pipeline; improved the professional and technical post ranking system to offer a smooth career development channel for professional and technical personnel; and established the self-assessment system for professional workers with specialized skills in gold mining industry, which fills the gap of the provincial specialized skill assessment for professional workers in gold mining industry.

(2) Staff Training System

The Company establishes and strengthens three talent teams in management, technology and skill, sticks to the direction of “accumulating experience through working in primary-level units and getting stronger through working at positions requiring arduous efforts” and the construction of “learning organisation” and “professional team”, and actively cultivates professional talents with “great theoretical accomplishment, strong professional ability and extensive practical experience”.

Training of management personnel: Guided by Xi Jinping’s Thought on Socialism with Chinese Characteristics for a New Era and the spirit of the Nineteenth National Congress, the programme is designed for the horizon of internationalization and securitization and the development of refined management, focuses on corporate governance, capital operation, strategic exit, transformation and development, basic management and world-class mine construction, aiming to strengthen the strategic thinking and innovation capability of management personnel. The whole year witnessed 57 training sessions and 7,076 attendees in total.

Training of technicians: The programme focuses on the knowledge update and the innovation capability improvement, offers sessions on geology, surveying, mining, processing, smelting, machinery, electrical and safety, and focuses on improving technicians’ professional, practical and innovation abilities. The whole year witnessed 88 training sessions and 6,443 attendees in total.

Training of skilled personnel: The programme focuses on mining-specific skills, takes skill competition as a means, and put emphasis on the standardisation of practical operation to improve the capability and quality of skilled personnel. The whole year witnessed 75 training sessions and 3,785 attendees in total. The programme has made notable achievements, 3 trainees named “Qilu Chief Technicians” of Shandong Province, 5 trainees named “Technical Experts of Shandong Province”, 50 trainees named “Shandong Technical Experts of Gold Industry” and 5 trainees named “Chief Technicians of SDG Group”.

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Employee Training in 2020			
Category		Average training hours (hour)	Percentage of employees trained (%)
By gender	Male	15.69	83.15
	Female	12.08	16.85
By management level	Senior management	24	0.02
	Middle management	18.74	1.38
	Primary-level staff	14.73	98.60

4. Balance Between Work and Life

Shandong Gold offers practical care and support to employees. It cares for female employees, helps employees in difficulty, and continually improves employees' sense of belonging and happiness. The Company promotes the paid leave system, encourages employees to return home for reunion with family members in festivals, and organises various recreational activities to enrich employees' leisure life and effectively relieve them from work pressure. In addition, the Company establishes the Employee Charity Foundation (職工救助基金會), develops the Measures for the Management of Hardship Relief Foundation of Shandong Gold (《山東黃金困難救助基金會管理辦法》) and forms the administration committee of employee relief fund to institutionalise and standardise the relief work, ensuring the support is effective and truly helps employees to overcome difficulties. In 2020, the relief fund reached over RMB5,500,000 and covered more than 1,100 beneficiaries.

(II) Supply Chain Responsibility

The Company continuously improves the supplier management, optimises procurement resources, mitigates procurement risks and guarantees the procurement quality to build a responsible supply chain.

1. Supplier Management

To further standardise the supplier management, business divisions of the Company set their respective supplier management regulations based on their actual conditions, which contain provisions on supplier qualification management, suppliers' rights and obligations, supervision of suppliers' behaviours, supplier delivery quality management and suppliers' commitment. As at the end of 2020, the Company had 2,050 suppliers, and 2,022 suppliers have complied with the Company's supplier management system during the Reporting Period.

Supplier selection: During the open tender, the Company will include the qualification of bidding suppliers into the scoring criteria, and review various qualification certificates of suppliers, namely the certificate of certification of the environmental management system, the certificate of certification of the occupational health and safety management system, the credit rating certificate and the certificate of the quality certification system. Meanwhile, the Company will understand the reputation of suppliers, for example, whether they have any complaints, litigations and environmental accidents through the Internet, bid evaluation experts, corporate users and other channels. As for the suppliers who do not care for ecological environmental protection, have poor social risk management and fail to perform their social responsibilities properly, the Company will take into consideration those factors when evaluating their bids.

Shortlisted supplier inspection: In the procurement of materials and project-related products, the Company implements the early shortlisted supplier system by checking the qualification certificates. It will establish a special inspection team to conduct on-site inspections on suppliers' key equipment and key projects, and investigate suppliers' qualifications and capabilities. After being recommended, submitted to and approved by the bidding leadership teams at various levels, they may be included as the shortlisted suppliers.

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Supplier assessment: The Company organizes supplier assessments regularly every year, and removes the suppliers whose product quality is not acceptable or whose product delivery is not on a timely basis, thereby making its suppliers to enhance their own capabilities.

2. Transparent Procurement

The Company further improves the procurement process, strengthens the integrity education and the tendering-based procurement supervision, and promotes the transparent procurement principle of “equality, fairness, openness” with concrete actions. While conducting procurement in accordance with the Procurement Management Measures (物資採購管理辦法), the Company employs open tendering, selective tendering, competitive consultation, competitive negotiation and electronic enquiry, business negotiation according to the procurement quota, adopts tendering-based procurement, especially open tendering, as much as possible, and actively introduces the audit department to supervise and review the whole process of procurement. In the meantime, the Company further improves the standard, standardises the procedures, conducts procurement according to the 12 business process diagrams for the business division to cover all businesses, thus meeting the requirements of clarity, explicitness and operability.

(III) Product Responsibility

The Company continually improves the product quality management system, protects customers’ rights and interests, improves customer satisfaction, strengthens technology innovation and intellectual property protection, thereby providing customers with high-quality products and services.

1. Quality Management System

Shandong Gold always strictly implements the requirements of the quality management system and follow the national standards in conducting quality inspection on incoming raw materials and outgoing products. Basing on the requirements of GB/T19001-2016, GB/T24001-2016 and ISO45001:2018, the Company establishes the management system and develops institutional documents to improve the effectiveness of the system. The Company also focuses on customer requirements and establishes a sound customer communication mechanism. In 2020, the Company passed the review of the quality management system certification and obtained the certificate on November 2.

The subsidiary Shandong Gold Smelting Co., Ltd. is one of the first ten enterprises recognised by Shanghai Gold Exchange as “enterprises eligible to supply standard gold bullion” and one of the first batch of enterprises that have registered for bullion brands on Shanghai Futures Exchange. With the registered trademark “Tai Shan”, the subsidiary has been supplying standard gold bullion to Shanghai Gold Exchange since November 2002, became a member of “enterprises eligible to supply standard gold bullion” of Shanghai Gold Exchange in July 2006, and has been named “enterprises eligible to supply standard gold bullion” by Shanghai Gold Exchange for consecutive years. In January 2010, the subsidiary was granted the quality trading bullion qualification by London Bullion Market Association (LBMA), and the product was recognised as high-quality product of international bullion market, indicating that the production quality and scale have reached the advanced international standard. Shandong Gold Smelting Co., Ltd. has passed the three system certifications of ISO9000, ISO1400 and ISO1800, LBMA quality certification, and CNAS accreditation of the National Qualified Laboratory. It has been awarded the honorary title of “Advanced Enterprise Providing Standard Gold Ingots” for consecutive years by the Shanghai Gold Exchange for the excellence in quality of its “Tai Shan” brand standard gold and “Shandong Gold” brand products. In 2020, the product qualified rate of Shandong Gold Smelting Co., Ltd. was 100%.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2. Protection of Customers' Rights and Interests

The Company always stays customer-centric and continuously improves customer satisfaction in every aspect from production, sales, to after-sales services.

Health and safety: The Company mainly provides consumers with gold products and corresponding sales services. The products and services themselves basically do not have impact on the health and safety of consumers.

Product compliance promotion: The Company is in strict compliance with the laws and regulations such as the Advertising Law of the People's Republic of China, the Regulations on Control of Advertisements and the Interim Measures for Administration of Internet Advertisement. It has devised various approval processes for different levels and contents of advertising to prohibit false promotion.

Improvement of customer satisfaction: The Company attaches importance to the improvement of service attitude and service quality and ensures each business complies with all laws and regulations. In 2020, the Company further strengthened the satisfaction survey and follow-up targeted at customers of sales, purchasing and processing businesses through day-to-day customer maintenance, quarterly and annual follow-up feedbacks. It analysed and replied to customers' suggestions in a timely manner, adopted suggestions that were constructive to its development and arranged relevant follow-ups. In 2020, the subsidiary Shandong Gold Smelting Co., Ltd. received no customer complaint, and the customer satisfaction reached 100%.

Protection of customers' rights and interests: The Company formulates the Confidentiality System and signs the Confidentiality Agreement with all employees to strictly protect customer information and business secrets. In the ordinary course of business, the Company strengthens system trainings to employees to improve the confidentiality protection awareness and cultivate good habits and virtuous conduct. In the business contracts with customers, the Company sets down clear confidentiality terms to restrict and protect customers and itself.

3. Intellectual Property Protection

The Company strictly follows the Patent Law, other laws and regulations, and the relevant requirements of industry associations, establishes the intellectual property risk control mechanism according to the Intellectual Property Management Measures of Shandong Gold Group Co., Ltd. (Trial), and advances intellectual property promotion and training, aiming to protect the innovation achievements and improve the patent risk prevention awareness.

The Company further increased the R&D investment in 2020, and the R&D expenditure reached RMB388 million, covering 221 research projects and 115 patent applications. As at the end of 2020, the Company had 1,220 R&D specialists, 347 valid patents (including 68 inventions). The deep underground mining laboratory and the filling laboratory assumed several national key research projects of the 13th Five-Year Plan period and significant research projects of Shandong Province, completing basic experiments including the scaled physical model of quasi-diamond stope mining and the single-hole column charge blasting model and laying a good foundation for the subsequent project demonstration.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

(IV) Community Investment

Shandong Gold actively promotes community investment and construction, shares the development achievements with the community, and improves people's well-being through targeted poverty alleviation, support to the battle against COVID-19 and volunteer services.

1. Contribution to Poverty Alleviation

The Company rigorously implements the policies and principles of the CPC Central Committee and the State Council on poverty alleviation and conducts targeted poverty alleviation in accordance with the decision and deployment of Shandong Provincial Party Committee and Shandong Provincial Government. In the 13th Five-Year Plan period, SDG Group appointed 9 leaders to act as the first village secretary, and invested about RMB30,000,000 to help Shandong Province to eradicate absolute poverty.

In places where the Company operates business, it actively promotes the improvement of infrastructures, contributes to poverty alleviation through creating employment and improving education, continuously boosts the local economic development and the improvement of people's living standard, and helps the local people to solve difficulties and problems. Chifengchai Mine participates in the charity activity of Chifeng City themed "Touched by Love, Go for Love" (情暖童心為愛前行), donating winter uniforms to local primary schools and helping underprivileged children to grow healthily.

2. Support to the Battle Against COVID-19

Since the outbreak of COVID-19, the Company has resolutely carried out the General Secretary Xi Jinping's important instructions and spirit and fully implemented the deployment of the CPC Central Committee and the State Council and the requirements of Shandong Provincial Party Committee and Shandong Provincial Government about epidemic prevention and control. It actively donates materials for fighting the virus, coordinates epidemic control and business operation, offers volunteer services to help the epidemic control, making its contribution to winning the battle against COVID-19.

(1) Donations

On 8 February 2020, the Company donated RMB6,000,000 to Shandong Charity Federation for fighting COVID-19, and subsidiaries donated epidemic control and living materials worth over RMB300,000 to the local governments, offering the greatest support they can to local governments for epidemic prevention and control.

The primary-level party organisations of the Company played the role of fortress in the battle, organised 280 party members to form 28 volunteer service teams to work in the designated "double registration" communities for epidemic control in accordance with the requirements of the Organisation Department of Shandong Provincial Party Committee and the Shandong Provincial State-owned Asset Supervision and Administration Commission set in the Notice on Integrating the "Double Registration" Work with the Organisation of Volunteer Service Activity "To Help Communities to Win the Battle Against COVID-19" (《關於結合「雙報到」工作組織開展「助力社區打贏疫情防控阻擊戰」志願服務活動的通知》), and to deliver masks, gloves and materials necessary for epidemic control to communities. Party members voluntarily participated in the donation activity themed "Unite Together to Fight the Virus, Gather Strength to Forge Ahead" (與「同舟共濟戰疫情·凝心聚力向前行」). The Group's 21,160 Party members donated RMB5,132,540.43, of which more than RMB753,000 was donated to local charities and the remaining more than RMB4,379,000 was donated to Shandong Charity Federation to support epidemic control.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

(2) *Resumption of work*

While implementing strict epidemic control measures, subsidiaries of the Company rapidly promote the resumption of work and make all-out efforts to win the “dual-line battle”, “Fighting the Virus, Stabilising the Production”. The Company convenes special meetings to dispatch, coordinate and deploy the production and operation of subsidiaries and visits the sites to guide and supervise the resumption of work, providing a strong support to the sustainable stability of production and operation. Subsidiaries work out careful plans for resumption of work, make prudent arrangements, develop specific measures, and clarify responsibilities. They address the issues of inadequate manpower and production material shortage and promote the stable resumption of work through strengthening the production planning, establishing the mechanism of daily manpower dispatching and material supply guarantee, implementing the flexible staffing policy and reasonably deploying internal personnel.

3. **Volunteer Services**

The Company is committed to the public welfare undertaking, promotes and encourages employees to participate in volunteer services, and attend activities including charity donation, tree planting, blood donation and medical assistance to deliver warmth to the society. Upholding the spirit and idea of doing right things, doing practical things and showing caring and love, Xinhui Company organises its employees to launch the activity of “Donating Your One-day Income” every year to help those in need, building a harmonious and stable development environment and a culture of pursuing excellence, innovation and progress, helping others and keeping honesty.

IV. CORPORATE GOVERNANCE

(I) **Governance Structure**

The Company establishes a modern corporate governance structure consisting of the general meeting, the Board, the Supervisory Committee and the management.

The general meeting is the organ of power, and the Board reports to the general meeting. The Board has the Audit Committee, the Strategy Committee, the Nomination Committee, and the Remuneration and Appraisal Committee; the Supervisory Committee is the core of supervision; the management is responsible for the day-to-day production and operation of the Company. Each party has clear responsibilities and a balance of powers, fulfills the duties, operates in accordance with standards, and continually improves the governance level, which ensures that the Company can maintain a sustainable and steady development.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

(II) Anti-corruption

The Company is in strict compliance with the Company Law of the People's Republic of China, the Supervision Law of the People's Republic of China, the Anti-Money Laundering Law of the People's Republic of China and other laws and regulations, and promotes the “Three Nos” mechanism in an integrated manner to prevent the integrity risk. In 2020, the Company had no corruption lawsuits.

Strengthened integrity supervision mechanism: The Company reinforces the top-level design, builds the “1+N” joint supervision system, promotes the “5+3” all-area supervision system, clarifies the responsibilities of supervision entity of each level, thus creating a combined supervision mechanism. It conducts “3+X” key business supervision, launches the “Joint Integrity Construction” mechanism, appoints special supervisor of integrity construction, and explores the intelligent supervision platform, so as to eradicate dishonest acts including offering or accepting bribes, playing favouritism and committing irregularities and to build the “Clean Shandong Gold”.

Smooth whistle-blowing channels: The Company has operated the four-in-one external whistle-blowing platform for letters, visits, phone calls and mailboxes, established an internal complaint and whistle-blowing mechanism to take the clues to problems by the Internal Discipline Inspection Committee of the Group, and set up an anti-fraud investigation team to review disciplinary issues, thus giving rise to the effectiveness of heavy curbing, high pressure and long-term deterrence.

Integrity education: In 2020, the Company establishes the learning and training mechanism of “Two Trainings, Five Learnings and One Line” (「兩訓五學一綫」) to improve the quality and ability of leaders. It actively builds the environment that “no one has the desire to commit corruption”, launches multi-level and high-frequency integrity education activities, such as integrity lectures delivered by the secretary of commission for discipline inspection, integrity talks before taking office, watching education films, integrity culture in the family, and integrity micro video propaganda. In 2020, the coverage of online integrity trainings reached 100%.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

APPENDIX

(I) Environmental Performance

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

Environmental performance indicators	Emissions	2020
Total greenhouse gas emissions (10,000 tons)		78.91
Greenhouse gas intensity (ton/RMB million)		12.39
Scope 1: Greenhouse gas emissions (10,000 tons) including: coal, natural gas, gasoline and diesel		7.23
Scope 2: Greenhouse gas emissions (10,000 tons) including: purchased electricity		71.68
Nitrogen oxides (tons)		13.91
Sulfur dioxide (tons)		5.81
Smoke (tons)		5.83
Wastewater discharge (10,000 tons)		1,771.35
Wastewater discharge intensity (ton/RMB million)		278.23
Total COD emissions (tons)		349.01
Total ammonia nitrogen emissions (tons)		19.38
Hazardous waste safely disposed of (10,000 tons)		163.61
Intensity of hazardous waste safety disposed of (ton/RMB million)		25.70
General solid waste discharge (10,000 tons)		2,142.32
General solid waste discharge intensity (ton/RMB million)		336.50
Comprehensive utilization rate of general solid waste (mainly tailings, waste rock) (%)		83.22

Notes:

- The calculation of greenhouse gas emissions is mainly based on the Guidelines for the Calculation and Reporting of Greenhouse Gas Emissions from Mining Enterprises of China (Trial) (《中國礦山企業溫室氣體排放核算方法和報告指南(試行)》) and the 2019 Baseline Emission Factors for Regional Power Grids in China issued by the National Development and Reform Commission of China.
- Nitrogen oxide, sulphur dioxide and smoke are mainly derived from organized emissions from the production process.
- Hazardous waste mainly includes cyanide tailings, which are disposed of safely.
- General solid waste mainly includes tailings, waste rock, all of which are comprehensively utilized or safely disposed of.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Energy and Resources Consumption

Environmental performance indicators 2020

Total energy consumption (million kWh)	1,269.76
Energy consumption intensity (MWh/RMB million)	19.94
Gasoline consumption (tons)	361.93
Diesel consumption (tons)	16,005
Coal consumption (tons)	7,166.76
Natural gas consumption (10,000 cubic meters)	202.13
Purchased electricity (MWh)	101,214.41
Total water consumption (10,000 tons)	584.45
Water consumption intensity (tons/RMB million)	91.80

Notes:

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

(II) Social Performance

Social performance indicators 2020

Total workforce (persons)	15,770
Cumulative headcount of employees trained	17,304
Total training hours of all employees (hours)	258,522
Work-related fatalities	0
Labour contract signing rate (%)	100
Assisting employees in hardships (persons)	1,116
Providing employee relief funds (RMB10,000)	557.95
Total hours of volunteer services organised or involved (hours)	710

CORPORATE GOVERNANCE REPORT

OVERVIEW

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

The Corporate Governance Report is presented for the Reporting Period.

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

SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code as the model code for the trading of securities by the Directors and Supervisors. Having made specific reasonable enquiries with all Directors and Supervisors, the Company confirmed that all Directors and Supervisors have complied with all applicable provisions of the Model Code during the Reporting Period.

BOARD COMPOSITION AND PRACTICE

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

The executive Directors are Mr. Liu Qin, Mr. Wang Shuhai and Mr. Tang Qi; the non-executive Directors are Mr. Li Guohong, Mr. Wang Lijun and Ms. Wang Xiaoling; and the independent non-executive Directors are Mr. Wang Yunmin, Mr. Liew Fui Kiang and Ms. Zhao Feng. The biographical details of each Director are set out in the section headed “Brief Biographies of Directors, Supervisors and Senior Management” in this annual report. To the best of the Board’s knowledge, there is no relationship among the members of the Board.

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

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

CORPORATE GOVERNANCE REPORT

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

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

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

EXPLANATION ON THE RELEVANT MATTERS OF CORPORATE GOVERNANCE

The Board is responsible for the performance of the functions of corporate governance. During the year ended 31 December 2020, the Board has performed the functions set out in code provision D.3.1 of the CG Code.

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

CHAIRMAN AND THE GENERAL MANAGER

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

CORPORATE GOVERNANCE REPORT

DIRECTORS AND THE BOARD

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

CORPORATE GOVERNANCE FUNCTIONS

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

- (i) To formulate and review the Group's policies and practices on corporate governance and make recommendations;
- (ii) To review and monitor the training and continuous professional development of the Directors and senior management;
- (iii) To review and monitor the Group's policies and practices on the compliance with all legal and regulatory requirements (where applicable);
- (iv) To formulate, review and monitor the code of conduct and compliance manual (if any) applicable to the employees of the Group and the Directors; and
- (v) To review the Group's compliance with the CG Code and disclosure requirements in the corporate governance report.

CORPORATE GOVERNANCE REPORT

ATTENDANCE OF DIRECTORS AT THE BOARD MEETINGS AND GENERAL MEETINGS

The Board convened 26 Board meetings and 15 general meetings during the Reporting Period. The attendance of the Directors at the meetings was as follows:

Name of Director	Independent Director	No. of Board meetings ought to be attended this year	Attendance of the Board meetings				Attendance of general meetings	
			Attended in person	Attended via telecommunication	Attended by proxy	Absent	Not attending in person for 2 consecutive meetings	No. of general meetings attended
Li Guohong	No	26	7	19	0	0	No	15
Wang Lijun	No	26	7	19	0	0	No	12
Wang Xiaoling	No	26	7	19	0	0	No	9
Liu Qin	No	1	1	0	0	0	No	0
Wang Shuhai	No	1	1	0	0	0	No	0
Tang Qi	No	26	7	19	0	0	No	15
Wang Yunmin	Yes	1	1	0	0	0	No	0
Liew Fui Kiang	Yes	1	1	0	0	0	No	0
Zhao Feng	Yes	1	1	0	0	0	No	0
Wang Peiyue	No	25	6	19	0	0	No	15
Li Tao	No	25	6	19	0	0	No	15
Gao Yongtao	Yes	25	0	25	0	0	No	5
Lu Bin	Yes	25	0	25	0	0	No	12
Hui Wing	Yes	25	0	25	0	0	No	12
Number of Board meetings held this year			26					
In which: Number of physical meetings			1					
Meetings via telecommunication			19					
Physical meetings with telecommunication			6					

The Chairman also held a meeting with the independent non-executive Directors without the presence of other Directors during the Reporting Period.

PRACTICES AND CONDUCT OF MEETINGS

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

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

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

ANNUAL REMUNERATION OF THE SENIOR MANAGEMENT

Details of the remuneration paid to the senior management of the Group by band (excluding Directors), whose biographies are set out on pages 30 to 32 of this annual report, for the year are set out below:

HK\$1,000,000 to HK\$1,500,000

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SHAREHOLDERS AND SHAREHOLDERS' GENERAL MEETINGS

During the year ended 31 December 2020, the Company held 7 general meetings (including 2020 annual general meeting) and four class meetings. The Company shall convene and hold general meetings of Shareholders in strict compliance with the regulations and requirements of the Articles of Association and the rules of procedures of the Shareholders' general meeting of the Company to ensure that all Shareholders (especially minority Shareholders) can enjoy equal rights and fully exercise their voting rights.

DETAILS OF THE SHAREHOLDERS' GENERAL MEETINGS

Session of meeting	Convening date	Index of the designated website publishing the resolutions	Date of publishing the resolutions
2020 first extraordinary general meeting, the 2020 first class meeting for holders of A Shares, the 2020 first class meeting for holders of H Shares	24 February 2020	SSE website (http://www.sse.com.cn)	25 February 2020
2019 annual general meeting, the 2020 second class meeting for holders of A Shares, the 2020 second class meeting for holders of H Shares	24 June 2020	SSE website (http://www.sse.com.cn)	29 June 2020
2020 second extraordinary general meeting, the 2020 third class meeting for holders of A Shares and H Shares	25 August 2020	SSE website (http://www.sse.com.cn)	26 August 2020
2020 third extraordinary general meeting	18 September 2020	SSE website (http://www.sse.com.cn)	19 September 2020
2020 fourth extraordinary general meeting	13 October 2020	SSE website (http://www.sse.com.cn)	14 October 2020

CORPORATE GOVERNANCE REPORT

Session of meeting	Convening date	Index of the designated website publishing the resolutions	Date of publishing the resolutions
2020 fifth extraordinary general meeting, the 2020 fourth class meeting for holders of A Shares and H Shares	13 November 2020	SSE website (http://www.sse.com.cn)	14 November 2020
2020 sixth extraordinary general meeting	30 December 2020	SSE website (http://www.sse.com.cn)	31 December 2020

Shareholders' Rights

The Articles of Association have stipulated the rights and obligations of all Shareholders. Shareholder(s) severally or jointly holding 10% or above Shares shall be entitled to request the Board to convene an extraordinary general meeting, and shall put forward such request to the Board in writing. The Board shall, pursuant to laws, administrative regulations and requirement in Articles of Association, give a written reply on whether to convene the extraordinary general meeting within 10 days after receipt of the proposal. If the Board agrees to convene the extraordinary general meeting, it shall serve a notice of such meeting within five days after the resolution is made by the Board.

When the Company convenes an annual general meeting, an announcement of the meeting shall be given 20 full business days before the date of the meeting to notify all of the Shareholders, and when the Company convenes an extraordinary general meeting, an announcement of the meeting shall be given 10 full business days or 15 days (whichever is longer) before the date of the meeting to notify all of the Shareholders whose names appear in the share register of the matters to be considered and the date and the place of the meeting.

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

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

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

CONTINUOUS PROFESSIONAL DEVELOPMENT

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

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

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE

The Board established the Nomination Committee. It comprises of five Directors, Mr. Wang Yunmin, Mr. Wang Lijun, Mr. Liu Qin, Mr. Liew Fui Kiang and Ms. Zhao Feng. Mr. Wang Yunmin is the Chairman of the Nomination Committee. Detailed regulations for the Nomination Committee are amended pursuant to the CG Code. The terms of reference of the Nomination Committee are published on the website of the Company and the HKEx Website.

The primary responsibilities of the Nomination Committee include:

1. to make recommendations to the Board about the size and the composition of the Board according to operating activities, size of assets and shareholding structure of the Company; to review the structure, size, composition and relevant qualifications (including skill, expertise and experience) of the Board at least once annually, make recommendations on any adjustment to the Board pursuant to the development strategy of the Company, and formulate a diversity policy for the Board;
2. to study the selection criteria, procedures and methods of Directors and managers and make recommendations in this regard to the Board;
3. to identify competent candidates for Directors and managers extensively;
4. to make recommendations to the Board on the candidates for Directors and managers, and provide advice to the Board on the appointment or re-appointment of Directors and succession plan for Directors, in particular the chairman of the Board and the general manager;
5. to screen the candidates for other management members and provide advice to the Board; to conduct a review and make recommendations on other senior management members who are subject to appointment by the Board;
6. to evaluate the overall skill, expertise and experience of Directors and senior management and assess the independence of the independent non-executive Directors; and
7. all other matters delegated by the Board.

CORPORATE GOVERNANCE REPORT

Procedure and Basis for Nomination

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

The selection process of Directors and managers is as follows:

1. The Nomination Committee should actively communicate with relevant departments and study the Company's demand for Directors and managers, and formulate written materials;
2. The Nomination Committee may search extensively for candidates for Directors and managers from the Company, its holding (associate) enterprises and the market;
3. Gather information about the occupation, academic qualifications, post title, detailed work experience and all the concurrent posts of the candidates and present such information in writing;
4. Seek the nominees' consent for nomination; otherwise, the nominees cannot be the candidates for Directors or managers;
5. Convene a Nomination Committee meeting to review the qualifications of the candidates on the criteria for Directors and managers;
6. Make suggestion to the Board regarding the candidates for Directors and new managers and submit the relevant information to the Board one to two months prior to the election of new Directors and appointment of new managers; and
7. Complete other follow-up work according to the decision and feedback from the Board.

During the Reporting Period, 2 meetings of the Nomination Committee were held to discuss the suitable candidates for Directors and managers of the Company and review the qualifications of the candidates for Directors and managers of the Company. The particulars of the attendance of the members of Nomination Committee are set forth as follows:

Name of the members of the Nomination Committee	Number of meetings attended/convened
Mr. Wang Yunmin (appointed on 30 December 2020)	0/0
Mr. Wang Lijun (re-appointed on 30 December 2020)	2/2
Mr. Liu Qin (appointed on 30 December 2020)	0/0
Mr. Liew Fui Kiang (appointed on 30 December 2020)	0/0
Mr. Zhao Feng (appointed on 30 December 2020)	0/0
Mr. Gao Yongtao (retired on 30 December 2020)	2/2
Mr. Wang Peiyue (retired on 30 December 2020)	2/2
Mr. Lu Bin (retired on 30 December 2020)	2/2
Ms. Hui Wing (retired on 30 December 2020)	2/2

CORPORATE GOVERNANCE REPORT

BOARD DIVERSITY POLICY

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

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

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

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

REMUNERATION AND APPRAISAL COMMITTEE

The Board established the remuneration and appraisal committee (the “**Remuneration and Appraisal Committee**”). It comprises of five Directors, Mr. Liew Fui Kiang, Mr. Wang Shuhai, Mr. Tang Qi, Mr. Wang Yunmin and Ms. Zhao Feng. Mr. Liew Fui Kiang is the Chairman of the Remuneration and Appraisal Committee. The primary duties of the Remuneration and Appraisal Committee are to formulate appraisal standards and conduct appraisals for Directors and managers of the Company and to formulate and review the remuneration policies and proposals for Directors and senior management of the Company. The terms of reference of the Remuneration and Appraisal Committee are published on the website of the Company and the HKEx Website.

Responsibilities and authorities of the Remuneration and Appraisal Committee

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

1. to make recommendations to the Board on remuneration plans or proposals and establishment of formal and transparent procedures for the formulation of the above remuneration plans or proposals according to the primary scope, responsibilities, importance of the management positions of Directors and senior management members and the remuneration standards of relevant positions in other relevant enterprises;
2. to formulate remuneration plans or proposals include but not limited to performance appraisal criteria, procedures and key appraisal system, and major incentive and penalty plans and systems;

CORPORATE GOVERNANCE REPORT

3. to determine the specific remuneration packages of executive Directors and senior management, including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment), and to make recommendations to the Board on the remuneration of non-executive Directors;
4. to review and approve the performance-based remuneration packages by making reference to the corporate objectives approved from time to time by the Board;
5. to review the performance of duties of Directors (non-independent Directors) and senior management of the Company and to conduct annual performance appraisals on them;
6. to examine and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that the compensation conforms to contractual terms or, in case the compensation does not conform to contractual terms, is fair and reasonable and no undue burden is placed on the Company;
7. to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such compensation arrangements are in accordance with the relevant contractual terms or are otherwise reasonable and appropriate; to ensure that no Director or any of his/her associates (as defined in the Hong Kong Listing Rules) is involved in deciding his/her own remuneration;
8. to supervise the implementation of the Company's remuneration system; and
9. to perform other duties as conferred by the laws and regulations, relevant regulatory requirements of the listing place(s) of the Company, such as the Hong Kong Listing Rules, rules of procedure and the Board.

During the Reporting Period, 2 meetings of the Remuneration and Appraisal Committee were held to discuss the remuneration packages of Directors and senior management of the Company and review their performances under the Company's remuneration policy. The particulars of the attendance of the members of Remuneration and Appraisal Committee are set forth as follows:

Name of the members of the Remuneration and Appraisal Committee	Number of meetings attended/convened
Mr. Liew Fui Kiang (appointed on 30 December 2020)	0/0
Mr. Wang Shuhai (appointed on 30 December 2020)	0/0
Mr. Tang Qi (re-appointed on 30 December 2020)	2/2
Mr. Wang Yunmin (appointed on 30 December 2020)	0/0
Ms. Zhao Feng (appointed on 30 December 2020)	0/0
Ms. Hui Wing (retired on 30 December 2020)	2/2
Ms. Wang Xiaoling (retired on 30 December 2020)	2/2
Mr. Gao Yongtao (retired on 30 December 2020)	2/2
Mr. Lu Bin (retired on 30 December 2020)	2/2

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

The Board established the audit committee (the “**Audit Committee**”). It comprises of five Directors, Ms. Zhao Feng, Mr. Li Gouhong, Ms. Wang Xiaoling, Mr. Wang Yunmin and Mr. Liew Fui Kiang. Ms. Zhao Feng is the Chairman of the Audit Committee. The terms of reference of the Audit Committee are published on the website of the Company and the HKEx Website.

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

1. to make proposals to the Board regarding appointment, reappointment and dismissal of external auditors, make recommendations to the Board and approve the remuneration and terms of engagement of the external auditors, and deal with all matters of the resignation or dismissal of external auditors;
2. to review and monitor the independence and objectivity of external auditors and the effectiveness of the audit process in accordance with applicable standards;
3. to formulate and implement policies relating to the engagement of external auditors for non-audit services;
4. to supervise the internal audit system of the Company and its implementation, examine the truthfulness, completeness and accuracy of the financial statements, annual reports and accounts, half-year reports and quarterly reports (if any) of the Company, and review important opinions regarding financial reporting in such statements and reports;
5. to review financial information and its disclosure of the Company;
6. to review the financial control, internal control and risk management systems of the Company and conduct audits on material connected transactions;
7. to discuss with the management on risk management and internal control system to ensure that the management has performed its duty to maintain an effective risk management and internal control system;
8. to review major investigation findings on risk management and internal control and the management's response to these findings on its own initiative or as delegated by the Board; and
9. to review the financial and accounting policies and practices of the Group.

CORPORATE GOVERNANCE REPORT

During the Reporting Period, the Audit Committee held 7 meetings to discharge its responsibilities and review the Group's annual and interim results, continuing connected transactions, reporting and compliance procedures, reports from the management on the Group's risk management and internal control systems, the effectiveness of the Group's internal control function and procedures and also the re-appointment of the external auditor. The particulars of the attendance of the members of Audit Committee are set forth as follows:

Name of the members of the Audit Committee	Number of meetings attended/ convened
Ms. Zhao Feng (appointed on 30 December 2020)	0/0
Mr. Li Guohong (re-appointed on 30 December 2020)	7/7
Ms. Wang Xiaoling (re-appointed on 30 December 2020)	7/7
Mr. Wang Yunmin (appointed on 30 December 2020)	0/0
Mr. Liew Fui Kiang (appointed on 30 December 2020)	0/0
Mr. Lu Bin (retired on 30 December 2020)	7/7
Mr. Gao Yongtao (retired on 30 December 2020)	7/7
Ms. Hui Wing (retired on 30 December 2020)	7/7

STRATEGY COMMITTEE

The Board established the strategy committee (the “**Strategy Committee**”). It comprises of five Directors, Mr. Li Guohong, Mr. Wang Lijun, Ms. Wang Xiaoling, Mr. Wang Yunmin and Mr. Liew Fui Kiang. Mr. Li Guohong is the chairman of the Strategy Committee. The terms of reference of the Strategy Committee are published on the website of the Company and the HKEx Website.

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

1. to conduct research and make recommendation on strategic planning for long-term development of the Company;
2. to conduct research and make recommendation on significant investment and financing proposals;
3. to conduct research and make recommendation on significant capital operations and asset operation projects;
4. to conduct research and make recommendation on significant matters affecting the development of the Company;
and
5. to perform other responsibilities required by laws, regulations, rules, regulatory documents, Articles of Association and assigned by the Board.

CORPORATE GOVERNANCE REPORT

During the Reporting Period, 2 meetings of the Strategy Committee were held to discuss the long-term development of the Company, the significant investment and financing proposals and matters affecting the development of the Company. The particulars of the attendance of the members of Strategy Committee are set forth as follows:

Name of the members of the Strategy Committee	Number of meetings attended/convened
Mr. Li Guohong (re-appointed on 30 December 2020)	2/2
Mr. Wang Lijun (appointed on 30 December 2020)	0/0
Ms. Wang Xiaoling (appointed on 30 December 2020)	0/0
Mr. Wang Yunmin (appointed on 30 December 2020)	0/0
Mr. Liew Fui Kiang (appointed on 30 December 2020)	0/0
Mr. Li Tao (retired on 30 December 2020)	2/2
Mr. Wang Peiyue (retired on 30 December 2020)	2/2
Mr. Gao Yongtao (retired on 30 December 2020)	2/2
Mr. Lu Bin (retired on 30 December 2020)	2/2

SUPERVISORS AND THE SUPERVISORY COMMITTEE

As at the date of this annual report, the Supervisory Committee consists of 3 members, comprising of Mr. Li Xiaoping, Ms. Liu Yanfen and Mr. Luan Bo, including representatives of the Shareholders and an appropriate proportion of representative of the Company's staff, including 1 employee representative Supervisor, the number and composition of the members of the Supervisory Committee comply with the relevant laws and regulations. According to the authority and responsibility conferred by the Articles of Association, the Supervisory Committee regularly convenes Supervisory Committee meetings, conscientiously discharges its duties so as to be responsible to the Shareholders, supervises and inspects the performance of the Directors and senior management personnel in their performance of their duties and the legality and compliance of the Company's financial issues to fully safeguard the legitimate rights and interests of the Company and the Shareholders.

INTERNAL AUDIT FUNCTION

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

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

CORPORATE GOVERNANCE REPORT

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

Further, during the Reporting Period, we have appointed an internal control consultant to review the effectiveness of our internal control measures related to our major business processes, to identify the deficiencies for improvement, advise on the rectification measures and review the implementation of such measures. The internal control consultant did not identify any material deficiencies in its review. We have adopted corresponding internal control measures to make improvement on certain ordinary internal control issues identified in relation to our IT system development and upgrade. As of 31 December 2020, our internal control consultant has completed the follow-up procedures on our internal control system with regard to those actions in relation to our IT system development and did not identify any material deficiencies in our internal control system.

Review of Risk Management and Internal Control Effectiveness

Through the Audit Committee, the Board has conducted annual review of the effectiveness of the Group's risk management and internal control systems for the year ended 31 December 2020, covering all material financial, operational and compliance controls, and it has considered the Group's risk management and internal control systems to be effective and adequate. There were no suspected material irregularities found or significant areas of concern identified during the year that might affect the Shareholders.

Tianyuanquan had audited the effectiveness of the Company's internal control system in relation to financial reports and provided an auditor's report with unqualified opinions.

WORK ON INTERNAL CONTROL EVALUATION

Scope of internal control evaluation

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

Major enterprise included in the scope of evaluation were:

Shandong Gold Mining Co., Ltd., Shandong Gold Mining Co., Ltd. Xincheng Gold Mine (山東黃金礦業股份有限公司新城金礦), Shandong Gold Mining (Laizhou) Co., Ltd., Shandong Gold Mining (Laizhou) Co., Ltd. Sanshandao Gold Mine, Shandong Gold Mining (Laizhou) Co., Ltd. Jiaojia Gold Mine, Shandong Gold Smelting Co., Ltd., Shandong Jinzhou Mining Group Co., Ltd., Shandong Jinzhou Group Qianling Mining Co., Ltd., Shandong Jinzhou Group Fuling Mining Co., Ltd., Shandong Gold Mining (Xinhui) Co., Ltd., Shandong Gold Mining (Linglong) Co., Ltd., Shandong Gold Mining (Yinan) Co., Ltd. (山東黃金礦業(沂南)有限公司), Chifeng Chaihulanzi Gold Mining Co., Ltd., Shandong Jinshi Mining Ltd., Shandong Gold Mining (Laixi) Co., Ltd., Gansu Xihe Zhongbao Mining Co., Ltd. (甘肅西和縣中寶礦業有限公司), Fujian Zhenghe Yuanxin Mining Co., Ltd. (福建政和源鑫礦業有限公司), Shandong Gold Guilaizhuang Mining Co., Ltd., Shandong Gold Group Penglai Mining Co., Ltd., Shandong Gold Mining (Hong Kong) Co., Limited, Shenzhen SD Gold Mining Precious Metal Co., Ltd. (深圳市山金礦業貴金屬有限公司), Shandong Gold Mining Equipment Manufacturing Co., Ltd. (山東黃金礦業裝備製造有限公司), SDG Capital Management Co., Ltd (山金金控資本管理有限公司), Shanjin Jinkung (Shanghai) Precious Metals Investment Co., Ltd. (山金金控(上海)貴金屬投資有限公司), Shanghai Shengju Asset Management Co., Ltd. (上海盛鉅資產經營管理有限公司), Shanjin Futures Co., Ltd. (山金期貨有限公司), Shanjin Jinkung (Shenzhen) Gold Investment Development Co., Ltd. (山金金控(深圳)黃金投資發展有限公司) and SDG International Capital Management Co., Ltd (山金國際資產管理有限公司).

CORPORATE GOVERNANCE REPORT

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

Organizational structure, development strategy, human resources, social responsibility, corporate culture, fund-related activities, procurement business, assets management, sales, research and development, engineering projects, financial reporting, comprehensive budget, contract management, internal information transmission and information systems.

High-risk areas which were given special attention include:

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

INFORMATION DISCLOSURE AND TRANSPARENCY

In 2020, the Company actively responded to new changes in the securities market supervision policy, and constantly adapted to the new requirements of the regulatory agencies for information disclosure. The Company continued to adhere to complying with both statutory information disclosure and independent information disclosure, enhance the relevance and effectiveness of the content of regular reports, and effectively improve the quality of corporate information disclosure. In accordance with the “Administrative Measures for the Disclosure of Information”, the SSE Listing Rules and the Hong Kong Listing Rules, the Company has truly, accurately, promptly and fully disclosed the relevant information to ensure that all Shareholders have equal access to information and effectively prevent insider trading. The Company was evaluated and awarded grade A for its information disclosure work on the SSE for the year 2019-2020.

DISSEMINATION OF INSIDE INFORMATION

The Company attaches great importance to the management of inside information. The Company strictly complies with the regulations of the Registration System for Persons with Inside Information (《内幕信息知情人登記管理制度》) and other related regulations to strengthen the confidentiality of inside information and improve the management of insider registration. During the Reporting Period, the Company well registered and filed the inside information of major events in a timely manner. The Directors, Supervisors, senior management of the Company, and other relevant personnel were able to strictly abide by the confidentiality obligations during the preparation of periodic reports, profit distribution, interim announcements and during the planning of significant events such as merger and acquisition projects, ensuring openness, fairness and impartiality in information disclosure without leaks.

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

CORPORATE GOVERNANCE REPORT

JOINT COMPANY SECRETARIES

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

In order to uphold good corporate governance and ensure compliance with the Hong Kong Listing Rules and applicable Hong Kong laws, the Company also engages Ms. Ng Sau Mei, an associate director of TMF Hong Kong Limited, a company secretarial service provider, as the joint company secretary to assist Mr. Tang in discharging the duties of a company secretary of the Company. Her primary contact person at the Company is Mr. Tang. During the year ended 31 December 2020, Mr. Tang and Ms. Ng have undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Hong Kong Listing Rules.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

During the Reporting Period, the Shareholders have approved the amendments to the Articles of Association at the extraordinary general meeting on 24 February 2020, and the Company has also amended the Articles of Association on 27 October 2020 regarding change of the registered capital of the Company. After the Reporting Period, the Shareholders have approved the amendments to the Articles of Association at the extraordinary general meeting on 21 January 2021. For details, please refer to the circulars of the Company dated 23 January 2020 and 31 December 2020.

INVESTOR RELATIONS

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

According to the Investor Relations Management System (《投資者關係管理制度》), the Company has further broadened the channels of communication with investors and fully respects and safeguards the legitimate rights and interests of relevant stakeholders. The Company has increased its communication with investors through a variety of activities including results roadshow, reverse roadshow, investor visits, annual general meeting, investment strategy meeting, online briefings on cash dividend distribution, investor collective reception day activities, fully exerts the functions of investors' hotlines, IR mailbox and Shanghai Stock Exchange e-interaction platform, listens carefully to and handles suggestions and advices from Shareholders and investors well. In 2020, the Company received more than 350 calls from investors, and received more than 30 batches of investors and more than 100 people in the field. The Company organized several online communication meetings to further deepen the investors and market's understanding of the Company.

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

INQUIRY TO THE BOARD

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

Address: No. 2503 Jingshi Road, Licheng District, Jinan, Shandong Province, PRC, Postal Code 250107

Telephone: (+86) 0531-67710382

Fax: (+86) 0531-67710380

Email: ir@sd-gold.com

CORPORATE GOVERNANCE REPORT

DIRECTORS' RESPONSIBILITIES IN RESPECT OF FINANCIAL REPORTS

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

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

DIRECTORS' AND OFFICERS' LIABILITIES

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

RELATIONS WITH THE CONTROLLING SHAREHOLDER

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

REMUNERATION OF EXTERNAL AUDITORS

Tianyuanquan and Shinewing, respectively, were the domestic and international auditors of the Company for 2020.

The fees in respect of audit and non-audit services provided to the Group by Shinewing and its affiliate firm for the year 2020 amounted to RMB4.28 million and nil respectively. The fees in respect of audit service and internal control and auditing service provided to the Group by Tianyuanquan for the year 2020 amounted to RMB3.4 million and RMB1.55 million respectively.

AUDITORS

Auditors appointed by the Company in the past three years is as follows:

Domestic Auditors:	Tianyuanquan (2018-2020)
International Auditors:	PricewaterhouseCoopers (Sep 2018-Jun 2019)
	Deloitte Touche Tohmatsu Certified Public Accountants (Jun 2019-Jan 2020)
	Shinewing (Jan 2020-Present)

Tianyuanquan and Shinewing shall retire at the forthcoming AGM and, being eligible, will offer themselves for re-appointment. A resolution for the reappointment as domestic and international auditors of the Company will be proposed at the forthcoming AGM.

CORPORATE GOVERNANCE REPORT

SHAREHOLDING INTERESTS OF SENIOR MANAGEMENT

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT



SHINEWING (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

TO THE SHAREHOLDERS OF SHANDONG GOLD MINING CO., LTD.

(incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of Shandong Gold Mining Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 128 to 247, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

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

Impairment assessment on property, plant and equipment and intangible assets

Refer to the notes 17 and 20 to the consolidated financial statements and the accounting policies on page 147.

The key audit matter	How the matter was addressed in our audit
<p>As at 31 December 2020, the carrying amounts of the property, plant and equipment and intangible assets were approximately RMB28,616,211,000 and RMB12,105,172,000, respectively, which are mainly related to the assets arising from the Group's gold mining and refining activities.</p> <p>The management of the Group has performed impairment assessment on the property, plant and equipment and intangible assets at the end of the reporting period. When indication of possible impairment has been identified, recoverable amount is determined based on the higher of fair value less cost of disposal or value-in-use of each cash-generating unit, in which the property, plant and equipment and intangible assets were allocated to.</p> <p>We have identified the impairment assessment on property, plant and equipment and intangible assets as a key audit matter because of their significance to the consolidated financial statements as a whole and the involvement of a significant degree of judgements and estimates made by the management of the Group when performing impairment assessment.</p>	<p>Our audit procedures were designed to review the management's judgements and estimates used in determining the indication of possible impairment and its impairment testing on the property, plant and equipment and intangible assets.</p> <p>We have discussed and reviewed the impairment assessment prepared by the management of the Group, including the identification of possible impairment.</p> <p>For the impairment testing, we have reviewed the underlying data and assumptions used in the calculation of fair value less cost of disposal or value-in-use of the respective cash-generating unit as recoverable amount, including the gold price, recoverable reserves, exploration potentials, production costs estimates, future operating costs and pre-tax discount rates. We have compared those underlying data and assumptions used to the historical data and other available market sources.</p>

INDEPENDENT AUDITOR'S REPORT

Impairment assessment on goodwill

Refer to the note 21 to the consolidated financial statements and the accounting policies on page 146.

The key audit matter	How the matter was addressed in our audit
<p>As at 31 December 2020, the carrying amount of the goodwill was approximately RMB1,257,998,000, which is mainly related to the acquisition of subsidiaries and joint operation through business combinations.</p>	<p>Our audit procedures were designed to review the management's judgements used in the identification of cash-generating units and the impairment amount on goodwill.</p>
<p>The management of the Group has performed impairment assessment on goodwill based on recoverable amount, which is the higher of fair value less cost of disposal or value-in-use of each cash-generating unit. Fair value less cost of disposal and value-in-use, based on the discounted cash flows model, of each cash-generating unit were prepared by the independent valuers engaged by the Group.</p>	<p>We have assessed the reasonableness of the identification of cash-generating units for annual impairment testing.</p>
<p>We have identified the impairment assessment on goodwill as a key audit matter because of its significance to the consolidated financial statements as a whole and the involvement of a significant degree of judgements and estimates made by the management of the Group when performing impairment testing.</p>	<p>We have discussed and reviewed the assumptions adopted in the impairment testing performed by the management of the Group and the independent valuers. We have reviewed the underlying data and assumptions used in the discounted cash flows model, including production plan, useful lives of mines, forecasted sales, gross profits and operating costs and gold price against the latest available information.</p>
	<p>We have also reviewed the discount rates adopted in the discounted cash flows model by reviewing its basis of calculation and comparing the input data to market sources.</p>
	<p>We have also considered the potential impact of reasonably possible downside changes in these key assumptions.</p>

INDEPENDENT AUDITOR'S REPORT

Fair value measurement of financial assets and liabilities at fair value through profit or loss ("FVTPL")

Refer to the notes 25 and 32 to the consolidated financial statements and the accounting policies on page 163.

The key audit matter	How the matter was addressed in our audit
<p>As at 31 December 2020, the aggregate carrying amounts of the financial assets at FVTPL and financial liabilities at FVTPL are approximately RMB8,626,781,000 and RMB8,672,590,000, respectively.</p> <p>The management of the Group has performed fair value assessment of financial assets at FVTPL and financial liabilities at FVTPL at the end of the reporting period. Significant judgements and estimates, including selection of appropriate valuation techniques and the use of unobservable market data, have been used by the management of the Group and the independent valuer in the fair value measurement.</p> <p>We have identified the fair value measurement of financial assets and liabilities at FVTPL as a key audit matter because of their significance to the consolidated financial statements as a whole and the involvement of a significant degree of judgements and estimates made by the management of the Group when performing fair value measurement.</p>	<p>Our audit procedures were designed to review the fair value measurement performed by the management of the Group and independent valuer, including the review of the valuation technique and the underlying data and assumptions used in fair value measurement.</p> <p>We have discussed with the management of the Group and the independent valuer for the appropriateness of valuation techniques adopted and reviewed fair value calculations.</p> <p>We have also assessed the reasonableness of the underlying data and assumptions used by the management of the Group and the independent valuer in the fair value measurement with reference to the available market data and/or other external available information.</p>

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.
- Conclude on the appropriateness of the Company's directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

INDEPENDENT AUDITOR'S REPORT

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

The engagement partner on the audit resulting in this independent auditor's report is Mr. Wong Chuen Fai.

SHINEWING (HK) CPA Limited

Certified Public Accountants

Wong Chuen Fai

Practicing Certificate Number: P05589

Hong Kong

30 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Revenue	5	63,645,351	62,613,141
Cost of sales		(57,088,914)	(57,601,794)
Gross profit		6,556,437	5,011,347
Selling expenses		(107,147)	(188,120)
General and administrative expenses		(2,319,331)	(1,768,667)
Research and development expenses		(387,558)	(333,050)
Other income	7	26,435	37,704
Other gains and losses, net	8	143,354	107,585
Finance income	9	72,877	71,466
Finance costs	9	(811,872)	(866,894)
Share of results of associates		10,669	1,319
Profit before tax		3,183,864	2,072,690
Income tax expenses	10	(687,562)	(660,376)
Profit for the year	11	2,496,302	1,412,314
Profit for the year attributable to:			
– owners of the Company		2,231,533	1,290,503
– non-controlling interests		264,769	121,811
		2,496,302	1,412,314
			(Restated)
EARNINGS PER SHARE			
– Basic and diluted (RMB)	14	0.51	0.30

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	2020 RMB'000	2019 RMB'000
Profit for the year	2,496,302	1,412,314
Other comprehensive (expense) income:		
<i>Item that will not be reclassified subsequent to profit or loss:</i>		
Fair value loss on equity investment designated at fair value through other comprehensive income, net of tax	(425)	–
<i>Item that will be reclassified subsequently to profit or loss:</i>		
Currency translation differences	(306,489)	69,593
Other comprehensive (expense) income	(306,914)	69,593
Total comprehensive income for the year	2,189,388	1,481,907
Total comprehensive income for the year attributable to:		
– owners of the Company	1,924,786	1,360,096
– non-controlling interests	264,602	121,811
	2,189,388	1,481,907

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Non-current assets			
Property, plant and equipment	17	28,616,211	26,029,464
Investment properties	18	219,739	231,459
Right-of-use assets	19	508,996	503,550
Intangible assets	20	12,105,172	12,581,306
Goodwill	21	1,257,998	1,327,478
Investments in associates	22	1,027,971	1,042,259
Financial assets at fair value through other comprehensive income	24	1,500	2,000
Financial assets at fair value through profit or loss	25	5,568,568	5,688,098
Inventories	26	1,227,314	385,483
Deferred income tax assets	34	170,877	130,000
Other non-current assets	27	580,445	565,816
		51,284,791	48,486,913
Current assets			
Inventories	26	2,549,714	3,639,787
Prepayment, trade and other receivables	28	4,244,700	1,916,843
Prepaid income tax		33,205	14,125
Financial assets at fair value through profit or loss	25	3,058,213	1,528,785
Restricted bank deposits	29	258,912	243,232
Bank balances and cash	29	3,032,156	3,019,041
		13,176,900	10,361,813
Current liabilities			
Trade and other payables	30	6,658,366	5,447,967
Lease liabilities	19	36,655	42,043
Current income tax liabilities		366,274	239,667
Borrowings	31	9,727,870	5,964,287
Financial liabilities at fair value through profit or loss	32	8,672,590	13,145,643
Current portion of other non-current liabilities	33	72,383	65,911
		25,534,138	24,905,518
Net current liabilities		(12,357,238)	(14,543,705)
Total assets less current liabilities		38,927,553	33,943,208

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Non-current liabilities			
Borrowings	31	1,677,098	2,199,267
Lease liabilities	19	63,427	65,940
Deferred income tax liabilities	34	3,928,100	4,262,779
Deferred revenue	35	15,406	12,444
Provision for asset retirement obligations	36	845,872	909,958
Other non-current liabilities	33	539,465	424,495
		7,069,368	7,874,883
Net assets			
		31,858,185	26,068,325
Capital and reserves			
Share capital	37(a)	4,313,947	3,099,612
Treasury shares	37(b)	(6,385)	(6,385)
Reserves		20,520,882	20,114,685
		24,828,444	23,207,912
Perpetual bonds	38	3,999,387	–
Non-controlling interests		3,030,354	2,860,413
Total equity			
		31,858,185	26,068,325

The consolidated financial statements on pages 128 to 247 were approved and authorised for issue by the board of directors on 30 March 2021 and are signed on its behalf by:

Li Guohong
Director

Tang Qi
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Attributable to owners of the Company											
	Share capital	Treasury shares	Capital reserve	Statutory reserve and other funds	Transactions with non-controlling interests	Foreign currency translation reserve	Others	Retained profits	Sub-total	Perpetual Bonds	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(note a)	(note b)	(note c)					(note 38)		
At 1 January 2020	3,099,612	(6,385)	7,879,511	831,219	(225,182)	44,017	1,548	11,583,572	23,207,912	-	2,860,413	26,068,325
Profit for the year	-	-	-	-	-	-	-	2,231,533	2,231,533	-	264,769	2,496,302
Other comprehensive income:												
Fair value loss on equity instrument designated at fair value through other comprehensive income	-	-	-	-	-	-	(258)	-	(258)	-	(167)	(425)
Currency translation differences	-	-	-	-	-	(306,489)	-	-	(306,489)	-	-	(306,489)
Total comprehensive income	-	-	-	-	-	(306,489)	(258)	2,231,533	1,924,786	-	264,602	2,189,388
Appropriations	-	-	-	37,412	-	-	-	(37,412)	-	-	-	-
Issue of perpetual bonds	-	-	-	-	-	-	-	-	-	3,999,387	-	3,999,387
Bonus issue (note 37(a))	1,239,845	-	(1,239,845)	-	-	-	-	-	-	-	-	-
Dividends to shareholders of the Company (note 13)	-	-	-	-	-	-	-	(307,790)	(307,790)	-	-	(307,790)
Repurchase shares	(25,510)	-	25,510	-	-	-	-	-	-	-	-	-
Dividends paid by subsidiaries of the Company to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(94,663)	(94,663)
Others	-	-	-	-	-	-	3,536	-	3,536	-	2	3,538
At 31 December 2020	4,313,947	(6,385)	6,665,176	868,631	(225,182)	(262,472)	4,826	13,469,903	24,828,444	3,999,387	3,030,354	31,858,185

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Attributable to owners of the Company										
	Share capital RMB'000	Treasury shares RMB'000	Capital reserve RMB'000 (note (a))	Statutory reserve and other funds RMB'000 (note (b))	Transactions with non-controlling interests RMB'000 (note (c))	Foreign currency translation reserve RMB'000	Others RMB'000	Retained profits RMB'000	Sub-total RMB'000	Non-controlling RMB'000	Total RMB'000
At 1 January 2019	2,214,008	(6,385)	10,430,582	575,239	(228,665)	(25,576)	3,076	10,768,313	23,730,592	1,943,845	25,674,437
Profit for the year	-	-	-	-	-	-	-	1,290,503	1,290,503	121,811	1,412,314
Other comprehensive income											
Currency translation differences	-	-	-	-	-	69,593	-	-	69,593	-	69,593
Total comprehensive income	-	-	-	-	-	69,593	-	1,290,503	1,360,096	121,811	1,481,907
Appropriations	-	-	-	255,980	-	-	-	(255,980)	-	-	-
Capital injection from non-controlling interests (notes (a)(ii) and (iii))	-	-	606,852	-	-	-	-	-	606,852	893,148	1,500,000
Consideration paid for the business combination involving entities under common control	-	-	(2,272,319)	-	-	-	-	-	(2,272,319)	-	(2,272,319)
Acquisition of additional interest of a subsidiary (note 42)	-	-	-	-	3,483	-	-	-	3,483	(19,836)	(16,353)
Bonus issue (note 37(a))	885,604	-	(885,604)	-	-	-	-	-	-	-	-
Dividends to shareholders of the Company (note 13)	-	-	-	-	-	-	-	(219,850)	(219,850)	-	(219,850)
Dividends paid by subsidiaries of the Company to non-controlling interests	-	-	-	-	-	-	-	-	-	(78,535)	(78,535)
Others	-	-	-	-	-	-	(1,528)	586	(942)	(20)	(962)
At 31 December 2019	3,099,612	(6,385)	7,879,511	831,219	(225,182)	44,017	1,548	11,583,572	23,207,912	2,860,413	26,068,325

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

Notes:

(a) Capital reserve

The capital reserve represented the sum of (i) the excess of net proceeds received from issuance of the shares of the Company and the nominal value of the shares issued; (ii) the difference between the amounts of capital injection from non-controlling shareholders and the net assets attributable to the non-controlling shareholders; (iii) capitalisation upon the bonus issue; and (iv) consideration paid for the acquisition of SDG Capital Management Co., Ltd. (山金金控資本管理有限公司) (“SDG Capital Management”) and its subsidiaries (collectively referred to as the “SDG Group”) under business combination involving entities under common control and completed in August 2019.

(b) Statutory and other reserve funds

In accordance with the People’s Republic of China (the “PRC”) Company Law and the articles of association of the PRC subsidiaries of the Company, the PRC subsidiaries are required to set aside 10% of its profit after tax, as determined in accordance with relevant accounting principles and financial regulations applicable to the PRC companies and regulations applicable to the PRC subsidiaries, to the statutory reserve funds until such reserve reaches 50% of the registered capital of the Company. The appropriation to the reserve must be made before any distribution of dividends to equity holders before reaching 50% threshold as mentioned above. The statutory reserve funds can be used to offset previous years’ loss, if any, and part of the statutory reserve funds can be capitalised as the share capital of the PRC subsidiaries provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the share capital of the PRC subsidiaries.

(c) Transactions with non-controlling interests

The amount represented the difference between considerations paid for the acquisition of additional equity interests in non-wholly owned subsidiaries of the Company and the carrying amount of the non-controlling interests to be acquired.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Note	2020 RMB'000	2019 RMB'000
OPERATING ACTIVITIES			
Cash generated from operations	39(a)	6,018,508	5,882,673
Income tax paid		(695,326)	(694,091)
NET CASH FROM OPERATING ACTIVITIES		5,323,182	5,188,582
INVESTING ACTIVITIES			
Payments for purchase of property, plant and equipment		(5,102,250)	(4,582,750)
Proceeds from disposal of property, plant and equipment		25,077	33,604
Payments for right-of-use assets		(41,867)	(59,859)
Payments for purchase of intangible assets		(311,350)	(481,604)
Placement of restricted bank deposits		(15,680)	(38,897)
Proceeds from financial assets held under resale agreements		–	158,922
Consideration paid for acquisition of SDG Capital Management		–	(2,272,319)
Payments for settlement of gold futures/forward contracts		(108,896)	(126,018)
Interests received		72,877	71,466
Payments for purchase of financial assets at fair value through profit or loss		(9,618,442)	(7,745,438)
Proceeds from disposal of financial assets at fair value through profit or loss		8,445,456	7,038,778
Dividends received from financial assets at fair value through profit or loss		12,278	15,279
Dividends received from an associate		24,957	–
Entrusted loan raised		(190,979)	–
(Advance to) repayments from related parties		(5,282)	420,089
NET CASH USED IN INVESTING ACTIVITIES		(6,814,101)	(7,568,747)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Note	2020 RMB'000	2019 RMB'000
FINANCING ACTIVITIES			
Payments for listing expenses		–	(72,772)
Capital injections from non-controlling shareholders		–	1,500,000
Repayments of lease liabilities		(25,277)	(37,931)
New bank borrowings raised		20,355,450	5,078,981
Repayments of bank borrowings		(18,346,901)	(4,140,000)
New borrowings from related parties raised		2,304,440	1,172,500
Repayments of borrowings from related parties		(2,212,160)	(1,427,400)
New corporate bonds raised		1,500,000	999,000
Repayment of corporate bonds		(681,200)	–
Interests paid		(278,217)	(360,892)
Repayments to related parties		(227,307)	(1,426,483)
Dividends paid to shareholders of the Company		(409,237)	(219,850)
Dividends paid to non-controlling shareholders		(94,663)	(78,535)
Payments for purchase of additional equity interest in a subsidiary of the Company		–	(16,353)
Payments for provision for asset retirement obligations		(3,988)	(20,699)
Government grants received		29,397	37,962
Proceeds from gold leasing arrangements		8,816,813	15,356,014
Settlement of gold leasing arrangements		(13,145,643)	(13,127,676)
Payments for finance costs associated with gold leasing contracts		(319,936)	(393,464)
Payments of guarantee and arrangement fee for borrowings		(6,949)	(5,761)
Proceed from issue of perpetual bonds		3,999,387	–
NET CASH FROM FINANCING ACTIVITIES		1,254,009	2,816,641
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(236,910)	436,476
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		2,674,064	2,227,866
Effect of foreign exchange rate changes		(100,867)	9,722
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		2,336,287	2,674,064
Analysis of cash and cash equivalents:			
Bank balances and cash		3,032,156	3,019,041
Less: cash held on behalf of customers for futures contracts trading	29(b)	(695,869)	(344,977)
		2,336,287	2,674,064

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. GENERAL INFORMATION

Shandong Gold Mining Co., Ltd. (the “Company”) was established in the People’s Republic of China (the “PRC” or “China”) on 31 January 2000 as a joint stock company with limited liability under the Company Law of the PRC.

The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (“H shares”) since 28 September 2018, and the Shanghai Stock Exchange (“A shares”) since 28 August 2003.

The principal activities of the Company and its subsidiaries (collectively referred to as the “Group”) is principally engaged in (i) mining, processing and sale of gold and gold products; (ii) manufacturing and sale of building decoration materials and (iii) investments in equity funds, trading of gold bullion and provision of futures contracts trading services. The address of the Company’s registered office is No. 2503 Jingshi Road, Licheng District, Jinan, Shandong Province, the PRC (prior to 21 January 2021, the registered office was Building No. 3, Shuntai Square, No. 2000 Shuhua Road, Jinan, Shandong Province, the PRC on 21 January 2021).

In the opinion of the directors of the Company, the immediate holding company and the ultimate controlling party of the Company are Shandong Gold Group Co., Ltd. (山東黃金集團有限公司) (“Shandong Gold Group”) and State-owned Assets Supervision and Administration Commission of Shandong Provincial People’s Government (山東省人民政府國有資產監督委員會), respectively.

These consolidated financial statements are presented in Renminbi (“RMB”), which is also the functional currency of the Company.

The English names of all the companies established in the PRC presented in these consolidated financial statements represent the best efforts made by the directors of the Company for the translation of the Chinese names of these companies to English names as they do not have official English names.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (the “IASB”). IFRSs comprise International Financial Reporting Standards (“IFRS”); International Accounting Standards (“IAS”); and Interpretations. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and by the Hong Kong Companies Ordinance (Cap. 622).

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instrument, which are measured at fair value at the end of the each reporting period, as explained in the accounting policy set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Going concern

As at 31 December 2020, the Group's current liabilities exceeded its current assets by approximately RMB12,357,238,000. The directors of the Company are of the opinion that the Group will have adequate funds to finance its future financing requirements and working capital based on the following considerations:

- (a) The Group is expected to remain profitable and hence continue to generate operating cash inflows from its future business operations; and
- (b) The Group has maintained long business relationship with its principal bankers and the principal bankers have confirmed their willingness to provide banking facilities of not less than approximately RMB52,763,688,000 as at 31 December 2020 and available at least next twelve months from 31 December 2020.

In view of the above, the directors of the Company are confident that there will be sufficient financial resources available to the Group to enable it to meet its liabilities as and when they fall due and to continue to operate for at least the next twelve months from 31 December 2020. Accordingly, the directors of the Company have prepared the consolidated financial statements on a going concern basis. The consolidated financial statements do not include any adjustments relating to the carrying amounts and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

2.1.2 Changes in the principal accounting policies and disclosures

(a) New or amendments to standards that are effective for the current year

In the current year, the Group has applied the Amendments to References to the Conceptual Framework in IFRSs and the following amendments to standards for the first time which are mandatory effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to IFRS 3	Definition of a Business
Amendments to IAS 1 and IAS 8	Definition of a Material
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

The application of the Amendments to References to the Conceptual Framework in IFRSs and the above amendments to IFRSs in the current year has had no material effect on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.3 Changes in the principal accounting policies and disclosures

(b) *New or amendments to standards not yet effective*

New or amendments to standards, including IFRSs, IAS, amendments and interpretations, which are not yet effective for the financial year commencing on 1 January 2020 and have not been applied in preparing these consolidated financial statements are listed below:

IFRS 17	Insurance Contracts and related Amendments ⁴
Amendments to IFRS 3	Reference to Conceptual Framework ³
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to IAS 1	Classification of Liabilities as Current or Non-current ⁴
Amendments to IAS 16	Property, Plant and Equipment: Proceeds Before Intended Use ³
Amendments to IAS 37	Onerous Contracts: Cost of Fulfilling a Contract ³
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2 ¹
Amendments to IFRSs	Annual Improvements to IFRSs 2018-2020 cycle ³
Amendments to IFRS 16	COVID-19-Related Rent Concessions ⁵
Amendments to IAS 8	Definition of Accounting Estimates ⁴
Amendments to IAS 1 and IFRS practice Statements 2	Disclosure of Accounting Policies ⁴

¹ Effective for annual periods beginning on or after 1 January 2021

² Effective for annual periods beginning on or after a date to be determined

³ Effective for annual periods beginning on or after 1 January 2022

⁴ Effective for annual periods beginning on or after 1 January 2023

⁵ Effective for annual periods beginning on or after 1 June 2020

The directors of the Company anticipate that the new or amendments to standards as listed above will have no material impact on the results and the financial position of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries

2.2.1 Consolidation

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

The Group reassess whether it controls over the subsidiary if facts and circumstances indicate that there are changes to one or more of these elements of control stated above.

Income and expenses of subsidiaries are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income of subsidiaries are attributed to the owners of the Company and to the non-controlling interests under the consolidated statement of comprehensive income. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Group are eliminated in full on consolidation.

2.2.2 Changes in ownership interests in subsidiaries without change of control

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

2.2.3 Separate financial statements

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in an associate is accounted for using the equity method of accounting in both of the consolidated financial statements and separate financial statements of the Company. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of profit or loss of the investee after the date of acquisition.

The Group's share of post-acquisition profit or loss is recognised in the consolidated statement of profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in consolidated statement of comprehensive income with a corresponding adjustment to the carrying amount of the investment.

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

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

2.4 Joint arrangements

The Group has applied IFRS 11 to all joint arrangements. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangement and determined it to be joint operation. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, related to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Joint operation is accounted for by recognising the operator's relevant share of assets, liabilities, revenues and expenses.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Joint arrangements *(Continued)*

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

- (a) its assets, including its share of any assets held jointly;
- (b) its liabilities, including its share of any liabilities incurred jointly;
- (c) its revenue from the sale of its share of the output arising from the joint operation;
- (d) its share of the revenue from the sales of the output by the joint operation; and
- (e) its expenses, including its share of any expenses incurred jointly.

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

2.5 Foreign currency translation

2.5.1 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional currency and the Group's presentation currency, and all values are rounded to the nearest thousand ("RMB'000"), unless otherwise stated.

2.5.2 Transactions and balances in each entity's financial statements

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

Foreign exchange gains or losses are presented in the consolidated statement of profit or loss on a net basis within "other gains and losses, net".

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Foreign currency translation (Continued)

2.5.3 Group companies

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

- (i) assets and liabilities at the end of the reporting period are translated at the closing rate at the date of the reporting period;
- (ii) income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting currency translation differences are recognised in other comprehensive income under foreign currency translation reserve.

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

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

2.6 Property, plant and equipment

Property, plant and equipment held for use in the production or supply of goods or services or for administrative purpose (other than construction in progress), are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

2.6 Property, plant and equipment (*Continued*)

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

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

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

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

Construction in progress represents property, plant and equipment under construction or pending installation, and is stated at cost less impairment losses, if any. Cost comprises direct costs of construction including borrowing costs attributable to the construction during the period of construction. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use.

An asset’s carrying amount is considered to be impaired immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount (note 2.10).

Gains or losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within “other gains and losses, net” in the consolidated statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Investment properties

Investment properties include those portions of office buildings that are held for long-term rental yields or for capital appreciation. Investment properties are initially measured at cost. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation of the investment properties is calculated using the straight-line method to allocate its cost less its residual value over its estimated useful life. The estimated useful life of these investment properties is estimated to be 13–42 years.

Investment properties are subject to renovations or improvements at regular intervals. The cost of major renovations and improvements is capitalised and the carrying amounts of the replaced components are written off to the profit or loss. The cost of maintenance, repairs and minor improvements is charged to the profit or loss when incurred.

2.8 Intangible assets

2.8.1 Mining and exploration rights

Mining rights are stated at cost less accumulated amortisation and impairment losses, if any, and are amortised based on the UOP method whereby the denominator is the proven and probable reserves and where appropriate the portion of mineral resources considered to be probable of economic extraction.

Exploration rights are stated at cost less impairment losses. Cost of the exploration rights are transferred to mining rights upon the government's approval of the mining license.

2.8.2 Goodwill

Goodwill arises on the acquisition of subsidiaries and joint operation constituting businesses represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (the "CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value-in-use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Intangible assets *(Continued)*

2.8.3 Patent rights

Patent rights are capitalised on the basis of the costs incurred to acquire and bring to use the patent rights. These costs are amortised over estimated useful life of 20 years, which are restricted by the period for which the legal rights are held.

2.8.4 Software licenses, trademarks and other licences

Acquired software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 3 to 5 years.

Separately acquired trademarks and licences are shown at historical cost. Trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of 15 to 20 years. The useful lives of trademarks and licences are restricted by the period for which contractual or other legal rights are held.

2.9 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment, or more frequently if events or damages in circumstances indicate that they might be impaired. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (the CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Financial assets

2.10.1 Classification

The Group classifies its financial assets in the following measurement categories:

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

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

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

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

2.10.2 Recognition and measurement

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

Debt instruments

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

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in "other gains and losses, net", together with foreign exchange gains or losses. Impairment losses are presented in general and administrative expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

2.10 Financial assets (*Continued*)

2.10.2 Recognition and measurement (*Continued*)

Debt instruments (Continued)

- FVTOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVTOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains or losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in other gains and losses, net. Interest income from these financial assets is included in finance income using the effective interest rate method.
- Financial assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. A gain or loss on a debt instruments that is subsequently measured at FVTPL is recognised in profit or loss and presented in other gains and losses, net in the period in which it arises.

Equity instruments

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

2.10.3 Impairment of financial assets

The Group has types of financial assets subject to IFRS 9's expected credit loss model (the "ECL" model):

- trade receivables; and
- other receivables (excluding non-financial assets).

For trade receivables, the Group applies the simplified approach to providing for ECL as prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables. The ECL on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

For other receivables (excluding non-financial assets), the Group measures the loss allowance equal to 12-month ECL, unless when there is a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on the significant increase in the likelihood or risk of a default occurring since initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Financial assets *(Continued)*

2.10.3 Impairment of financial assets *(Continued)*

Significant increase in credit risk

In assessing whether the credit risk on the financial assets has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial assets as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular debtor, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor; or
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Financial assets *(Continued)*

2.10.3 Impairment of financial assets *(Continued)*

Significant increase in credit risk (Continued)

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if (i) the financial instrument has a low risk of default; (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when the asset has external credit rating of “investment grade” in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of “performing”. Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

The Group considers that default has occurred when a financial asset is more than 1 year past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Financial assets *(Continued)*

2.10.3 Impairment of financial assets *(Continued)*

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the interest and/or principal repayments are 3 years past due and there is no reasonable expectation of recovery. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.12 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. See note 2.10.3 for the Group's impairment policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise of cash at banks and on hand and short-term deposits within a maturity of three months or less.

In the consolidated statement of cash flows, cash and cash equivalents consisted of cash and cash equivalents as defined above, net of cash held on behalf of customers for futures contracts trading.

2.14 Share capital and treasury shares and perpetual instruments

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Where any Group's entity purchases the Group's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Group's equity owners. Where such shares are subsequently sold or reissued, the cost of the treasury shares is reversed from the treasury share account and the realised gain or loss on sales or reissue, net of any directly attributable incremental transaction costs and the related income tax effects, is recognised in the capital reserve of the Company.

Perpetual instruments which include no contractual obligation for the Group to deliver cash or other financial assets or the Group has the sole discretion to defer payment of distribution and redemption of principal amount indefinitely are classified as equity instruments.

2.15 Financial liabilities

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL and do not arise from a transfer of a financial asset, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.15 Financial liabilities *(Continued)*

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which IFRS 3 applies; (ii) held for trading; or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term;
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination; (ii) held for trading; or (iii) designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.15 Financial liabilities *(Continued)*

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

2.16 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

2.18 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the consolidated statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2.19.1 Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company, the subsidiaries and associate operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2.19.2 Deferred income tax

Inside basis differences

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill.

Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences and losses can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally, the Group is unable to control the reversal of the temporary difference for associate.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Current and deferred income tax *(Continued)*

2.19.3 Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either (i) the taxable entity; or (ii) different taxable entities where there is an intention to settle the balances on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.20 Employee benefits

2.20.1 Short term compensation

Short term compensation includes salaries, bonuses, allowances and subsidies, employee benefits, medical insurance premiums, work-related injury insurance premium, maternity insurance premium, contributions to housing fund, unions and education fund and short-term absence with payment etc. When an employee has rendered service to the Group during an accounting period, the Group shall recognise the short term compensation actually incurred as a liability and charged to the cost of an asset or to profit or loss in the same period.

2.20.2 Post-employment benefits

The Group classifies post-employment benefits into Defined Contribution Plan (“DC plan”). DC plan means the Group only contributes a fixed amount to an independent fund and no longer bears other payment obligation. The post-employment benefits of the Group primarily comprise basic pension insurance and unemployment insurance and both of them are DC plans.

Basic pension insurance

Employees of the Group participate in the social insurance system established and managed by local labor and social security department. The Group makes basic pension insurance to the local social insurance agencies every month, at the applicable benchmarks and rates stipulated by the government for the benefits of its employees. After the employees retire, the local labor and social security department has obligations to pay them the basic pension. When an employee has rendered service to the Group during an accounting period, the Group shall recognise the accrued amount according to the above social security provisions as a liability and charged to the cost of an asset or to profit or loss in the same period.

Employees of the subsidiary as incorporated in Hong Kong participate in a statutory defined contribution pension plan (the “Mandatory Provident Fund Scheme”) under which the Group pays contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund under the Mandatory Provident Fund Scheme does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Contributions to defined contribution plans including the Mandatory Provident Fund Scheme, employee pension schemes established by municipal government in the PRC and administration and social security system for employees in Argentina are expensed as incurred. Contributions are reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions, where applicable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: (i) the Group has a present legal or constructive obligation as a result of past events; (ii) it is probable that an outflow of resources will be required to settle the obligation; and (iii) the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Provision for future decommissioning and restoration is recognised in full on the installation of mining properties. The amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding addition to the related mining properties of an amount equivalent to the provision is also created. This is subsequently depreciated as part of the costs of the mining properties. Any change in the present value of the estimated expenditure other than due to passage of time, which is regarded as interest expense, is reflected as an adjustment to the provision and mining properties.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.22 Exploration and evaluation

Exploration expenditures are the costs incurred in the initial search for mineral deposits with economic potential or in the process of obtaining more information about existing mineral deposits. Exploration expenditures typically include costs associated with prospecting, sampling, mapping, diamond drilling and other work involved in searching for ore.

Evaluation expenditures are the costs incurred to establish the technical and commercial viability of developing mineral deposits identified through exploration activities or by acquisition. Evaluation expenditures include the cost of (i) establishing the volume and grade of deposits through drilling of core samples, trenching and sampling activities in an ore body that is classified as either a mineral resource or a proven and probable reserve; (ii) determining the optimal methods of extraction and metallurgical and treatment processes; (iii) studies related to surveying, transportation and infrastructure requirements; (iv) permitting activities; and (v) economic evaluations to determine whether development of the mineralised material is commercially justified, including scoping, prefeasibility and final feasibility studies.

Once the technical feasibility and commercial viability of a program or project has been demonstrated with a prefeasibility study and recognised reserves in accordance with the Canadian Securities Administrators' National Instrument 43-101, future expenditures incurred in the development of that program or project are reclassified to property, plant and equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Revenue recognition

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer;
- Step 2: Identify the performance obligations in the contract;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price to the performance obligations in the contract; and
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

The Group recognised revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to customers.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- The Group’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- The Group’ performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct goods or service.

Revenue is measured based on the consideration specified in a contract with a customer, excludes amounts collected on behalf of third parties, discounts and sales related taxes.

2.23.1 Sale of goods

Revenue is recognised when control over the goods has been transferred to the customers. It is generally satisfied at a point in time when the control of the product has transferred to the customer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Revenue recognition *(Continued)*

2.23.2 Brokerage income

Brokerage income is recognised upon completion of the successful bid of futures trading.

Contract asset and liability

When either party to a contract has performed, the Group presents the contract in the consolidated statement of financial position as a contract asset or a contract liability, depending on the relationship between the Group's performance and the customer's payment.

If a customer pays consideration or the Group has a right to an amount of consideration that is unconditional, before the Group transfers goods or provides services to the customer, the Group presents the contract as a contract liability when the payment is received or a receivable is recorded (whichever is earlier). A contract liability is the Group's obligation to transfer services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. This has been classified under "Trade and other payables".

Incremental costs incurred to obtain a contract, if recoverable, are capitalised as contract assets and subsequently amortised when the related revenue is recognised.

2.24 Interest income

Interest income on financial assets at amortised cost and financial assets at FVTOCI is calculated using the effective interest method and recognised in the consolidated statement of profit or loss. Interest income is presented as finance income where it is earned from financial assets.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.25 Dividend income

Dividend income is recognised when the right to receive payment is established.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

2.26 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants recognised in the consolidated statement of profit or loss on a systematic basis over the period in which the Group recognises as expense the related costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred revenue and are credited to the consolidated statement of profit or loss on a straight-line basis over the expected useful lives of the related assets.

2.27 Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as lessee

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less from the commencement date and do not contain a purchase option) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liabilities

At the commencement date of a lease, the Group measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.27 Leases *(Continued)*

The Group as lessee *(Continued)*

Lease liabilities (Continued)

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received. Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, provision is recognised and measured under IAS 37 Provision, Contingent Liabilities and Contingent Assets. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses. They are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

The Group presents right-of-use assets as a separate line in the consolidated statement of financial position.

The Group as lessor

The Group enters into lease agreements as a lessor with respect to its investment properties. Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

2.28 Research and development expenses

Research expenditure is recognised as an expense as incurred.

Costs incurred on development projects (relating to the design and testing of new or improved software) are capitalised as intangible assets when recognition criteria are fulfilled and tests for impairment are performed annually. Other development expenditures that do not meet those criteria are recognised as expenses as incurred.

Development costs previously recognised as expenses are not recognised as assets in subsequent periods. Capitalised development costs are amortised from the point at which the assets are ready for use on a straight-line basis over their estimated useful lives.

2.29 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

2.30 Fair value measurement

When measuring fair value except for the Group's leasing transactions, net realisable value of inventories and value-in-use of the cash generating units for the purpose of impairment assessment, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Specifically, the Group categorised the fair value measurements into three levels, based on the characteristics of inputs, as follows:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the reporting period, the Group determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury department (i.e. group treasury) under policies approved by the directors of the Company. The group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The directors of the Company provide written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) Market risk

(i) Foreign currency risk

The Group's operations (such as export sales, imports of machinery and equipment, foreign currency deposits, trade and other receivables and trade and other payables) expose it to foreign exchange risk arising from various currency exposures primarily with respect to the United States Dollars ("US\$"). In addition, the RMB is not freely convertible into other foreign currencies and conversion of the RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government.

Management has set up a policy to require group companies to manage their foreign currency risk against their functional currency. The group companies are required to hedge their entire foreign currency risk exposure through the group treasury. To manage their foreign currency risk arising from future commercial transactions and recognised assets and liabilities, entities in the Group may use forward contracts as transacted through the group treasury. Foreign currency risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

The Group historically has not used any derivative instruments to hedge exchange rate of US\$ and currently does not have a fixed policy to do so in the foreseeable future.

The subsidiaries of the Company located in the PRC have most of the transactions settled in RMB, which is also the functional currency of the subsidiaries located in the PRC. The subsidiary of the Company located in Hong Kong and the joint operation of the Group located in Argentina have most of the transactions settled in US\$, which is also their functional currency. Foreign currency risk arises when recognised assets and liabilities are denominated in a currency that is not the functional currency of the Company and its subsidiaries. As at 31 December 2020 and 2019, the Group's assets and liabilities are primarily denominated in their functional currencies and considered that the foreign currency risk is insignificant.

The Group will constantly review the economic situation and its foreign currency risk profile, and will consider appropriate hedging measures in the future, as may be necessary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Interest rate risk

The Group's exposure to cash flow interest rate risk arises from the Group's variable interest rate restricted bank deposits, variable interest rate short-term deposits in the banks and in the associate and variable interest rate deposits in trading accounts of Shanghai Gold Exchange included in bank balances and cash and borrowings at variable interest rate. It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposure to fair value interest rate risk arises from the Group's fixed interest rate borrowings. The Group historically has not used any financial instruments to hedge potential fluctuations in interest rates.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group cash flow interest rate risk is mainly concentrated on the fluctuation of LIBOR and the floating interest rate of People's Bank of China's Benchmark Lending Rate arising from the Group's borrowings raised by the subsidiaries of the Company.

Other than those mentioned above, the Group's income and operating cash flows are substantially independent of changes in the market interest rates.

The sensitivity analyses below have been determined based on the exposure to interest rates for borrowings with variable interest rate at the end of the reporting period. The analysis is prepared assuming those borrowings outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points (2019: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

	2020	2019
	RMB'000	RMB'000
Impact on post-tax profit at 50 basis point higher	(20,842)	(11,748)
Impact on post-tax profit at 50 basis point lower	20,842	11,748

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(iii) Other price risk

The Group engages in gold mining and refining operations and is exposed to commodity price risk related to price volatility of gold from the gold leasing contracts. Regarding this price risk, the Group, at the same time, entered gold futures and forward contracts at the pre-determined gold price, to minimise the fluctuation of gold price arising from the gold leasing contracts.

In addition, the Group is exposed to equity price risk through its listed investments included in financial assets at FVTPL. The management of the Group has appointed a special team to monitor this price risk and will consider hedging the risk exposure should the need arises.

The sensitivity analyses below have been determined based on the exposure to other price risk to listed investments at the end of the reporting period. For sensitivity analysis purpose, the sensitivity rate is set as 5% (2019: 5%) in current year. No sensitivity analysis was presented for the fluctuation of gold price since the gold futures or forward contracts at pre-determined rate have been entered at the same time with the gold leasing contracts.

If the price of the respective investments has been 5% (2019: 5%) higher/lower, post-tax profit for the year ended 31 December 2020 would increase/decrease by approximately RMB221,727,000 (2019: RMB165,306,000) as a result of the changes in fair value of financial assets at FVTPL.

(b) Credit risk

Credit risk is managed on a group basis. Credit risk mainly arises from trade and other receivables, restricted bank deposits, cash at banks and financial assets held under resale agreements.

The Group expects that there is no significant credit risk associated with restricted bank deposits and cash at banks since they are deposited at state-owned banks and financial institutions and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

The Group is exposed to credit risk if counterparties fail to make payments as they fall due.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

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

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

The Group has concentration of credit risk as 82% (2019: 72%) of the total trade receivables was due from the Group's the five largest customers. There was no outstanding trade receivable due from the Group's largest customer as at 31 December 2020 and 2019.

The Group's concentration of credit risk by geographical locations is mainly in Hong Kong Special Administrative Region ("HKSAR") of the PRC, which accounted for 54% (2019: 68%) of the total trade receivable as at 31 December 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(i) Other receivables

The Group uses four categories for other receivables which reflect their credit risk and how the loss allowance is determined for each of those categories.

A summary of the assumptions underpinning the Group's ECL model is as follows:

Category	Group's definition of categories	Basis for recognition of expected credit loss provision
Performing	Debtors have a low risk of default and a strong capacity to meet contractual cash flows	12-month ECL. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime
Underperforming	Receivables for which there is a significant increase in credit risk and significant increase in credit risk is presumed if interest and/or principal repayments are 30 days past due	Lifetime ECL – not credit impaired
Non-performing	Interest and/or principal repayments are 60 days past due	Lifetime ECL – credit impaired
Write-off	Interest and/or principal repayments are 3 years past due and there is no reasonable expectation of recovery	Asset is written off

Among the other receivables as at 31 December 2020, carrying amount of approximately RMB2,811,288,000 (2019: RMB1,118,818,000) was considered as “performing” by the directors of the Company since the debtors are having a low risk of default with no significant increase in credit risk since initial recognition.

For remaining receivables, the directors of the Company concluded that those receivables are categorised other than “performing” and impairment of other receivables of approximately RMB131,961,000 (2019: RMB97,209,000) has been identified as at 31 December 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Trade receivables

The Group applies the simplified approach to provide for ECL prescribed by IFRS 9, which permits the use of the lifetime ECL for all trade receivables.

The provision for impairment for the trade receivables, which are assessed individually or collectively based on provision matrix, are as follows:

	Up to 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Trade receivables					
As at 31 December 2020					
Expected loss rate	1.1%	10.0%	19.9%	61.2%	
Gross carrying amount (RMB'000)	141,578	11,036	15,855	18,686	187,155
Impairment of trade receivables (RMB'000)	1,568	1,103	3,153	11,427	17,251
As at 31 December 2019					
Expected loss rate	1.2%	11.0%	20.0%	97.8%	
Gross carrying amount (RMB'000)	261,012	22,121	15,636	8,262	307,031
Impairment of trade receivables (RMB'000)	3,254	2,423	3,127	8,084	16,888

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of borrowing facilities. Due to the dynamic nature of the underlying businesses, the Group maintains a reasonable level of cash and cash equivalents, and further supplements this by keeping committed facilities available.

The Group's primary cash requirements have been for purchases of materials, machinery and equipment and payment of related debts. The Group finances its working capital requirements through a combination of funds generated from operations, bank borrowings, use of committed facilities, gold leasing contracts and the net proceeds from the initial public offering.

Management of the Group monitors rolling forecasts of the Group's liquidity reserve (comprises undrawn committed facilities and cash and cash equivalents) on the basis of expected cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

The table below analyses the undiscounted cash outflows relating to the Group's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2020						
Trade and other payables	6,425,258	-	-	-	6,425,258	6,425,258
Lease liabilities	38,489	27,243	14,912	42,539	123,183	100,082
Borrowings	9,972,437	1,715,583	-	-	11,688,020	11,404,968
Other non-current liabilities	72,383	189,707	205,646	135,606	603,342	603,342
Financial liabilities at FVTPL	8,672,590	-	-	-	8,672,590	8,672,590
	25,181,157	1,932,533	220,558	178,145	27,512,293	27,206,240

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2019						
Trade and other payables	5,305,543	-	-	-	5,305,543	5,305,543
Lease liabilities	46,567	22,293	33,000	32,332	134,192	107,983
Borrowings	6,201,360	89,762	2,242,815	-	8,533,937	8,163,554
Other non-current liabilities	65,911	189,395	122,132	104,191	481,629	481,629
Financial liabilities at FVTPL	13,145,643	-	-	-	13,145,643	13,145,643
	24,765,024	301,450	2,397,947	136,523	27,600,944	27,204,352

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as the sum of borrowings, lease liabilities and financial liabilities at fair value through profit or loss, less restricted bank deposits and bank balances and cash (excluding the cash held on behalf of customers for futures trading). Total capital is calculated as "equity" plus net debt.

As at 31 December 2020 and 2019, the net debt to total capital ratio was as follows:

	2020 RMB'000	2019 RMB'000
Borrowings	11,404,968	8,163,554
Lease liabilities	100,082	107,983
Financial liabilities at FVTPL	8,672,590	13,145,643
	20,177,640	21,417,180
Less: restricted bank deposits (note 29(a))	(258,912)	(243,232)
Less: bank balances and cash (note 29(b))	(2,336,287)	(2,674,064)
Net debt	17,582,441	18,499,884
Equity	31,858,185	26,068,325
Total capital	49,440,626	44,568,209
Gearing ratio	36%	42%

The decrease in the gearing ratio as at 31 December 2020 was primarily due to the issuance and of perpetual bonds (notes 38) which increased the Group's equity as at 31 December 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation

Fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis

The valuation techniques and inputs used in the fair value measurements of each financial instruments on a recurring basis are set out below:

Financial instruments	Fair value hierarchy	Fair value as at 31 December		Valuation technique
		2020 RMB'000	2019 RMB'000	
Financial assets at FVTPL – listed equity investments	Level 1	2,314,557	640,725	Quoted bid price in an active market
Financial assets at FVTPL – listed equity investments	Level 2	3,598,152	3,767,447	Market approach – price to book ratio
Financial assets at FVTPL – investments in equity funds	Level 2	1,123,604	1,016,925	Quoted price in the fund's statements
Financial assets at FVTPL – investments in other equity funds (note)	Level 3	1,444,405	1,703,760	Combined approach – market comparison approach for unlisted shares and income approach for other assets held by equity funds
Financial asset at FVTPL – Structured deposits	Level 2	146,063	88,026	Quoted rate of return by issuing bank
		8,626,781	7,216,883	
Financial liabilities at FVTPL – gold leasing contracts and gold forward/futures contracts	Level 2	8,672,590	13,145,643	Market approach – reference to the similar contracts

Note: The fair value of the financial assets at FVTPL – investments in other equity funds is determined using the combined approach – market comparison approach for unlisted shares and income approach for other assets held by equity funds. The valuation are dependent on several unobservable inputs such as discount rates and lack of marketability discounts. The estimated fair value would be decreased if the discount rates and lack of marketability discounts increases.

There were no transfers between Level 1 and 2 of fair value hierarchy in the current and prior years.

For recurring fair value measurements categorised within Level 3 of the fair value hierarchy, if the unobservable inputs to the valuation model were 5% higher/lower while all the other variables were held constant, the carrying amount of financial assets at FVTPL – listed investments in equity funds categorised in Level 3 of the fair value hierarchy would decrease/increase by approximately RMB54,165,000 (2019: RMB63,891,000) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

Fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Reconciliation of Level 3 fair value measurements of financial assets on recurring basis:

	Financial assets at FVTPL – investments in other equity funds RMB'000
At 1 January 2019	1,296,493
Purchases	3,671,743
Disposals	(3,292,054)
Realised gain in profit or loss	8,611
Unrealised gains	18,967
At 31 December 2019	1,703,760
Purchases	207,631
Disposals	(394,321)
Realised gain in profit or loss	248,699
Unrealised gains	(321,364)
At 31 December 2020	1,444,405

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

The directors of the Company considered that the carrying amounts of other current financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements are not materially differ from their fair values due to their immediate or short-term maturity or the interest rates used approximates to the discount rate of relevant financial assets or financial liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical judgements in applying the Company's accounting policies

(a) Going concern consideration

The assessment of the going concern assumptions involves making judgements by the directors of the Company, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. The directors of the Company consider that the Group has ability to continue as a going concern and the major events or conditions, which may give rise to business risks, that individually or collectively may cast significant doubt about the going concern assumptions are set out in note 2.1.1.

(b) Joint operation – investment in Minera Andina del Sol. SRL. (“MAS”) by the Group

The Group has determined that the Group's investment in MAS, a company incorporated in Argentina with limited liability, is jointly controlled by the Group and a subsidiary of Barrick Gold Corporation (“Barrick Gold”), Barrick Cayman (V) Ltd. The directors of the Company determine that both the Group and Barrick Gold have the right to the assets and obligations for the liabilities of MAS and are eligible to the products produced by the Veladero gold mine (“Veladero Mine”), a gold mine located in Argentina and was held by MAS, and recognise expenses as incurred by MAS in the proportion of 50% each. Therefore, the Group defined its investment in MAS as an investment in a joint operation.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Proved and probable mineral reserves and resources

Proved and probable mineral reserves and resources are estimated based on professional knowledge, experience and industrial practice. Most of the time, the estimation basis on probing and estimation exercised by the management of the Group may not be very accurate. The estimation is updated in accordance with new technologies and new information. This forms the basis for the Life of Mine (“LOM”) plans, and any changes in estimation will have impacts on amounts of depreciation of the mining structures (note 17) and amortisation of mining rights (note 20) using the UOP method. That may result in changes of or impacts on the Group's development and operation programme, and the Group's operation and operating results.

(b) Useful lives of property, plant and equipment

The management of the Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charges prospectively where useful lives are less than previously estimated lives, or it will write-off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

Critical accounting estimates and assumptions *(Continued)*

(c) Impairment assessment on property, plant and equipment and intangible assets

Impairment assessment on property, plant and equipment and intangible assets are performed by the management of the Group at the end of each reporting period. When there is an indication of possible impairment identified, the management of the Group assess whether there is any impairment loss. Impairment loss has been recognised if the recoverable amount, being the higher of fair value less cost of disposal or value-in-use, is lower than the carrying amount. In assessing the value-in-use, the management of the Group takes into estimation of discounted future cash flows. In estimating the future cash flows, the management of the Group takes into account the gold price, recoverable reserves, exploration potentials, production costs and operating costs. The estimates used by the management of the Group in calculating future cash flows might be subject to changes due to the inherent uncertainty and the volatility of the gold price. Where the actual cash flows are less than expected, a material impairment loss may arise.

As at 31 December 2020, the carrying amounts of property, plant and equipment and intangible assets are approximately RMB28,616,211,000 (2019: RMB26,029,464,000) and RMB12,105,172,000 (2019: RMB12,581,306,000) respectively. During the year ended 31 December 2020, impairment losses of approximately Nil (2019: RMB23,563,000) and RMB153,639,000 (2019: RMB59,272,000) have been recognised on property, plant and equipment and intangible assets, respectively.

(d) Impairment assessment on goodwill

The management of the Group tests annually on goodwill in accordance with the accounting policy as disclosed in note 2, based on the recoverable amount. The recoverable amount of each cash-generating unit has been determined based on the higher of value-in-use calculation and fair value less cost of disposal calculation. If the recoverable amount is less than the carrying amount, impairment loss was recognised. The calculations of the recoverable amount require the use of estimates and judgement as disclosed in note 21.

As at 31 December 2020, the carrying amount of the goodwill was approximately RMB1,257,998,000 (2019: RMB1,327,478,000). No impairment loss has been recognised during the years ended 31 December 2020 and 2019.

(e) Fair value measurement of financial assets and liabilities at FVTPL

For the determination of the fair value of financial assets and liabilities at FVTPL, the management of the Group has taken the reference on the available market information, such as quoted market price and other comparable market data. Where there is no such information, the management of the Group uses their judgements and estimates in the fair value calculation, with reference to the other available information and the valuation performed by the independent valuers.

As at 31 December 2020, the carrying amounts of the financial assets and liabilities at FVTPL were approximately RMB8,626,781,000 (2019: RMB7,216,883,000) and RMB8,672,590,000 (2019: RMB13,145,643,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

Critical accounting estimates and assumptions *(Continued)*

(f) Impairment assessment on trade and other receivables

The impairment for trade and other receivables are based on the assumptions about ECL. The Group uses judgements and estimates in making these assumptions and selecting the inputs to the provision calculation, as well as the Group's historical experience and forward-looking information at the end of each reporting period. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment to the consolidated statement of profit or loss.

As at 31 December 2020, the carrying amount of the trade receivables was approximately RMB169,904,000 (2019: RMB290,143,000), net of accumulated impairment of approximately RMB17,251,000 (2019: RMB16,888,000).

As at 31 December 2020, the carrying amount of the other receivables was approximately RMB3,286,608,000 (2019: RMB1,218,028,000), net of accumulated impairment of approximately RMB131,961,000 (2019: RMB97,209,000).

(g) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(h) Estimation on the provision for asset retirement obligations

Provisions are recognised for the future decommissioning and restoration of mines. The amounts of the provision recognised are the present values of the estimated future expenditures that the Group is expected to incur. The estimation of the future expenditures is based on feasibility report performed by professionals with reference to the current local conditions and requirements, including legal requirements, technology, price level, etc. In addition to these factors, the present values of these estimated future expenditures are also impacted by the estimation of the economic lives of mining properties. Changes in any of these estimates will impact the operating results and the financial position of the Group over the remaining economic lives of the mining properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

5. REVENUE

Revenue represents revenue arising on sale of goods, leasing of properties and provision of services for the year. An analysis of the Group's revenue is as follows:

	2020 RMB'000	2019 RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Sales of gold bullion, gold related products and others	63,549,196	62,396,032
Brokerage and other fees earned from trading of futures contracts	83,777	198,443
	63,632,973	62,594,475
Revenue from other sources		
Rental income from investment properties	12,378	18,666
	63,645,351	62,613,141

Disaggregation of revenue from contracts with customers by timing of recognition:

	2020 RMB'000	2019 RMB'000
Timing of revenue recognition		
At a point in time and total revenue from contracts with customers	63,632,973	62,594,475

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

5. REVENUE (Continued)

Set out below is the reconciliation of the Group's revenue from contracts with customers disclosed in the segment information:

	Gold Mining RMB'000	Gold Refining RMB'000	Investment Management RMB'000	Total RMB'000
For the year ended 31 December 2020				
<i>Revenue from contracts with customers within the scope of IFRS 15</i>				
Sales of gold bullion, gold related products and others	2,731,235	58,235,764	2,582,197	63,549,196
Brokerage and other fees earned from trading of futures contracts	–	–	83,777	83,777
	2,731,235	58,235,764	2,665,974	63,632,973
<i>Revenue from other sources</i>				
Rental income from investment properties	11,910	–	468	12,378
	2,743,145	58,235,764	2,666,442	63,645,351

	Gold Mining RMB'000	Gold Refining RMB'000	Investment Management RMB'000	Total RMB'000
For the year ended 31 December 2019				
<i>Revenue from contracts with customers within the scope of IFRS 15</i>				
Sales of gold bullion, gold related products and others	3,022,444	57,720,911	1,652,677	62,396,032
Brokerage and other fees earned from trading of futures contracts	–	–	198,443	198,443
	3,022,444	57,720,911	1,851,120	62,594,475
<i>Revenue from other sources</i>				
Rental income from investment properties	16,633	–	2,033	18,666
	3,039,077	57,720,911	1,853,153	62,613,141

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

6. SEGMENT INFORMATION

The President Office (總裁辦公會) of the Company is the Group's chief operating decision-maker ("CODM"). Management has determined the operating segments based on the information reviewed by the CODM for the purposes of allocating resources and assessing performance. The CODM have chosen to organise the Group around differences in products and services.

During the year ended 31 December 2019, the Group completed the acquisition of entire equity interest in SDG Capital Management Co., Ltd. as business combination involving entities under common control. SDG Capital Management Group was principally engaged in the investments in equity funds, trading of gold bullion and provision of futures contracts trading services.

Financial information of the following reportable segments has been separately presented as discrete segment information for the CODM's review:

- Gold Mining – mining and sales of gold ore;
- Gold Refining – production and sales of gold; and
- Investment Management – investments in equity funds, trading of gold bullion and provision of futures contracts trading services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

6. SEGMENT INFORMATION (Continued)

Segment revenue and results

For the year ended 31 December 2020

	Gold Mining RMB'000	Gold Refining RMB'000	Investment Management RMB'000	Inter-segment elimination RMB'000	Total RMB'000
Revenue	14,289,898	58,632,707	2,669,103	(11,946,357)	63,645,351
Less: inter-segment revenue	(11,546,753)	(396,943)	(2,661)	11,946,357	-
Revenue from external customers	2,743,145	58,235,764	2,666,442	-	63,645,351
Operating profit	3,541,779	85,773	284,311	327	3,912,190
Finance income	69,516	4,697	36,787	(38,123)	72,877
Finance costs	(636,670)	(4,039)	(209,286)	38,123	(811,872)
Share of results of associates	10,507	-	162	-	10,669
Profit before tax	2,985,132	86,431	111,974	327	3,183,864
Income tax expenses	(629,760)	(16,832)	(40,970)	-	(687,562)
Profit for the year	2,355,372	69,599	71,004	327	2,496,302
Other segment information:					
Depreciation and amortisation	2,207,342	42,860	18,076	-	2,268,278
Loss on disposals/write-off of property, plant and equipment	134,582	786	10	-	135,378
Provision for impairment of intangible assets	153,639	-	-	-	153,639
Government grants	(20,770)	(557)	(5,108)	-	(26,435)
Provision for impairment of trade and other receivables, net	(1,011)	4,332	31,794	-	35,115

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

6. SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

For the year ended 31 December 2019

	Gold Mining RMB'000	Gold Refining RMB'000	Investment Management RMB'000	Inter-segment elimination RMB'000	Total RMB'000
Revenue	12,344,729	57,980,127	1,855,131	(9,566,846)	62,613,141
Less: inter-segment revenue	(9,305,652)	(259,216)	(1,978)	9,566,846	-
Revenue from external customers	3,039,077	57,720,911	1,853,153	-	62,613,141
Operating profit	2,474,070	215,479	174,684	2,566	2,866,799
Finance income	32,572	4,335	34,559	-	71,466
Finance costs	(637,373)	(7,394)	(222,127)	-	(866,894)
Share of results of associates	1,273	-	46	-	1,319
Profit (loss) before tax	1,870,542	212,420	(12,838)	2,566	2,072,690
Income tax expenses	(556,298)	(55,565)	(48,513)	-	(660,376)
Profit (loss) for the year	1,314,244	156,855	(61,351)	2,566	1,412,314
Other segment information:					
Depreciation and amortisation	2,658,220	44,344	16,982	-	2,719,546
Loss on disposals/write-off of property, plant and equipment	28,117	721	10	-	28,848
Provision for impairment of property, plant and equipment	23,563	-	-	-	23,563
Provision for impairment of intangible assets	59,272	-	-	-	59,272
Government grants	(35,256)	(464)	(1,984)	-	(37,704)
Provision for impairment of trade and other receivables, net	4,546	6,207	3,575	-	14,328

Segment assets and liabilities

As at 31 December 2020

	Gold Mining RMB'000	Gold Refining RMB'000	Investment Management RMB'000	Inter-segment elimination RMB'000	Total RMB'000
Total assets	55,327,458	2,749,074	10,141,491	(3,756,332)	64,461,691
Including: Investments in associates	1,023,967	-	4,004	-	1,027,971
Total liabilities	26,292,791	1,957,556	8,109,164	(3,756,005)	32,603,506

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

6. SEGMENT INFORMATION (Continued)

Segment assets and liabilities (Continued)

As at 31 December 2019

	Gold Mining RMB'000	Gold Refining RMB'000	Investment Management RMB'000	Inter-segment elimination RMB'000	Total RMB'000
Total assets	48,238,865	2,847,412	9,628,967	(1,866,518)	58,848,726
Including:					
Investments in associates	1,038,417	-	3,842	-	1,042,259
Total liabilities	24,851,950	2,124,151	7,668,252	(1,863,952)	32,780,401

Analysis of revenue

	2020 RMB'000	2019 RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
The PRC, excluding Hong Kong Special Administrative Region ("HKSAR") of the PRC	61,339,722	59,920,478
Outside the PRC	2,293,251	2,673,997
	63,632,973	62,594,475
Revenue from other sources		
The PRC	12,378	18,666
	63,645,351	62,613,141

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

Information about major customers

Revenue from customer of the corresponding years contributing over 10% of the total revenue of the Group is as follows:

	2020 RMB'000	2019 RMB'000
Gold sold through the Shanghai Gold Exchange*	59,290,943	57,430,101

* Revenue from Gold Refining segment and Investment Management segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

6. SEGMENT INFORMATION (Continued)

Analysis of non-current assets

	2020 RMB'000	2019 RMB'000
The PRC, excluding HKSAR of the PRC	39,069,297	34,352,057
Outside the PRC	6,474,549	8,314,758
	45,543,846	42,666,815

Note: The non-current assets above exclude financial assets at FVTOCI, financial assets at FVTPL and deferred income tax assets.

The above analysis of non-current assets is presented based on the geographical location of the assets. In respect of intangible assets, goodwill and investments in associates, the geographical location is determined based on the place of establishment or incorporation of (i) the subsidiaries of the Company owning such assets; (ii) the joint operation or (iii) the associates.

7. OTHER INCOME

	2020 RMB'000	2019 RMB'000
Government grants (note)	26,435	37,704

Note: Included in other income was government grants of approximately RMB16,702,000 (2019: RMB19,533,000) which represented the government grants received from the PRC local government authorities in respect of subsidising the Group's research and development activities, gold mining activities and other daily operations, which were immediately recognised as other income for the year as the Group fulfilled all the relevant granting criteria.

Details of the deferred revenue in respect of the government grants recognised during the year ended 31 December 2020 of RMB9,733,000 (2019: RMB18,171,000) are set out in note 35.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

8. OTHER GAINS AND LOSSES, NET

	2020 RMB'000	2019 RMB'000
Fair value gain (loss) on gold futures/forward contracts	84,633	(77,085)
Loss on disposals/write-off of property, plant and equipment	(135,378)	(28,848)
Net foreign exchange losses	(90,600)	(50,276)
Realised and unrealised fair value gains of financial assets at FVTPL	236,912	244,504
Dividends income from financial assets at FVTPL	12,278	15,279
Others	35,509	4,011
	143,354	107,585

9. FINANCE INCOME AND FINANCE COSTS

	2020 RMB'000	2019 RMB'000
Finance income		
Interest income from		
– bank deposits	37,299	39,809
– deposits with an associate (note 43(a))	16,848	12,463
– entrusted loans	18,679	3,581
– gold leased to independent third parties	–	13,977
– financial assets held under resale agreements	51	1,636
	72,877	71,466
Finance costs		
Interest expenses from		
– bank borrowings	279,950	238,906
– borrowings from related parties (note 43(a))	17,028	11,026
– corporate bonds	75,294	69,768
– interest charge on unwinding of discounts from provision for asset retirement obligations (note 36)	43,223	14,632
– lease liabilities	5,219	7,192
Finance costs for arranging gold leasing contracts	319,936	393,464
Realised and unrealised fair value losses on gold leasing contracts	49,306	132,229
Guarantee and arrangement fees for borrowings	24,798	6,949
	814,754	874,166
Less: amounts capitalised on qualifying assets (note)	(2,882)	(7,272)
	811,872	866,894

Note: Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 3.84% (2019: 4.05%) per annum to expenditure on qualifying assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

10. INCOME TAX EXPENSES

	2020 RMB'000	2019 RMB'000
Current income tax:		
– The PRC	668,136	559,934
– Outside the PRC	245,699	146,848
Deferred income tax (note 34)	913,835 (226,273)	706,782 (46,406)
	687,562	660,376

- (a) The provision for PRC enterprise income tax (“EIT”) is calculated based on the statutory income tax rate of 25% (2019: 25%). The EIT is calculated based on the applicable income tax rate of 25% (2019: 25%) on the estimated assessable profit of each of the companies comprising the Group, determined in accordance with the relevant PRC income tax rules and regulations, except for the Company and certain subsidiaries which are taxed at preferential tax rate of 15% (2019: 15%) based on the relevant PRC tax laws and regulations.
- (b) The estimated tax assessable profit of the Group’s overseas joint operation is calculated at the statutory income tax rate in Argentina of 30% (2019: 30%) in accordance with the Argentina income tax law.

In addition, withholding tax of approximately RMB21,175,000 (2019: RMB21,158,000) has been provided during the year ended 31 December 2020 on inter-company interest expenses paid to Shandong Gold Mining (Hongkong) Co., Limited (“SDG HK”), a direct wholly-owned subsidiary of the Company, from the joint operation, which such interest expense were eliminated upon the proportional consolidation.

- (c) No provision for income tax has been made by SDG HK as it has no estimated taxable profits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

10. INCOME TAX EXPENSES (Continued)

The income tax expenses for the year can be reconciled to profit before tax per consolidated statement of profit or loss as follows:

	2020 RMB'000	2019 RMB'000
Profit before tax	3,183,864	2,072,690
Tax calculated at domestic income tax rate of 25% (2019: 25%)	795,966	518,173
Effect of different tax rates of subsidiaries operating in other jurisdictions	40,950	28,336
Tax effect of income not taxable for tax purpose	(10,241)	(12,220)
Tax effect of expenses not deductible for tax purposes	8,718	46,387
Utilisation of tax losses previously not recognised	(20,403)	(7,141)
Tax effect of tax losses not recognised	18,951	110,322
Additional expenses allowance for tax deduction	(68,098)	(48,087)
Withholding tax on interest income from the joint operation	21,175	21,158
Others (note)	(99,456)	3,448
Income tax expenses	687,562	660,376

Details of deferred income tax are set out in note 34.

Note: Others mainly represent the tax effect for the change of the PRC EIT rate from 25% to 15% as a result of successful application of High and Technology Enterprise by certain subsidiaries in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

11. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2020 RMB'000	2019 RMB'000
Directors' and chief executive emoluments (note 12(i))	5,599	4,480
Other staff:		
– salaries, wages, allowances and other benefits	2,273,074	2,088,964
– retirement benefit scheme contributions	208,576	357,828
Amortisation of intangible assets	758,472	471,378
Depreciation of property, plant and equipment	1,431,718	2,178,076
Depreciation of investment properties	11,720	12,013
Depreciation of right-of-use assets	66,368	58,079
Auditors' remuneration	9,230	8,680
Loss on disposals/write-off of property, plant and equipment	135,378	28,848
Provision for impairment of property, plant and equipment	–	23,563
Provision for impairment of intangible assets	153,639	59,272
Provision for impairment of trade and other receivables, net	35,115	14,328
Provision for inventories	140	–
Research and development expenses	387,558	333,050
Amount of inventories recognised as expenses	56,482,575	57,003,912

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

12. DIRECTORS' AND SUPERVISORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

- (i) The emoluments paid or payable to each of the 14 (2019: 9) directors and the chief executive of the Company were as follows:

For the year ended 31 December 2020

	Director's fee RMB'000	Salaries, allowance and other benefits RMB'000	Discretionary bonus RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
<i>Executive directors</i>					
Mr. Li Tao (李濤) (note (iii))	-	169	367	3	539
Mr. Tang Qi (湯琦)	-	192	246	3	441
Mr. Wang Peiyue (王培月) (note (ii))	-	212	449	3	664
Mr. Liu Qin (劉欽) (note (i) and (iv))	-	204	353	3	560
Mr. Wang Shu Hai (王樹海) (note (i) and (iv))	-	205	365	3	573
<i>Non-executive directors</i>					
Mr. Li Guohong (李國紅)	265	-	597	-	862
Mr. Wang Lijun (王立君)	212	-	497	3	712
Ms. Wang Xiaoling (汪曉玲)	210	-	495	3	708
<i>Independent non-executive directors</i>					
Mr. Gao Yongtao (高永濤) (note (ii))	180	-	-	-	180
Ms. Hui Wing (許穎) (note (iii))	180	-	-	-	180
Mr. Lu Bin (盧斌) (note (ii))	180	-	-	-	180
Mr. Wang Yun Min (王運敏) (note (i))	-	-	-	-	-
Mr. Liew Fui Kiang (劉懷鏡) (note (i))	-	-	-	-	-
Ms. Zhao Feng (趙峰) (note (i))	-	-	-	-	-
Total	1,227	982	3,369	21	5,599

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

12. DIRECTORS' AND SUPERVISORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS (Continued)

- (i) The emoluments paid or payable to each of the 14 (2019: 9) directors and the chief executive of the Company were as follows: (Continued)

For the year ended 31 December 2019

	Director's fee RMB'000	Salaries, allowance and other benefits RMB'000	Discretionary bonus RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
<i>Executive directors</i>					
Mr. Li Tao (李濤) (note (iii))	–	202	401	97	700
Mr. Tang Qi (湯琦)	–	144	251	97	492
Mr. Wang Peiyue (王培月) (note (ii))	–	202	267	93	562
<i>Non-executive directors</i>					
Mr. Li Guohong (李國紅)	187	–	542	114	843
Mr. Wang Lijun (王立君)	149	–	434	80	663
Ms. Wang Xiaoling (汪曉玲)	149	–	434	97	680
<i>Independent non-executive directors</i>					
Mr. Gao Yongtao (高永濤) (note (ii))	180	–	–	–	180
Ms. Hui Wing (許穎) (note (ii))	180	–	–	–	180
Mr. Lu Bin (盧斌) (note (ii))	180	–	–	–	180
Total	1,025	548	2,329	578	4,480

Notes:

- (i) Appointed on 30 December 2020
- (ii) Retired on 30 December 2020
- (iii) Appointed on 14 January 2019 and retired on 30 December 2020
- (iv) The emolument represents the payment to the directors (including emoluments for services as employee/director of the group entities prior to becoming the directors of the Company) by entities comprising the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

12. DIRECTORS' AND SUPERVISORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

- (i) The emoluments paid or payable to each of the 14 (2019: 9) directors and the chief executive of the Company were as follows: *(Continued)*

In addition to the directors' emoluments as disclosed above, certain directors of the Company also received emoluments from the Company's holding company, Shandong Gold Group, and its fellow subsidiaries in respect of their services to the larger group which includes the Group. No apportionment has been made as the directors of the Company consider that it is impracticable to apportion this amount between their services rendered to the Group and their services rendered to Shandong Gold Group, and/or its fellow subsidiaries.

Mr. Li Guohong is the chairman of the board of directors of the Company, Mr. Wang Peiyue was general manager of the Company. Upon Mr. Wang Peiyue retirement on 30 December 2020, Mr. Wang Shuhai has been appointed as general manager 2020 of the Company at the same date.

Discretionary bonuses disclosed above were determined by the Remuneration and Appraisal Committee of the Company with reference to the individual performance.

There was no arrangement under which a director or the chief executive officer waived or agreed to waive any emoluments during the years ended 31 December 2020 and 2019.

The directors of the Company did not receive any termination benefits during the years ended 31 December 2020 and 2019.

No consideration provided to or receivable by third parties for making available directors' services subsisted at the end of the reporting period or at any time during the years ended 31 December 2020 and 2019.

There were no other loans, quasi-loans and other dealings in favor of directors of the Company, their controlled bodies corporate and connected entities subsisted at the end of the reporting period or any time during the years ended 31 December 2020 and 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

12. DIRECTORS' AND SUPERVISORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS (Continued)

(ii) The emoluments paid or payable to each of the 4 (2019: 4) supervisors of the Company were as follows:

For the year ended 31 December 2020

	Fee RMB'000	Salaries, allowance and other benefits RMB'000	Discretionary bonus RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
<i>Supervisors</i>					
Mr. Li Xiaoping (李小平)	-	212	496	3	711
Mr. Liu Rujun (劉汝軍) (note (i))	-	18	15	3	36
Ms. Liu Yanfen (劉延芬) (note (iii))	-	168	114	3	285
Mr. Luan Bo (樂波) (note (ii))	-	139	174	3	316
Total	-	537	799	12	1,348

For the year ended 31 December 2019

	Fee RMB'000	Salaries, allowance and other benefits RMB'000	Discretionary bonus RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
<i>Supervisors</i>					
Ms. Duan Huijie (段慧潔) (note (iv))	-	120	284	106	510
Mr. Li Xiaoping (李小平)	-	149	434	80	663
Mr. Liu Rujun (劉汝軍) (note (i))	-	156	372	93	621
Ms. Liu Yanfen (劉延芬) (note (iii))	-	20	18	16	54
Total	-	445	1,108	295	1,848

Notes:

- (i) Resigned on 24 February 2020
- (ii) Appointed on 24 February 2020
- (iii) Appointed on 8 November 2019
- (iv) Resigned on 8 November 2019

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

12. DIRECTORS' AND SUPERVISORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS (Continued)

(iii) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year are as follows:

	2020 Number of individuals	2019 Number of individuals
Director	–	–
Non-directors	5	5
	5	5

The emoluments payable to the non-directors are as follows:

	2020 RMB'000	2019 RMB'000
Wages, salaries, bonuses and allowances	4,686	4,200
Retirement benefit scheme contributions	257	476
	4,943	4,676

The emoluments to the non-directors fell within the following bands:

	2020 Number of individuals	2019 Number of individuals
Emolument bands (in Hong Kong dollars ("HK\$"))		
Less than HK\$1,000,000	–	–
HK\$1,000,000 to HK\$1,500,000	5	5

All of the analysis on the highest paid individuals above did not take into account the emoluments paid to the employees of the joint operation of the Company.

During the years ended 31 December 2020 and 2019, no emoluments were paid by the Group to five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

13. DIVIDENDS

	2020 RMB'000	2019 RMB'000
Final dividend for the year ended 31 December 2018 of RMB0.1 per share	–	219,850
Final dividend for the year ended 31 December 2019 of RMB0.1 per share	307,790	–
	307,790	219,850

On 16 April 2020, the board of directors of the Company proposed the payment of a final dividend for the year ended 31 December 2019 of RMB0.1 per share to the shareholders of the Company, except for 18,221,084 (2019: 13,015,060) A shares of the Company which are not subject to any dividend, and 3,488,674 (2019: 2,491,910) treasury shares held by the Company with the dividend of approximately RMB349,000 (2019: RMB249,000) which has been eliminated in the consolidated financial statements. Accordingly, the dividend paid during the year ended 31 December 2020 was approximately RMB307,790,000 (2019: RMB219,850,000). The payment of dividend has been resolved by the special resolution in the shareholders' meeting of the Company on 24 June 2020.

On 24 June 2020, a special resolution was passed by the shareholders of the Company to approve the bonus issue on the basis of four bonus shares for every ten existing shares held by the shareholders of the Company as at 19 August 2020.

Dividends proposed after the end of the reporting period and not being recognised are as below:

	2020 RMB'000	2019 RMB'000
Proposed final dividend after the date of the reporting period: RMB0.05 (2019: RMB0.1) per share	223,427	307,790

On 30 March 2021, the board of directors of the Company proposed the payment of a final dividend for the year ended 31 December 2020 of RMB0.05 per share to the shareholders of the Company, except for 4,884,143 treasury shares held by the Company with the proposed dividend of approximately RMB244,000 which would have been eliminated in the consolidated financial statements. Accordingly, the dividend proposed for the year ended 31 December 2020 was approximately RMB223,427,000. The payment of dividend will be proposed at the annual general meeting of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

14. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit attributable to owners of the Company by the number of shares in issue as follows:

	2020	2019 (Restated)
Profit attributable to owners of the Company (RMB'000)	2,231,533	1,290,503
Weighted average number of shares in issues (thousands of shares)	4,333,387	4,334,572
Basic earnings per share (RMB per share)	0.51	0.30

On 24 June 2020, a special resolution was passed by the shareholders of the Company to approve the bonus issue on the basis of four bonus shares for every ten existing shares held by the shareholders of the Company as at 19 August 2020.

The weighted average number of shares for the purpose of calculating basic and diluted earnings per share for the years ended 31 December 2020 and 2019 has been adjusted for the bonus issue on 19 August 2020.

As the Company did not have any dilutive instruments during the years ended 31 December 2020 and 2019, the Group's diluted earnings per share was the same as its basic earnings per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

15. SUBSIDIARIES OF THE COMPANY

The following is a list of the principal subsidiaries of the Company at 31 December 2020 and 2019:

Name of subsidiaries	Place of incorporation/ establishment/ operation	Class of shares held	Registered share capital/ paid-up capital	Effective equity interest of the Company				Principal activities
				2020		2019		
				Direct	Indirect	Direct	Indirect	
Shandong Gold Mining Industry (Laizhou) Co., Ltd. (山東黃金礦業(萊州)有限公司) ("SDG Laizhou") (note (ii))	The PRC	Contributed	RMB430,176,364	95.31%	-	95.31%	-	Gold mining in the PRC
Shandong Gold Smelting Co., Ltd. (山東黃金冶煉有限公司)	The PRC	Contributed	RMB350,000,000	100%	-	100%	-	Gold and silver smelting in the PRC
Shandong Gold Mining Industry (Xinhui) Co., Ltd. (山東黃金礦業(鑫匯)有限公司) ("SDG Xinhui") (note (ii))	The PRC	Contributed	RMB384,735,903	66.80%	-	66.80%	-	Gold mining in the PRC
Shandong Gold Mining Industry (Linglong) Co., Ltd. (山東黃金礦業(玲瓏)有限公司) ("SDG Linglong")	The PRC	Contributed	RMB402,306,600	74.57%	-	74.57%	-	Gold mining in the PRC
Shandong Jinshi Mining Co., Ltd. (山東金石礦業有限公司)	The PRC	Contributed	RMB26,800,000	100%	-	100%	-	Mining investment in the PRC
Xihe Zhongbao Mining Co., Ltd. (西和縣中寶礦業有限公司) ("Xihe Zhongbao")	The PRC	Contributed	RMB200,000,000	70%	-	70%	-	Gold Mining in the PRC
Shandong Gold Group Penglai Mining Co., Ltd. (山東黃金集團蓬萊礦業有限公司)	The PRC	Contributed	RMB50,000,000	100%	-	100%	-	Gold mining in the PRC
Pingyi County Guliaizhuang Mining Co., Ltd. (山東黃金歸來莊礦業有限公司) ("Guliaizhuang")	The PRC	Contributed	RMB621,670,000	70.65%	-	70.65%	-	Gold mining in the PRC
Shandong Jinzhou Mine Group Co., Ltd. (山東金洲礦業集團有限公司) ("Shandong Jinzhou")	The PRC	Contributed	RMB80,172,426	60.78%	-	60.78%	-	Gold mining in the PRC
Shandong Gold Mining (Laixi) Co., Ltd. (山東黃金礦業(萊西)有限公司)	The PRC	Contributed	RMB214,000,000	100%	-	100%	-	Gold mining in the PRC
Shandong Gold Mining (Yinan) Co., Ltd. (山東黃金礦業(沂南)有限公司)	The PRC	Contributed	RMB171,000,000	100%	-	100%	-	Gold mining in the PRC
Fujian Zhenghe County Yuanxin Mining Co., Ltd. (福建省政和縣源鑫礦業有限公司) ("Fujian Zhenghe")	The PRC	Contributed	RMB54,000,000	90.31%	-	90.31%	-	Gold mining in the PRC
Chifeng Chaihuilanzhi Gold Mining Co., Ltd. (赤峰柴胡蘭子黃金礦業有限公司) ("Chifeng Chai Gold")	The PRC	Contributed	RMB10,017,746	73.52%	-	73.52%	-	Gold mining in the PRC
Shandong Gold Mining (Hong Kong) Co., Limited	Hong Kong	Ordinary shares	RMB4,531,145,600	100%	-	100%	-	Investment holding
SDG Capital Management (note (iii))	The PRC	Contributed	RMB1,500,000,000	100%	-	100%	-	Investment in equity funds, trading and leases of gold bullion
Shanjin Futures Co., Ltd. (山金期貨有限公司) ("Shanjin Futures") (note (iii))	The PRC	Contributed	RMB600,000,000	-	100%	-	100%	Provision of futures contracts trading services
Shanjin Jinkung (Shanghai) Precious Metals Investment Co., Ltd. (山金金控(上海)貴金屬投資有限公司) (note (iii))	The PRC	Contributed	RMB300,000,000	-	100%	-	100%	Trading of gold bullion and related products
Shanjin Jinkung (Shenzhen) Gold Investment Development Co., Ltd. (山金金控(深圳)黃金投資發展有限公司) ("Shanjin Jinkung SZ") (note (iii))	The PRC	Contributed	RMB70,000,000	-	100%	-	100%	Investment in equity funds
Shanghai Shengju Asset Management Co., Ltd. (Shanghai Shengju Asset Management) (上海盛鉅資產經營管理有限公司) (note (iii))	The PRC	Contributed	RMB121,000,000	-	100%	-	100%	Asset management and Investment management

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

15. SUBSIDIARIES OF THE COMPANY (Continued)

Notes:

- (i) The nature of all the legal entities established in PRC is limited liability company.
- (ii) In 2019, Bank of China Financial Asset Investment Co. Ltd. and China Construction Bank Financial Asset Investment Co. Ltd. invested an amount of RMB500,000,000 and RMB1,000,000,000 to SDG Laizhou and SDG Xinhui respectively. However, the amendment of the register of Administration for Industrial and Commerce has not yet been completed as at 31 December 2019. Upon the said amendment, the registered capital of SDG Laizhou and SDG Xinhui were increased from RMB410,000,000 to RMB430,176,364 and RMB257,000,000 to RMB384,735,903 respectively as at 31 December 2020.
- (iii) The subsidiaries of the Company are acquired through the acquisition of the SDG Capital Management Group as business combination involving entities under common control during the year ended 31 December 2019.

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results or assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. A majority of these subsidiaries are investment holding and inactive. The aggregation was shown below based on the geographical location and nature of business. A summary of these subsidiaries of the Company are set out as follows:

Principal activities	Place of establishment/ incorporation/operation	Number of subsidiaries	
		2020	2019
Investment holding	The PRC	5	5
Inactive	Canada	1	–
Inactive	The PRC	5	5
		11	10

None of the subsidiaries of the Company had issued any debt securities at the end of each reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

15. SUBSIDIARIES OF THE COMPANY (Continued)

(a) Material non-controlling interests

The carrying amount of non-controlling interests in respective subsidiaries of the Company with material non-controlling interests are analysed as below:

	2020 RMB'000	2019 RMB'000
Shandong Jinzhou and its subsidiaries (collectively referred to as the "Shandong Jinzhou Group")	380,377	324,893
Xihe Zhongbao	398,861	359,170
Guilaizhuang	260,194	269,249
SDG Linglong	902,983	877,452
SDG Laizhou	353,464	289,645
SDG Xinhui	583,557	603,503
	2,879,436	2,723,912

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

15. SUBSIDIARIES OF THE COMPANY (Continued)

(b) Summarised financial information on subsidiaries of the Company with material non-controlling interests

Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the Group.

Summary of statement of financial position

	The Shandong Jinzhou Group		Xihe Zhongbao	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
Current assets	193,100	161,332	33,295	33,797
Non-current assets	1,082,474	1,033,236	1,808,595	1,858,500
	1,275,574	1,194,568	1,841,890	1,892,297
Current liabilities	(205,143)	(267,583)	(328,712)	(369,280)
Non-current liabilities	(42,223)	(41,163)	(183,641)	(325,784)
	(247,366)	(308,746)	(512,353)	(695,064)
Net assets	1,028,208	885,822	1,329,537	1,197,233

	Guilaizhuang		SDG Linglong	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
Current assets	283,031	311,027	444,247	1,271,828
Non-current assets	803,470	751,014	4,383,849	3,688,479
	1,086,501	1,062,041	4,828,096	4,960,307
Current liabilities	(159,744)	(131,048)	(1,211,350)	(1,449,294)
Non-current liabilities	(18,439)	(13,620)	(65,888)	(60,552)
	(178,183)	(144,668)	(1,277,238)	(1,509,846)
Net assets	908,318	917,373	3,550,858	3,450,461

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

15. SUBSIDIARIES OF THE COMPANY (Continued)

(b) Summarised financial information on subsidiaries of the Company with material non-controlling interests (Continued)

Summary of statement of financial position (Continued)

	SDG Laizhou		SDG Xinhui	
	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Current assets	1,414,026	1,525,487	165,438	183,960
Non-current assets	12,277,941	11,016,200	2,110,678	2,148,534
	13,691,967	12,541,687	2,276,116	2,332,494
Current liabilities	(5,474,933)	(5,823,683)	(456,294)	(470,874)
Non-current liabilities	(677,950)	(539,588)	(62,170)	(43,892)
	(6,152,883)	(6,363,271)	(518,464)	(514,766)
Net assets	7,539,084	6,178,416	1,757,652	1,817,728

Summary of statement of comprehensive income

	The Shandong Jinzhou Group		Xihe Zhongbao	
	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	553,834	234,473	312,368	203,060
Profit before tax	166,419	76,588	6,460	10,339
Income tax (expenses) credit	(24,033)	(6,920)	125,844	2,949
Profit and total comprehensive income for the year	142,386	69,668	132,304	13,288
Total comprehensive income allocated to non-controlling interests	55,484	27,324	39,691	3,986

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For the year ended 31 December 2020

15. SUBSIDIARIES OF THE COMPANY (Continued)

(b) Summarised financial information on subsidiaries of the Company with material non-controlling interests (Continued)

Summary of statement of comprehensive income (Continued)

	Guilaizhuang		SDG Linglong	
	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	275,116	333,302	1,518,216	1,290,715
(Loss) Profit before tax	(37,982)	86,861	467,686	393,630
Income tax credit (expenses)	7,129	(64,926)	(111,685)	(87,908)
(Loss) Profit and total comprehensive income for the year	(30,853)	21,935	356,001	305,722
Total comprehensive (expense) income allocated to non-controlling interests	(9,055)	6,438	90,531	77,733
Dividends paid to non-controlling interests	–	–	65,000	65,000

	SDG Laizhou		SDG Xinhui	
	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	5,656,001	4,475,433	541,642	385,410
Profit (Loss) before tax	1,820,598	1,252,523	(45,324)	23,441
Income tax expenses	(437,606)	(300,509)	(11,355)	(3,054)
Profit (Loss) and total comprehensive income for the year	1,382,992	952,014	(56,679)	20,387
Total comprehensive income (expense) allocated to non-controlling interest (note)	64,866	–	(18,818)	–
Dividends paid to non-controlling interests	1,047	–	1,128	–

Note: Since the capital contributions from non-controlling interests for the 4.69% equity interest in SDG Laizhou and 33.20% equity interest in SDG Xinhui were completed on 19 December 2019 and 25 December 2019 respectively, no profit and total comprehensive income for the year ended 31 December 2019 has been allocated to non-controlling interests as a result of the insignificant amounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

15. SUBSIDIARIES OF THE COMPANY (Continued)

(b) Summarised financial information on subsidiaries of the Company with material non-controlling interests (Continued)

Summary of statement of cash flows

	The Shandong Jinzhou Group		Xihe Zhongbao	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
Net cash generated from operating activities	228,279	83,020	154,091	64,152
Net cash used in investing activities	(133,040)	(124,510)	(78,334)	(66,480)
Net cash (used in) from financing activities	(41,476)	48,739	(76,948)	12,258
Net increase (decrease) in cash and cash equivalents	53,763	7,249	(1,191)	9,930
Cash and cash equivalents at the beginning of the year	14,349	7,100	10,225	295
Cash and cash equivalents at the end of the year	68,112	14,349	9,034	10,225

	Guilaizhuang		SDG Linglong	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
Net cash generated from operating activities	81,947	111,843	1,234,982	382,632
Net cash used in investing activities	(65,147)	(55,869)	(744,538)	(589,642)
Net cash (used in) from financing activities	-	-	(406,660)	121,016
Net increase (decrease) in cash and cash equivalents	16,800	55,974	83,784	(85,994)
Cash and cash equivalents at the beginning of the year	62,709	6,735	30,188	116,182
Cash and cash equivalents at the end of the year	79,509	62,709	113,972	30,188

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For the year ended 31 December 2020

15. SUBSIDIARIES OF THE COMPANY (Continued)

(b) Summarised financial information on subsidiaries of the Company with material non-controlling interests (Continued)

Summary of statement of cash flows (Continued)

	SDG Laizhou		SDG Xinhui	
	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Net cash generated from operating activities	827,846	1,779,061	176,720	99,140
Net cash used in investing activities	(848,787)	(1,553,591)	(158,153)	(80,120)
Net cash (used in) from financing activities	(23,809)	(246,657)	(23,226)	19,492
Net (decrease) increase in cash and cash equivalents	(44,750)	(21,187)	(4,659)	38,512
Cash and cash equivalents at the beginning of the year	161,537	220,995	42,828	4,316
Cash and cash equivalents at the end of the year	116,787	199,808	38,169	42,828

Note: The above financial information has been shown before inter-company eliminations.

16. JOINT OPERATION

As at 31 December 2020 and 2019, the Group had interest in the following joint operation:

Name of entity	Place of incorporation/ operation	Class of shares held	Effective equity interest of the Company				Principal activities
			2020		2019		
			Direct	Indirect	Direct	Indirect	
Minera Andina del Sol. SRL. ("MAS")	Argentina	Shares	50%	-	50%	-	Gold Mining in Argentina

The Group and Barrick Gold Corporation ("Barrick Gold") jointly operate the Veladero Mine held by MAS as joint operators. Both the Group and Barrick Gold have the right to the assets and obligations for the liabilities of MAS and are eligible to the products produced by the Veladero Mine and recognise expenses as incurred by MAS in the proportion of 50% each. Accordingly, the Group has accounted for its investment in MAS as a joint operation and consolidated its proportionate share of the assets and liabilities, as well as its share of the revenue and expenses of MAS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Mining structures RMB'000	Plant, machinery and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
As at 1 January 2019					
Cost	7,229,153	15,257,871	7,478,964	3,155,006	33,120,994
Accumulated depreciation	(2,358,364)	(3,454,343)	(3,832,964)	–	(9,645,671)
Accumulated impairment	(22,150)	(32,110)	(7,640)	–	(61,900)
Currency translation differences	16,634	58,262	15,160	3,743	93,799
Net book amount	4,865,273	11,829,680	3,653,520	3,158,749	23,507,222
Year ended 31 December 2019					
Opening net book amount	4,865,273	11,829,680	3,653,520	3,158,749	23,507,222
Additions (note (a))	7,161	250,709	421,511	3,994,464	4,673,845
Transfers upon completion of construction	496,628	2,429,574	250,991	(3,177,193)	–
Transfer from investment properties (note 18)	911	–	–	–	911
Transfer to investment properties (note 18)	(386)	–	–	–	(386)
Disposals/write-off	(5,565)	(3,262)	(53,625)	–	(62,452)
Depreciation charges	(516,673)	(849,617)	(811,786)	–	(2,178,076)
Impairment	–	(23,248)	(315)	–	(23,563)
Currency translation differences	19,260	64,453	22,395	5,855	111,963
Closing net book amount	4,866,609	13,698,289	3,482,691	3,981,875	26,029,464
As at 31 December 2019					
Cost	7,717,012	17,930,572	7,729,283	3,972,277	37,349,144
Accumulated depreciation	(2,864,147)	(4,299,640)	(4,276,192)	–	(11,439,979)
Accumulated impairment	(22,150)	(55,358)	(7,955)	–	(85,463)
Currency translation differences	35,894	122,715	37,555	9,598	205,762
Net book amount	4,866,609	13,698,289	3,482,691	3,981,875	26,029,464

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Buildings RMB'000	Mining structures RMB'000	Plant, machinery and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
As at 1 January 2020					
Cost	7,717,012	17,930,572	7,729,283	3,972,277	37,349,144
Accumulated depreciation	(2,864,147)	(4,299,640)	(4,276,192)	–	(11,439,979)
Accumulated impairment	(22,150)	(55,358)	(7,955)	–	(85,463)
Currency translation differences	35,894	122,715	37,555	9,598	205,762
Net book amount	4,866,609	13,698,289	3,482,691	3,981,875	26,029,464
Year ended 31 December 2020					
Opening net book amount	4,866,609	13,698,289	3,482,691	3,981,875	26,029,464
Additions	2,289	716	363,979	4,184,355	4,551,339
Transfers upon completion of construction	1,175,910	1,324,480	646,570	(3,146,960)	–
Disposals/write-off (note (a))	(5,855)	(82,229)	(72,371)	–	(160,455)
Depreciation charges	(400,304)	(608,444)	(422,970)	–	(1,431,718)
Currency translation differences	(48,224)	(235,123)	(74,333)	(14,739)	(372,419)
Closing net book amount	5,590,425	14,097,689	3,923,566	5,004,531	28,616,211
As at 31 December 2020					
Cost	8,876,991	19,168,613	8,649,662	5,009,672	41,704,938
Accumulated depreciation	(3,252,086)	(4,903,158)	(4,681,363)	–	(12,836,607)
Accumulated impairment	(22,150)	(55,358)	(7,955)	–	(85,463)
Currency translation differences	(12,330)	(112,408)	(36,778)	(5,141)	(166,657)
Net book amount	5,590,425	14,097,689	3,923,566	5,004,531	28,616,211

Notes:

- (a) The disposals/write-off of the property, plant and equipment for the year ended 31 December 2020 included an amount of approximately RMB131,575,000 (2019: additions to approximately RMB66,789,000) which was arisen from the change in the discount rate used for the asset retirement obligations as disclosed in note 36.
- (b) The Group was in the process of applying the ownership certificates for certain buildings as follows:

	2020 RMB'000	2019 RMB'000
Net book value	638,617	770,423

- (c) During the year ended 31 December 2019, as a result of the failure of the development on the gold refining project carried by MAS, the directors of the Company conducted a review of the related mining structures included in property, plant and equipment and determined that those assets should be fully impaired. Accordingly, impairment of property, plant and equipment of approximately RMB23,248,000 (2020: Nil) has been determined on the basis of their value-in-use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

18. INVESTMENT PROPERTIES

	RMB'000
As at 1 January 2019	
Cost	328,759
Accumulated depreciation	(84,762)
Net book amount	243,997
Year ended 31 December 2019	
Opening net book amount	243,997
Transfer from property, plant and equipment (note 17)	386
Transfer to property, plant and equipment (note 17)	(911)
Depreciation	(12,013)
Closing net book amount	231,459
As at 31 December 2019	
Cost	328,234
Accumulated depreciation	(96,775)
Net book amount	231,459
Year ended 31 December 2020	
Opening net book amount	231,459
Depreciation	(11,720)
Closing net book amount	219,739
As at 31 December 2020	
Cost	328,234
Accumulated depreciation	(108,495)
Net book amount	219,739

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

18. INVESTMENT PROPERTIES (Continued)

The fair value valuation of the Group's investment properties was performed by Beijing Zhongfeng Assets Appraisal Co., Ltd. (北京中鋒資產評估有限責任公司) ("Beijing Zhongfeng") an independent professional valuer not connected to the Group, (2019: Beijing Pan-China Assets Appraisal Co., Ltd. (北京天健興業資產評估有限公司) ("Beijing Pan-China"), an independent valuer not connected to the Group) to determine the fair value of the investment properties at the end of the reporting period. When determining the fair value of the investment properties, market comparison approach, which is by reference to the recent market prices for similar properties in the similar locations and conditions, has been used. The fair value hierarchy has been grouped into fair value hierarchy Level 3. The details of fair value of the investment properties are as below:

	2020 RMB'000	2019 RMB'000
Fair value of investment properties	348,421	344,731

In estimating the fair value of the investment properties at the end of each reporting period, the highest and best use of the properties is their current use. There has been no change from the valuation technique used in current and prior years.

Amounts recognised in profit or loss for investment properties

	2020 RMB'000	2019 RMB'000
Rental income	12,378	18,666
Less: direct operating expenses from investment properties that generated rental income	(317)	(478)
	12,061	18,188

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

19. LEASES

(a) Right-of-use assets

	2020 RMB'000	2019 RMB'000
– leasehold land	387,616	383,822
– buildings	116,277	95,684
– machinery and others	5,103	24,044
	508,996	503,550

Right-of-use assets of approximately RMB387,616,000 (2019: RMB383,822,000) represents land use rights located in the PRC. The leasehold land is amortised over its useful life on a straight-line basis.

Besides, the Group has lease arrangements for buildings, machinery and others. The lease terms are generally ranged from 2 to 26 years (2019: 2 to 26 years).

Additions to right-of-use assets of approximately RMB72,632,000 (2019: RMB125,586,000) and lease liabilities of approximately RMB17,376,000 (2019: RMB65,727,000) represented the new leases entered by the Group during the year ended 31 December 2020.

(b) Lease liabilities

	2020 RMB'000	2019 RMB'000
Analysed as:		
– non-current	63,427	65,940
– current	36,655	42,043
	100,082	107,983

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

19. LEASES (Continued)

(b) Lease liabilities (Continued)

Amounts payable under lease liabilities:

	2020 RMB'000	2019 RMB'000
Within one year	36,655	42,043
After one year but within two years	21,615	16,980
After two years but within five years	14,249	23,175
Over five years	27,563	25,785
	100,082	107,983
Less: amounts due for settlement within 12 months (shown under current liabilities)	(36,655)	(42,043)
Amounts due for settlement after 12 months	63,427	65,940

(c) Amounts recognised in profit or loss

	2020 RMB'000	2019 RMB'000
Depreciation expenses on right-of-use assets:		
– leasehold land	32,161	31,893
– buildings	14,555	4,782
– machinery and others	19,652	21,404
	66,368	58,079
Interest expense on lease liabilities	5,219	7,192
Expense relating to short-term leases	5,930	1,310

(d) Others

During the year ended 31 December 2020, the total cash outflows for leases amounted to approximately RMB79,288,000 (2019: RMB106,292,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

20. INTANGIBLE ASSETS

	Mining and exploration rights RMB'000	Patent rights RMB'000	Software licenses RMB'000	Trademark and others RMB'000	Total RMB'000
As at 1 January 2019					
Cost	16,700,459	36,041	67,601	11,150	16,815,251
Accumulated amortisation	(4,522,068)	(14,283)	(39,483)	(946)	(4,576,780)
Net book amount	12,178,391	21,758	28,118	10,204	12,238,471
Year ended 31 December 2019					
Opening net book amount	12,178,391	21,758	28,118	10,204	12,238,471
Additions	834,421	23,195	3,748	12,121	873,485
Impairment	(59,272)	-	-	-	(59,272)
Amortisation charges	(461,423)	(3,622)	(5,863)	(470)	(471,378)
Closing net book amount	12,492,117	41,331	26,003	21,855	12,581,306
As at 31 December 2019					
Cost	17,534,880	59,236	71,349	23,271	17,688,736
Accumulated amortisation	(4,983,491)	(17,905)	(45,346)	(1,416)	(5,048,158)
Impairment provision	(59,272)	-	-	-	(59,272)
Net book amount	12,492,117	41,331	26,003	21,855	12,581,306
Year ended 31 December 2020					
Opening net book amount	12,492,117	41,331	26,003	21,855	12,581,306
Additions	395,513	8,472	23,482	8,510	435,977
Impairment	(153,639)	-	-	-	(153,639)
Amortisation charges	(736,748)	(13,736)	(7,112)	(876)	(758,472)
Closing net book amount	11,997,243	36,067	42,373	29,489	12,105,172
As at 31 December 2020					
Cost	17,930,393	67,708	94,831	31,781	18,124,713
Accumulated amortisation	(5,720,239)	(31,641)	(52,458)	(2,292)	(5,806,630)
Impairment provision	(212,911)	-	-	-	(212,911)
Net book amount	11,997,243	36,067	42,373	29,489	12,105,172

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

20. INTANGIBLE ASSETS (Continued)

During the year ended 31 December 2020, the directors of the Company conducted a review of the property, plant and equipment and intangible assets held by Fujian Zhenghe and determined that a number of assets were impaired, due to the under-performance of the gold mining activities. Accordingly, impairment loss of approximately RMB153,639,000 (2019: RMB59,272,000) have been recognised in respect of the mining and exploration rights of Fujian Zhenghe with carrying amount of approximately RMB61,538,000 (2019: RMB216,428,000), which are used in the gold mining segment. The discount rate in measuring the amount of value-in-use calculation was 8.6% (2019: 7.2%).

21. GOODWILL

	2020 RMB'000	2019 RMB'000
AT COST AND CARRYING AMOUNT		
Goodwill on business combinations in the PRC (note (a))	253,451	253,451
Goodwill on acquisition of the joint operation (note (b))	1,042,959	1,042,959
Currency translation differences	(38,412)	31,068
	1,257,998	1,327,478

(a) Goodwill on business combinations in the PRC

The amount represented the goodwill arising from the Group's acquisition of subsidiaries in the PRC.

	2020 RMB'000	2019 RMB'000
Gold Mining – Chifeng Chai Gold	65,340	65,340
Gold Mining – Guilaizhuang	55,354	55,354
Investment Management – Shanjin Futures	132,757	132,757
	253,451	253,451

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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21. GOODWILL (Continued)

(a) Goodwill on business combinations in the PRC (Continued)

The balance comprised of the goodwill arising from (i) the acquisition of Chifeng Chai Gold in December 2008 of approximately RMB65,340,000; (ii) the goodwill taken up upon the acquisition of Guilaizhuang in October 2016 (an acquisition which has been accounted for as a business combination involving an entity under common control) of approximately RMB55,354,000; and (iii) the acquisition of Shanjin Futures by SDG Capital Management in September 2013 of approximately RMB132,757,000.

During the year ended 31 December 2020, the management of the Group determines that there are no impairment of any of the above cash-generating units containing goodwill, intangible assets and property, plant and equipment (2019: nil).

The basis of the recoverable amounts of the above cash-generating units and their major underlying assumptions are summarised below:

(i) Goodwill arising from acquisition of Chifeng Chai Gold in Gold Mining segment

The management of the Group has performed impairment assessment on the goodwill, intangible assets and property, plant and equipment containing in the cash-generating unit – Chifeng Chai Gold and concluded that no impairment required to be recognised. The recoverable amount of Chifeng Chai Gold has been determined based on value-in-use calculation. In performing the value-in-use calculation of Chifeng Chai Gold as at 31 December 2020, the management of the Group has engaged Beijing Zhongfeng, an independent valuer not connected to the Group (2019: Beijing Pan-China, an independent valuer not connected to the Group). The calculation uses cash flow projections based on a financial budget approved by the management of the Group covering the life of mine, and a pre-tax discount rate of 10.31% (2019: 9.8%) with growth rate of gold price at 3% (2019: 3%). The growth rate of gold price used over the cash flow projections was reference to the historical gold price. Other key assumptions for the value-in-use calculation include mining costs and gold reserves. Such assumptions are estimated based on the past performance of gold mining activities of Chifeng Chai Gold. Management of the Group believes that any reasonably change in any of these assumptions would not cause the aggregate carrying amount of Chifeng Chai Gold to exceed the aggregate recoverable amount of Chifeng Chai Gold.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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21. GOODWILL (Continued)

(a) Goodwill on business combinations in the PRC (Continued)

(ii) Goodwill taken up upon the acquisition of Guilaizhuang in Gold Mining segment

The management of the Group has performed impairment assessment on the goodwill, intangible assets and property, plant and equipment containing in the cash-generating unit – Guilaizhuang and concluded that no impairment required to be recognised. The recoverable amount of Guilaizhuang has been determined based on value-in-use calculation. In performing the value-in-use calculation of Guilaizhuang as at 31 December 2020, the management of the Group has engaged Beijing Zhongfeng, an independent valuer not connected to the Group (2019: Beijing Pan-China, an independent valuer not connected to the Group). The calculation uses cash flow projections based on a financial budget approved by the management of the Group covering the life of mine, and a pre-tax discount rate of 10.3% (2019: 9.2%) with growth rate of gold price at 3% (2019: 3%). The growth rate of gold price used over the cash flow projections was reference to the historical gold price. Other key assumptions for the value-in-use calculation include mining costs and gold reserves. Such assumptions are estimated based on the past performance of gold mining activities of Guilaizhuang. Management of the Group believes that any reasonably change in any of these assumptions would not cause the aggregate carrying amount of Guilaizhuang to exceed the aggregate recoverable amount of Guilaizhuang.

(iii) Goodwill arising from acquisition of Shanjin Futures in Investment Management segment

The management of the Group has performed impairment assessment on the goodwill containing in the cash-generating unit – Shanjin Futures and concluded that no impairment required to be recognised. The recoverable amount of Shanjin Futures has been determined based on value-in-use calculation. In performing the value-in-use calculation of Shanjin Futures as at 31 December 2020, the management of the Group has engaged Beijing Zhongfeng (2019: Beijing Pan-China), an independent valuer not connected to the Group. The calculation uses cash flow projections based on a financial budget approved by the management of the Group covering 5-year period, and a pre-tax discount rate of 11.8% (2019: 11.5%) with growth rate of 2.15% (2019: 5.9%). The growth rate used over the cash flow projections was reference to the historical brokerage fee received. Other key assumptions for the value-in-use calculation include selling expenses and general and administrative expenses. Such assumptions are estimated based on the past performance of Shanjin Futures. Management of the Group believes that any reasonably change in any of these assumptions would not cause the aggregate carrying amount of Shanjin Futures to exceed the aggregate recoverable amount of Shanjin Futures.

(b) Goodwill on acquisition of the joint operation

The goodwill of US\$153,956,000, equivalent to approximately RMB1,042,959,000, was resulted from the acquisition of 50% equity interest in MAS on 30 June 2017 (note 16). MAS are principally engaged in the gold mining in Argentina. The goodwill was allocated to the Veladero Mine owned by MAS.

The management of the Group has engaged an independent valuer, Ernst & Young LLP (“E&Y LLP”), in performing the impairment assessment on the aforesaid goodwill and concluded that no impairment charge has to be recognised. The recoverable amount has been determined based on the fair value less costs of disposal (“FVLCD”) of the Veladero Mine. The key assumptions and estimates used in determining the FVLCD are gold price per ounce, pre-tax discount rate, net asset value multiples for gold assets, operating costs, exchange rates, capital expenditures, the life of mine (“LOM”) production profile and continued license to operate. In addition, assumptions are related to observable market evaluation metrics, including identification of comparable entities, and associated market values per ounce and per pound of reserves and/or resource as well as the valuation of resources beyond what is included in LOM plans.

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21. GOODWILL (Continued)

(b) Goodwill on acquisition of the joint operation (Continued)

The key assumptions as adopted by the management of the Group and E&Y LLP in determining the FVLCD of the Veladero Mine were as follows:

Key assumptions	Approach to determining key assumption
Gold price per ounce	Estimates based on observable market or publicly available data.
Pre-tax discount rate (%)	Reflected specific risks relating to the Veladero Mine and the country in which it operates.
Net asset value ("NAV") multiples for gold assets (range)	Based on the NAV multiples observed in the market transactions in recent years, adjusted for factors applicable to the Veladero Mine.
LOM years	Based on life of mine plans prepared by management of the Veladero Mine.

The impairment assessment as conducted by the management of the Group and E&Y LLP reveals that the recoverable amount of the goodwill is estimated to be above its carrying amount by approximately US\$244,000,000, equivalent to approximately RMB1,586,766,000 (2019: US\$189,500,000, equivalent to approximately RMB1,321,990,000) as at 31 December 2020.

The details of the key assumptions used in the calculation of the recoverable amount of the Veladero Mine are as follows:

	2020	2019
Gold price per ounce	US\$1,900	US\$1,550
Post-tax discount rate (%)	7.00%	7.15%
Net asset value multiples for gold assets	1.20	1.25
LOM years	14	12

The management of the Group considered that the above valuation as at 31 December 2020 and 2019 was grouped into the fair value hierarchy level 3.

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22. INVESTMENTS IN ASSOCIATES

	2020 RMB'000	2019 RMB'000
At the beginning of the year	1,042,259	1,040,940
Share of results of associates	10,669	1,319
Less: dividend received	(24,957)	–
At the end of the year	1,027,971	1,042,259

Details of the associates of the Group as at 31 December 2020 and 2019 are set out below:

Name of associates	Place of incorporation/ establishment	Class of shares held	Effective equity interest of the Company				Principal activities
			2020		2019		
			Direct	Indirect	Direct	Indirect	
Shandong Gold Group Finance Co., Ltd. (山東黃金集團財務有限公司) ("SDG Group Finance")	The PRC	Contributed	30%	–	30%	–	Provision for loan financing
Shanghai Lide Shanjin Asset Management Co., Ltd. (上海利得山金資產管理有限公司) ("Shanghai Lide") (note)	The PRC	Contributed	–	40%	–	40%	Provision for asset management and investment management

Note: The associate was acquired through the acquisition of the SDG Capital Management Group as business combination involving entities under common control during the year ended 31 December 2019.

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22. INVESTMENTS IN ASSOCIATES (Continued)

The summarised financial information in respect of the associate, SDG Group Finance, which is material to the Group and are accounted for using equity method is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with IFRSs.

Summary of statement of financial position

	2020 RMB'000	2019 RMB'000
Non-current assets	1,631,926	1,835,109
Current assets	5,442,215	5,160,922
Current liabilities	(3,660,919)	(3,534,642)
Net assets	3,413,222	3,461,389

Summary of statement of comprehensive income

	2020 RMB'000	2019 RMB'000
Revenue	262,351	263,398
Profit for the year and total comprehensive income for the year	35,023	4,242
Dividend paid	(83,190)	–

Reconciliation of summarised financial information to the carrying amount of the investment in SDG Group Finance is set out below:

	2020 RMB'000	2019 RMB'000
Net assets of SDG Group Finance	3,413,222	3,461,389
Proportion of the Group's ownership in SDG Group Finance	30%	30%
Carrying amount of the Group's investment in SDG Group Finance	1,023,967	1,038,417

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For the year ended 31 December 2020

22. INVESTMENTS IN ASSOCIATES (Continued)

Summary of statement of comprehensive income (Continued)

The financial information and carrying amount, of the Group's investment in Shanghai Lide that is not individually material and are accounted for using the equity method are set out below:

	2020 RMB'000	2019 RMB'000
Group's share of result and other comprehensive income for the year	162	46
Carrying amount of the Group's interest in Shanghai Lide	4,004	3,842

23. FINANCIAL INSTRUMENTS BY CATEGORY

	Financial assets at amortised cost RMB'000	Financial assets at FVTOCI RMB'000	Financial assets at FVTPL RMB'000	Total RMB'000
As at 31 December 2020				
Financial assets at FVTOCI	-	1,500	-	1,500
Financial assets at FVTPL	-	-	8,626,781	8,626,781
Trade and other receivables, excluding non-financial assets	3,467,011	-	-	3,467,011
Restricted bank deposits	258,912	-	-	258,912
Bank balances and cash	3,032,156	-	-	3,032,156
Total	6,758,079	1,500	8,626,781	15,386,360

	Financial liabilities at FVTPL RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
As at 31 December 2020			
Trade and other payables, excluding non-financial liabilities	-	6,425,258	6,425,258
Borrowings	-	11,404,968	11,404,968
Financial liabilities designated at FVTPL	8,672,590	-	8,672,590
Other non-current liabilities	-	603,342	603,342
Total	8,672,590	18,433,568	27,106,158

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For the year ended 31 December 2020

23. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

	Financial assets at amortised cost RMB'000	Financial assets at FVTOCI RMB'000	Financial assets at FVTPL RMB'000	Total RMB'000
As at 31 December 2019				
Financial assets at FVTOCI	–	2,000	–	2,000
Financial assets at FVTPL	–	–	7,216,883	7,216,883
Trade and other receivables, excluding non-financial assets	1,508,512	–	–	1,508,512
Restricted bank deposits	243,232	–	–	243,232
Bank balances and cash	3,019,041	–	–	3,019,041
Total	4,770,785	2,000	7,216,883	11,989,668

	Financial liabilities at FVTPL RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
As at 31 December 2019			
Trade and other payables, excluding non-financial liabilities	–	5,305,543	5,305,543
Borrowings	–	8,163,554	8,163,554
Financial liabilities designated at FVTPL	13,145,643	–	13,145,643
Other non-current liabilities	–	481,629	481,629
Total	13,145,643	13,950,726	27,096,369

24. FINANCIAL ASSETS AT FVTOCI

Financial assets at FVTOCI include the following:

	2020 RMB'000	2019 RMB'000
Unlisted equity securities, classified under non-current assets	1,500	2,000

The directors of the Company, after taking into consideration all relevant facts and circumstances, concluded that the information and the disclosures related to financial assets at FVTOCI as at 31 December 2020 and 2019 are not material to the consolidated financial statements.

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For the year ended 31 December 2020

25. FINANCIAL ASSETS AT FVTPL

Financial assets at FVTPL include the following:

	2020 RMB'000	2019 RMB'000
Financial assets at FVTPL include the following:		
– listed equity investments	5,912,709	4,408,172
– investments in equity funds	2,568,009	2,720,685
– structured deposits	146,063	88,026
	8,626,781	7,216,883

	2020 RMB'000	2019 RMB'000
Analysed as:		
– listed	5,912,709	4,408,172
– unlisted	2,714,072	2,808,711
	8,626,781	7,216,883

	2020 RMB'000	2019 RMB'000
Analysed for reporting purpose as:		
– current assets	3,058,213	1,528,785
– non-current assets	5,568,568	5,688,098
	8,626,781	7,216,883

Details of the fair value measurement of financial assets at FVTPL are disclosed in note 3.3.

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For the year ended 31 December 2020

26. INVENTORIES

	2020 RMB'000	2019 RMB'000
Raw materials	3,089,113	3,569,934
Work in progress	134,750	28,987
Finished goods	525,758	386,158
Others	27,407	40,191
	3,777,028	4,025,270
Less: non-current portion (note (a))	(1,227,314)	(385,483)
	2,549,714	3,639,787

(a) The non-current portion of inventories represents gold ores that the Group does not expect to process in the next 12 months.

(b) Movement of the provision for inventories is as follows:

	2020 RMB'000	2019 RMB'000
At the beginning of the year	467	659
Provision	140	–
Write-off	–	(192)
At the end of the year	607	467

27. OTHER NON-CURRENT ASSETS

	2020 RMB'000	2019 RMB'000
Prepayments for:		
– construction in progress and equipment	235,594	176,604
– mining and exploration rights	56,000	56,000
– land use rights	107,906	121,295
Value-added tax recoverable	133,104	170,792
Others	47,841	41,125
Total	580,445	565,816

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

28. PREPAYMENT, TRADE AND OTHER RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade receivables (note (a))		
– related parties (note 43(d))	51,670	56,424
– third parties	135,485	250,607
	187,155	307,031
Less: impairment of trade receivables	(17,251)	(16,888)
Trade receivables, net	169,904	290,143
Notes receivables (note (f))	10,499	341
Value-added tax recoverable	388,003	272,424
Prepayments		
– related parties (notes (c) and 43(d))	2,502	2,346
– third parties	387,184	133,561
	389,686	135,907
Other receivables		
– amounts due from related parties (notes (d) and 43(d))	13,580	8,298
– deposits	5,924	87,637
– payments on behalf of third parties	46,376	59,240
– gold leasing receivables	240,868	222,544
– deposits with exchanges and non-bank financial institutions (note (g))	2,805,364	808,637
– entrusted loans receivables	190,979	–
– others	115,478	128,881
	3,418,569	1,315,237
Less: impairment of other receivables	(131,961)	(97,209)
Other receivables, net	3,286,608	1,218,028
	4,244,700	1,916,843

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

28. PREPAYMENT, TRADE AND OTHER RECEIVABLES (Continued)

- (a) The Group did not allow any credit period to its trade customers. Ageing analysis of trade receivables included in prepayment, trade and notes receivables at the end of each reporting period based on invoice dates which approximated the respective revenue recognition dates were as follows:

	2020 RMB'000	2019 RMB'000
Within 1 year	141,578	261,012
1-2 years	11,036	22,121
2-3 years	15,855	15,636
Over 3 years	18,686	8,262
	187,155	307,031
Less: impairment of trade receivables	(17,251)	(16,888)
	169,904	290,143

As at 31 December 2020, the gross amount of trade receivables arising from contracts with customers amount to approximately RMB187,155,000 (2019: RMB307,031,000).

- (b) Details of the ECL model on the impairment of trade receivables are set out in note 3.1(b)(ii).

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

- (c) Prepayments to related parties comprise mainly prepayments for raw materials, gold and services (note 43(d)).
- (d) Amounts due from related parties mainly represented payments on behalf of related parties and these amounts are unsecured, interest free and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

28. PREPAYMENT, TRADE AND OTHER RECEIVABLES (Continued)

(e) Movement of the impairment of trade receivables is as follows:

	2020 RMB'000	2019 RMB'000
At the beginning of the year	16,888	10,394
Provision	363	6,494
At the end of the year	17,251	16,888

Movement of the impairment of other receivables is as follows:

	2020 RMB'000	2019 RMB'000
At the beginning of the year	97,209	91,575
Provision	34,752	7,834
Write-off	-	(2,200)
At the end of the year	131,961	97,209

Details of the ECL model on the impairment of other receivables based on the provision matrix are set out in note 3.1(b)(i).

There are no collaterals for trade and other receivables.

The Group writes off other receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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28. PREPAYMENT, TRADE AND OTHER RECEIVABLES (Continued)

- (f) The note receivables amounting to approximately RMB10,499,000 (2019: RMB341,000) are aged within one year. The note receivables should be classified as financial assets at FVTOCI. In view of immateriality as determined by the directors of the Company, such reclassification has not been made.
- (g) The details of the deposits with the exchanges and the non-bank financial institutions at the end of each reporting period are presented as follows:

	2020 RMB'000	2019 RMB'000
Deposits with futures and commodity exchanges in the PRC Shanghai International Energy Exchange Co., Ltd. (上海國際能源交易中心股份有限公司)	1,060,970	760,762
Deposit for general offer to acquire Cardinal Resources Limited (note)	1,571,913	–
At the end of the year	2,805,364	808,637

Note: During the year, the Group proposed an off-market conditional takeover offer to shareholders holding all shares in issue of Cardinal Resources Limited at a price of AUD0.60 per share by way of off-market takeover offer, and subscribed for 26 million ordinary shares newly issued by Cardinal Resources Limited at a price of AUD0.46 per share, with a total subscription price of AUD12 million (note 46(c)). As at 31 December 2020, the amount of approximately RMB1,571,913,000 were made for an off-market conditional takeover deposit with a non-bank financial institution.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

29. RESTRICTED BANK DEPOSITS/BANK BALANCES AND CASH

(a) Restricted bank deposits

	2020 RMB'000	2019 RMB'000
Restricted bank deposits		
– current	258,912	243,232

The analysis of restricted bank deposits at the end of each reporting period is as follows:

	2020 RMB'000	2019 RMB'000
Security deposits for issuance of notes payable	88,895	108,338
Security deposits for environmental restoration and governance	166,225	132,074
Security deposits for gold trading accounts	3,792	2,820
	258,912	243,232

The restricted bank deposits carried prevailing market interest rates at the end of each reporting period.

(b) Bank balances and cash

	2020 RMB'000	2019 RMB'000
Cash on hand	463	380
Short-term deposits of original maturity within 3 months in the banks and other financial institutions	1,225,851	1,682,906
Short-term deposits in the associate, SDG Group Finance (note 43(d))	1,109,973	990,778
Cash held on behalf of customers for futures contracts trading (note)	695,869	344,977
	3,032,156	3,019,041

Note: The Group maintains accounts with banks to hold customers' deposits arising from brokerage services for futures contracts trading. The Group had recognised the corresponding amount in "payable to brokerage clients" in note 30.

The bank balances and cash carried prevailing market interest rates at the end of each reporting period.

The conversion of RMB-denominated deposits into foreign currencies and remittance out of the PRC are subject to certain PRC rules and regulations of foreign exchange control promulgated by the PRC government.

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30. TRADE AND OTHER PAYABLES

	2020 RMB'000	2019 RMB'000
Trade payables (note (a))		
– third parties	703,132	788,596
– related parties (note 43(d))	190,729	159,225
	893,861	947,821
Notes payable (note (b))		
– third parties	771,773	781,440
– related parties (note 43(d))	33,359	58,129
	805,132	839,569
Contract liabilities (note (c))	120,907	40,940
Payable for purchases of property, plant and equipment and mining rights	1,179,533	755,228
Deposits received from contractors	573,447	496,084
Purchase consideration payable	141,282	306,185
Other taxes payable	112,201	101,484
Dividends payable (note 43(d))	22,506	123,953
Amounts due to related parties (notes (d) and 43(d))	120,106	354,147
Salaries and staff welfare payable	381,927	156,313
Interest payable	186,594	65,351
Payable to brokerage clients (note (e))	1,929,320	1,153,731
Others	191,550	107,161
	6,658,366	5,447,967

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

30. TRADE AND OTHER PAYABLES (Continued)

- (a) Ageing analysis of trade payables included in trade and other payables at the end of each reporting period based on invoice dates were as follows:

	2020 RMB'000	2019 RMB'000
Less than 1 year	845,446	912,846
1-2 years	33,648	31,293
2-3 years	13,085	1,951
Over 3 years	1,682	1,731
	893,861	947,821

- (b) Ageing analysis of notes payable at the end of the reporting period based on issue dates of the notes payable were as follows:

	2020 RMB'000	2019 RMB'000
Less than 1 year	805,132	839,569

Certain of the Group's restricted bank deposits have been secured to banks for the issue of certain notes payable, and presented as follows:

	2020 RMB'000	2019 RMB'000
Restricted bank deposits secured to banks for issuance of notes (note 29(a))	88,895	108,338
Notes payable being secured	22,224	433,352

- (c) Contract liabilities include advances received for the sales of gold and related products. The increase in contract liabilities was due to the increase in sales transactions and more deposits are received in 2020. The performance obligations would be satisfied upon the time of delivery of the gold and related products.

Revenue recognised during the year ended 31 December 2020 that was included in the contract liabilities at the beginning of the year was approximately RMB40,940,000 (2019: RMB85,050,000). There was no revenue recognised in the current year that related to performance obligations that were satisfied in a prior year.

- (d) The amounts are unsecured, interest-free and repayable on demand.
- (e) The balance includes money held on behalf of clients at banks and at clearing houses by the Group. The balance is interest-bearing at the prevailing market interest rate and is repayable on demand.

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For the year ended 31 December 2020

31. BORROWINGS

	2020 RMB'000	2019 RMB'000
Non-current:		
Long-term bank borrowings		
– unsecured (note (a)(i))	677,500	1,200,000
Corporate bonds (note (b))	999,598	999,267
	1,677,098	2,199,267
Current:		
Short-term bank borrowings		
– unsecured (note (a)(i))	7,768,760	4,922,004
Borrowings from SDG Group Finance (note 43(c))		
– unsecured (note (a)(ii))	445,800	353,520
Corporate bonds (note (b))	1,513,310	688,763
	9,727,870	5,964,287
	11,404,968	8,163,554

Carrying amount repayable (based on scheduled repayment dates set out in the loan agreements):

	2020 RMB'000	2019 RMB'000
Within one year	9,727,870	5,964,287
After one year but within two years	1,677,098	–
After two years but within five years	–	2,199,267
	11,404,968	8,163,554
Carrying amount within one year	9,727,870	5,964,287
Amount shown under current liabilities	9,727,870	5,964,287
Amount shown under non-current liabilities	1,677,098	2,199,267
	11,404,968	8,163,554

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31. BORROWINGS (Continued)

(a) Borrowings

- (i) The unsecured short-term bank borrowings carry interests at fixed market rates of 1.03% to 4.35% per annum or floating interest rates of People's Bank of China's Benchmark Lending Rate multiplied by 10% per annum and are repayable in instalments over a period of one year (2019: bank borrowings carried variable interest rate of LIBOR plus 1.23% ranging from 3.16% to 3.18%).

The long-term bank borrowings of approximately RMB677,500,000 (2019: RMB1,200,000,000) carry fixed interest rate ranged from 3.9% to 4.75% (2019: ranged from 3.9% to 4.35%) per annum.

As at 31 December 2019, included in the unsecured bank borrowings were bank borrowings of approximately US\$420,000,000, equivalent to approximately RMB2,930,004,000 which are guaranteed by the Company and repayable in June 2020 (2020: nil).

- (ii) As at 31 December 2020, unsecured borrowings from SDG Group Finance carried fixed interest rate ranging from 3.3% to 4.35% (2019: 4.35%) per annum.

(b) Corporate bonds

	2020 RMB'000	2019 RMB'000
Corporate bonds payable	2,513,310	1,688,996
Less: unamortised commission charge	(402)	(966)
	2,512,908	1,688,030
Less: current portion	(1,513,310)	(688,763)
Non-current portion	999,598	999,267

On 30 March 2015, the Company issued 13,000,000 corporate bonds with a par value of RMB100 each and received a total proceeds of RMB1,300,000,000. These bonds carried a coupon rate of 4.80% per annum for the first 3 years and 5.3% for remaining 2 years, and the interest charge will be paid on 30 March annually in each of the following five years. The underwriting commission for the issue of the bond amounted to approximately RMB7,800,000 and was settled by the Company. On 28 March 2018, the Company partially redeemed 6,110,040 corporate bonds with carrying amount of RMB611,004,000. The bonds have been fully repaid in March 2020 when they become due.

On 22 March 2019, the Company issued 10,000,000 corporate bonds with a par value of RMB100 each and received total proceeds of RMB1,000,000,000. These bonds carried a coupon rate of 3.85% per annum and the interest charges were paid on 22 March annually in each of the following three years. The underwriting commission for the issue of the bond amounted to approximately RMB1,000,000 and was settled by the Company. The bonds will be fully repaid on 22 March 2022 when they become due.

As at 31 December 2020, the Company issued certain ultra short-term financing bonds in aggregate amount of approximately RMB1,500,000,000 which are carried interests at fixed market rates of 1.55% to 2.3% per annum and repayable in June 2021 (2019: nil).

The aforesaid corporate bonds are initially recognised at the amount of the total proceeds net of the commission paid on the dates of issuance.

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31. BORROWINGS (Continued)

(b) Corporate bonds (Continued)

Accrued interests for the corporate bonds are recorded in interest payable as follows:

	2020	2019
	RMB'000	RMB'000
Interest payable for current corporate bonds	50,446	27,388
Interest payable for non-current corporate bonds	32,087	32,083

(c) The average interest rate of the Group's borrowings at the end of the reporting period are summarised as below.

	2020	2019
Average interest rates	3.93%	3.83%

32. FINANCIAL LIABILITIES AT FVTPL

The Group obtained financing through entering into gold leasing contracts with banks to lease gold from banks and subsequently sold the gold through the Shanghai Gold Exchange. Upon maturity of those lease contracts, the Group has to return to such banks with gold of the same quantity and specification, which would be usually purchased through the Shanghai Gold Exchange. The maturity periods of gold leasing contracts are generally less than 1 year (1 year inclusive). The gold leasing contracts carried fixed interest rate ranging from 0.83% to 3.68%(2019: ranging from 1.75% to 3.5%) per annum. The Group has designated the liabilities associated with such gold leasing arrangements as financial liabilities at FVTPL. Realised or unrealised fair value gain (loss) on gold leasing contracts are recognised and presented in the consolidated statement of profit or loss as "finance costs" (note 9).

The Group had also entered into certain gold forward/futures contracts for managing part of the risk associated with the fluctuation in the purchase prices of gold for its operations or managing the price risk associated with the aforesaid gold leasing contracts. These gold forward/future contracts have also been designated as financial liabilities at FVTPL. Realised and unrealised fair values gain/loss on the gold forward/future contracts are recognised in the consolidated statement of profit or loss as "other gains and losses, net" (note 8).

Details of the fair value measurement of financial liabilities at FVTPL are disclosed in note 3.3.

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For the year ended 31 December 2020

33. OTHER NON-CURRENT LIABILITIES

	2020 RMB'000	2019 RMB'000
Consideration payable for acquisition of a portfolio of assets and liabilities (note (a))	32,881	42,351
Payable for mining rights (note (c))	566,896	433,677
Provision for legal claims (note (b))	8,506	8,777
Others	3,565	5,601
	611,848	490,406
Less: current portion	(72,383)	(65,911)
	539,465	424,495

- (a) On 26 September 2017, SDG Xinhui, Qingdao Pingdu Jinxing Gold Mining Co. Ltd. ("Jinxing"), an independent third party of the Group, and Dazhuangzi Villagers' Committee of Pingdu Xinhe Town (平度市新河鎮大莊子村民委員會), the former shareholder of Jinxing, entered into an asset reorganisation agreement (the "Agreement"). Pursuant to the Agreement, SDG Xinhui acquired a portfolio of assets and liabilities of Jinxing, including part of the receivables and payables, property, plant and equipment and exploration rights at a total consideration of approximately RMB174,180,000.

During the year ended 31 December 2018, the Group has settled part of consideration of approximately RMB114,180,000 and the remaining non-interest bearing consideration of approximately RMB60,000,000 (the "Remaining Consideration") will be paid by 8 instalments until 31 January 2026.

As at 31 December 2020, the carrying amount of the Remaining Consideration included as "other non-current liabilities" amounted to approximately RMB32,881,000 (2019: RMB42,351,000) and the current portion of which to be settled within the next twelve months amounted to approximately RMB7,500,000 (2019: RMB7,792,000).

- (b) As at 31 December 2020, the provision for legal claim of approximately US\$1,304,000, equivalent to approximately RMB8,506,000 (2019: US\$1,258,000, equivalent to approximately RMB8,777,000) is recognised in connection with certain outstanding labour claims of MAS.
- (c) During the year ended 31 December 2020, the Group acquired of a mining right from Shandong Gold Group at a cash consideration of approximately RMB232,863,000 (note 43(a)). Approximately RMB160,656,000 (note 43(a)) has been paid during the year ended 31 December 2020.

During the year ended 31 December 2020, the Group acquired of certain mining rights from independent third parties at a total cash consideration of approximately RMB162,650,000 (2019: RMB533,677,000).

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34. DEFERRED TAXATION

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

	2020 RMB'000	2019 RMB'000
Deferred income tax assets	170,877	130,000
Deferred income tax liabilities	(3,928,100)	(4,262,779)
Deferred income tax liabilities, net	(3,757,223)	(4,132,779)

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

	2020 RMB'000	2019 RMB'000
At the beginning of the year	(4,132,779)	(4,141,760)
Credited to profit or loss (note 10)	226,273	46,406
Currency translation differences	149,283	(37,425)
At the end of the year	(3,757,223)	(4,132,779)

The following are the major deferred tax assets (liabilities) and movements thereon during the current and prior years:

	Property, plant and equipment RMB'000	Mining and exploration rights RMB'000	Financial assets/ liabilities at fair value through profit or loss RMB'000	Others RMB'000	Total RMB'000
At 1 January 2019	(2,124,740)	(1,934,735)	(129,951)	47,666	(4,141,760)
Credited (charged) to profit or loss	116,072	121,065	(47,099)	(143,632)	46,406
Currency translation differences	(36,942)	-	-	(483)	(37,425)
At 31 December 2019 and at 1 January 2020	(2,045,610)	(1,813,670)	(177,050)	(96,449)	(4,132,779)
Credited (charged) to profit or loss	145,478	231,768	(45,540)	(105,433)	226,273
Currency translation differences	142,910	-	-	6,373	149,283
At 31 December 2020	(1,757,222)	(1,581,902)	(222,590)	(195,509)	(3,757,223)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

34. DEFERRED TAXATION (Continued)

The Group does not recognise the following deferred income tax assets as management believes that it is more likely than not that such tax losses would not be utilised before they expire, details of which are as follows:

	2020 RMB'000	2019 RMB'000
The corresponding accumulated tax losses of the subsidiaries of the Company which deferred income tax assets have not been recognised	897,677	894,478
Deferred income tax assets not recognised	166,141	167,593

The aforesaid tax losses that have not been recognised as deferred income tax assets will be expired in the following years:

	2020 RMB'000	2019 RMB'000
2020	–	19,314
2021	13,678	28,930
2022	32,359	41,031
2023	107,687	75,996
2024	170,629	191,888
2025	30,330	12,263
2026	82,514	82,514
2027	37,511	49,684
2028	188,531	188,531
2029	191,033	204,327
2030	43,405	–
	897,677	894,478

35. DEFERRED REVENUE

Deferred revenue represented the government grants received towards the acquisition of assets related to gold mining activities. The amount is transferred to other income over the useful lives of the relevant assets. This policy has resulted in a credit to income in the current year of approximately RMB9,733,000 (2019: RMB18,171,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

36. PROVISION FOR ASSET RETIREMENT OBLIGATIONS

	2020 RMB'000	2019 RMB'000
At the beginning of the year	909,958	779,061
Interest charge on unwinding of discounts (note 9)	43,223	14,632
Additional provision	66,427	60,086
Payments	(3,988)	(20,699)
Change in discount rate (note 17(a))	(131,575)	66,789
Currency translation differences	(38,173)	10,089
At the end of the year	845,872	909,958

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

37. SHARE CAPITAL AND TREASURY SHARES

(a) Share capital

Shares, issued and fully paid:

	2020		2019	
	Number of shares (thousands)	Share capital RMB'000	Number of shares (thousands)	Share capital RMB'000
Domestic shares ("A shares") of RMB1.00 each				
– Directly held by Shandong Gold Group	1,671,709	1,671,709	1,194,078	1,194,078
– Held by other shareholders	1,942,734	1,942,734	1,405,889	1,405,889
	3,614,443	3,614,443	2,599,967	2,599,967
H shares of RMB1.00 each	699,504	699,504	499,645	499,645
	4,313,947	4,313,947	3,099,612	3,099,612

On 19 August 2020, bonus shares have been issued on the basis of four bonus shares for every ten existing shares, totally of additional 1,239,844,651 shares of the Company comprising 1,039,986,532 A shares and 199,858,119 H shares.

On 15 December 2020, the Company repurchased 25,509,517 A shares at total consideration of RMB1. The shares repurchased have been cancelled on the same date. The issued share capital of the Company was reduced by approximately RMB25,510,000. The difference between total consideration and the total value of repurchased shares of approximately RMB25,510,000 was transferred to capital reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

37. SHARE CAPITAL AND TREASURY SHARES (Continued)

(a) Share capital (Continued)

On 20 August 2019, bonus issues have been issued on the basis of four bonus shares for every ten existing shares of the Company, resulting additional 885,603,323 shares of the Company, comprising 742,847,523 A shares and 142,755,800 H shares.

Subsequent to the end of the period on 29 January 2021, the Company issued additional 159,482,759 H shares for the acquisition of Hengxing Gold Holding Company Limited (note 46(b)).

(b) Treasury shares

	2020		2019	
	Number of shares (thousands)	Amount RMB'000	Number of shares (thousands)	Amount RMB'000
At the beginning and the end of the year	4,884	6,385	3,489	6,385

The treasury shares represented the shares of the Company as acquired by the subsidiary of the Company, Shandong Jinzhou, which remained unsold as at the end of each reporting period.

The increase in 1,395,469 shares in treasury shares during the year ended 31 December 2020 represented the bonus issues on 19 August 2020.

The increase in 996,764 shares in treasury shares during the year ended 31 December 2019 represented the bonus issues on 20 August 2019.

38. PERPETUAL BONDS

On 3 December 2020, the Company issued RMB2,700,000,000 perpetual bond 1 at an initial interest rate of 4.8% per annum. The face value of the perpetual bond 1 were RMB2,700,000,000. Coupon payments of 4.8% per annum are paid annually in arrears and may be deferred at the discretion of the Company.

On 21 December 2020, the Company issued RMB1,300,000,000 perpetual bond 2 at an initial interest rate of 4.69% per annum, The face value of the perpetual bond 2 were RMB1,300,000,000. Coupon payment of 4.69% per annum are paid annually in arrears and may be deferred at the discretion of the Company.

Perpetual bond 1 and perpetual bond 2 have no maturity date and are callable at the Company's option at its principal amounts together with any accrued, unpaid or deferred coupon interest payments. The coupon rates will be increased at a margin of 300 basis points per three years. While any coupon interest payments are unpaid or deferred, the Group cannot declare or pay dividends or reduce registered capital.

Accordingly, the perpetual bond are classified as equity instruments of the Group based on the contractual terms and their economic substance data considering the definition of financial liabilities and equity instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

39. INFORMATION TO CASH FLOWS

(a) Cash generated from operations

	2020 RMB'000	2019 RMB'000
OPERATING ACTIVITIES		
Profit before tax	3,183,864	2,072,690
Adjustments for:		
Depreciation of property, plant and equipment	1,431,718	2,178,076
Depreciation of investment properties	11,720	12,013
Depreciation of right-of-use assets	66,368	58,079
Amortisation of intangible assets	758,472	471,378
Loss on disposals/write-offs of property, plant and equipment and intangible assets	135,378	28,848
Provision for impairment on property, plant and equipment	–	23,563
Provision for impairment on intangible assets	153,639	59,272
Provision for impairment on trade and other receivables	35,115	14,328
Provision for inventories	140	–
Fair value (gains) losses on gold futures/forward contracts	(84,633)	77,085
Realised and unrealised fair value gains of financial assets at FVTPL	(236,912)	(244,504)
Dividend income from financial assets at FVTPL	(12,278)	(15,279)
Finance income	(72,877)	(71,466)
Finance costs	811,872	866,894
Government grants	(26,435)	(37,704)
Share of results of associates	(10,669)	(1,319)
Operating cash flows before movements in working capital	6,144,482	5,491,954
Increase/(decrease) in inventories	258,422	(344,132)
Decrease in trade and other receivables	60,918	112,851
Increase in deposits with exchanges and non-bank financial institutions	(1,996,727)	(322,773)
(Increase) decrease in cash held on behalf of customers for futures contracts trading	(350,892)	62,737
Increase in payables to brokerage clients	775,589	260,153
Decrease in trade and other payables	1,126,716	621,883
Cash generated from operations	6,018,508	5,882,673

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

39. INFORMATION TO CASH FLOWS (Continued)

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the consolidated statement of cash flows as cash flows from financing activities.

	Liabilities from financing activities				
	Borrowings RMB'000	Deferred revenue RMB'000	Lease liabilities RMB'000	Financial liabilities at FVTPL RMB'000	Total RMB'000
As at 1 January 2020	8,163,554	12,444	107,983	13,145,643	21,429,624
Investing cash flows	-	-	-	(108,896)	(108,896)
Financing cash flows	3,192,627	12,695	(30,496)	(4,648,766)	(1,473,940)
Non-cash changes:					
Foreign exchange adjustments	(323,485)	-	-	-	(323,485)
Finance costs charged	372,272	-	5,219	369,242	746,733
Fair value gains	-	-	-	(84,633)	(84,633)
Income recognised	-	(9,733)	-	-	(9,733)
New leases arrangement	-	-	17,376	-	17,376
Balance at 31 December 2020	11,404,968	15,406	100,082	8,672,590	20,193,046

	Liabilities from financing activities				
	Borrowings RMB'000	Deferred revenue RMB'000	Lease liabilities RMB'000	Financial liabilities at FVTPL RMB'000	Total RMB'000
As at 1 January 2019	6,432,174	12,186	80,187	10,834,009	17,358,556
Investing cash flows	-	-	-	(126,018)	(126,018)
Financing cash flows	1,364,381	37,962	(45,123)	1,834,874	3,192,094
Non-cash changes:					
Foreign exchange adjustments	47,111	-	-	-	47,111
Finance costs charged	319,888	-	7,192	525,693	852,773
Fair value losses	-	-	-	77,085	77,085
Income recognised	-	(37,704)	-	-	(37,704)
New leases arrangement	-	-	65,727	-	65,727
Balance at 31 December 2019	8,163,554	12,444	107,983	13,145,643	21,429,624

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

40. CONTINGENCIES

The Veladero Mine held by MAS experienced several environmental incidents as set out below:

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

As at 31 December 2020, MAS was involved in several ongoing administrative and civil proceedings with respect to the abovementioned environmental incidents.

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

The Group has evaluated the legal proceedings with the assistance from its external legal counsel and no provision has been made for any potential liabilities or asset impairment relating to the aforesaid legal proceedings.

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

41. COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for but not yet provided for in the consolidated financial statements of the Group at the end of the reporting period is as follows:

	2020 RMB'000	2019 RMB'000
Property, plant and equipment	367,965	476,849
Mining and exploration rights	277,937	23,637
	645,902	500,486

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

41. COMMITMENTS (Continued)

(b) Operating lease commitments

The Group as lessor

The Group leases out investment property under operating leases. The leases typically run for an initial period of 1 to 6 years (2019: 1 to 6 years). None of the leases includes variable lease payments.

Undiscounted lease payments under non-cancellable operating leases in place at the end of the reporting period will be receivable by the Group in future periods as follows:

	2020 RMB'000	2019 RMB'000
Within 1 year	8,740	13,013
From 1 year to 5 years	5,130	13,101
After 5 years	182	318
	14,052	26,432

42. TRANSACTIONS WITH NON-CONTROLLING INTERESTS

For the year ended 31 December 2019

During the year ended 31 December 2019, SDG Capital Management acquired an additional 30% equity interest in Shanjin Jinkung SZ, a wholly-owned subsidiary with 70% equity interest owned by SDG Capital Management immediately before the transaction, at a cash consideration of approximately RMB16,353,000. It resulted in a decrease in non-controlling interests and the corresponding difference between the consideration paid for acquisition of shares and carrying amount of non-controlling interests acquired have been recognised within equity. The effect of changes in the ownership interest in Shanjin Jinkung SZ on the equity attributable to owners of the Company for the year ended 31 December 2019 are summarised as follows:

	2019 RMB'000
Carrying amount of non-controlling interests acquired	19,836
Considerations paid for purchase of shares	(16,353)
Amount recognised with equity	3,483

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

43. RELATED PARTY TRANSACTIONS

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

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

(a) Transactions with Shandong Gold Group and its fellow subsidiaries

	2020 RMB'000	2019 RMB'000
Purchases of electricity	449,319	444,773
Purchases of construction services	153,562	136,672
Purchases of processing services	31,190	7,413
Purchases of gold	2,171,092	1,626,702
Purchases of other services	90,296	64,478
Total purchases	2,895,459	2,280,038
Interest expenses from borrowings	17,028	11,026
Acquisition of mining and exploration rights (note)	232,863	–

Note: During the year ended 31 December 2020, the Group acquired a mining right of Jiaojia Gold Mine from Shandong Gold Group at a cash consideration of approximately RMB232,863,000. The Group made an initial one-off payment of approximately RMB124,553,000 and annual payment to Shandong Gold Group of approximately RMB36,103,000. Details are set out in the Company's announcement date at 16 April 2020.

	2020 RMB'000	2019 RMB'000
Provision of processing services	2,028	1,043
Sales of other metals	36,221	22,584
Sales of other materials and services	1,252	8,454
Total sales	39,501	32,081
Interest income from deposits	16,848	12,463

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

43. RELATED PARTY TRANSACTIONS (Continued)

(b) Property and land leasing

	2020 RMB'000	2019 RMB'000
Lease payment paid to Shandong Gold Group and its fellow subsidiaries for the settlement of lease liabilities and payment of short-term leases	10,892	26,444
Rental fees received from Shandong Gold Group and its fellow subsidiaries	6,281	7,722

(c) Borrowings obtained from related parties

	2020 RMB'000	2019 RMB'000
Borrowings obtained from SDG Group Finance:		
At the beginning of the year	353,520	608,400
Drawdown during the year	2,304,440	1,172,520
Repayment during the year	(2,212,160)	(1,427,400)
At the end of the year	445,800	353,520

The borrowings obtained from related parties are denominated in RMB and due within one year. The average interest rates as charged by the related parties are as below:

	2020	2019
Interest rates	3.30% – 4.35%	3.92% – 4.35%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

43. RELATED PARTY TRANSACTIONS (Continued)

(d) Year-end balances

	2020 RMB'000	2019 RMB'000
Receivables from related parties		
Trade receivables, gross		
– Shandong Gold Group and its fellow subsidiaries	51,670	56,424
Less: provision for impairment	(9,062)	(728)
Trade receivables, net	42,608	55,696
Prepayments		
– Shandong Gold Group and its fellow subsidiaries	2,502	2,346
Other receivables, gross		
– Shandong Gold Group and its fellow subsidiaries	13,580	8,298
Less: provision for impairment	(5,480)	(715)
Other receivables, net	8,100	7,583
Deposits to a financial institution		
– SDG Group Finance	1,109,973	990,778
Prepayments for right-of-use assets		
– Shandong Gold Group and its fellow subsidiaries	51,604	–
Prepayments for mining and exploration rights included in other non-current assets		
– Shandong Gold Group	56,000	56,000
Others included in other non-current assets		
– Shandong Gold Group and its fellow subsidiaries	6,922	16,651
	1,277,709	1,129,054
Payables to related parties		
Trade payables		
– Shandong Gold Group and its fellow subsidiaries	190,729	159,225
Notes payables		
– Shandong Gold Group and its fellow subsidiaries	33,359	58,129
Other payables		
– Shandong Gold Group and its fellow subsidiaries	120,106	354,147
Dividend payables		
– Shandong Gold Group and its fellow subsidiaries	22,506	123,953
Lease liabilities		
Payable for mining rights included in non-current liabilities		
– Shandong Gold Group and its fellow subsidiaries	72,207	–
	438,907	695,454

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

43. RELATED PARTY TRANSACTIONS (Continued)

(e) Key management personnel compensation

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

	2020 RMB'000	2019 RMB'000
Salaries and other short-term employee benefits		
– directors and supervisors of the Company	6,947	6,328
– other key management personnel	4,943	4,676
	11,890	11,004

(f) Guarantee provided by a related party

	2020 RMB'000	2019 RMB'000
Shandong Gold Group	–	688,996

On 30 March 2015, the Company issued 13,000,000 corporate bonds with a par value of RMB100 each and received a total proceeds of RMB1,300,000,000 (note 31(b)). Shandong Gold Group has provided guarantee for the bonds. On 28 March 2018, the Company has partially redeemed part of corporate bonds of RMB611,004,000 and the corresponding portion of the aforesaid guarantee was released accordingly. As at 31 December 2019, the outstanding balance of the corporate bonds was approximately RMB688,996,000 (2020: Nil).

(g) Transactions/balances with other state-controlled entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government (“State-controlled Entities”). In addition, the Group is significant influenced indirectly by Shandong Gold Group, a state-owned enterprise established in the PRC.

The Group also conducts business with other State-controlled Entities. The directors of the Company consider those State-controlled Entities to be third parties so far as the Group’s businesses with them are concerned.

In addition, the Group has entered into various transactions, including deposits placements, borrowings and other general banking facilities, with certain banks which are State-controlled Entities in its ordinary course of business.

The directors of the Company are of the opinion that the transactions with other State-controlled Entities are not significant to the Group’s operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

44. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENTS OF THE COMPANY

(a) Statement of financial position of the Company

	2020 RMB'000	2019 RMB'000
Non-current assets		
Property, plant and equipment	3,339,338	2,685,639
Investment properties	175,392	184,446
Right-of-use assets	23,086	31,516
Intangible assets	834,900	676,551
Interests in subsidiaries	19,972,182	19,966,415
Investment in an associate	1,023,967	1,038,417
Financial assets at FVTOCI	500	500
Other non-current assets	131,255	106,155
	25,500,620	24,689,639
Current assets		
Inventories	43,932	76,888
Trade and other receivables	203,015	300,210
Amounts due from subsidiaries	6,342,846	5,583,635
Prepaid income tax	4,430	10,928
Restricted bank deposits	–	26,265
Bank balances and cash	639,037	738,750
	7,233,260	6,736,676
Current liabilities		
Trade and other payables	1,446,997	1,337,575
Lease liabilities	3,558	4,845
Borrowings	2,989,812	2,638,763
Financial liabilities at FVTPL	4,309,455	7,009,997
	8,749,822	10,991,180
Net current liabilities	(1,516,562)	(4,254,504)
Total assets less current liabilities	23,984,058	20,435,135

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

44. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENTS OF THE COMPANY (Continued)

(a) Statement of financial position of the Company (Continued)

	2020 RMB'000	2019 RMB'000
Non-current liabilities		
Borrowings	1,677,098	2,199,267
Lease liabilities	7,264	19,670
Deferred income tax liabilities	34,665	53,869
Deferred revenue	2,075	1,870
Provision for asset retirement obligations	12,494	10,190
	1,733,596	2,284,866
Net assets	22,250,462	18,150,269
Share capital and reserves		
Share capital (note 37(a))	4,313,947	3,099,612
Perpetual bonds (note 38)	3,999,387	–
Reserves (note (b))	13,937,128	15,050,657
	22,250,462	18,150,269

(b) Reserves movement of the Company

	Retained profits RMB'000	Other reserves RMB'000	Total RMB'000
At 1 January 2020	6,295,370	8,755,287	15,050,657
Profit for the year	408,945	–	408,945
Appropriations	(37,412)	37,412	–
Repurchase shares	–	25,510	25,510
Bonus issues	–	(1,239,845)	(1,239,845)
Dividends	(308,139)	–	(308,139)
At 31 December 2020	6,358,764	7,578,364	13,937,128

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

44. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENTS OF THE COMPANY (Continued)

(b) Reserves movement of the Company (Continued)

	Retained profits RMB'000	Other reserves RMB'000	Total RMB'000
At 1 January 2019	4,210,543	9,650,790	13,861,333
Profit for the year	2,559,804	–	2,559,804
Appropriations	(255,980)	255,980	–
Bonus issues (note 37(a))	–	(885,604)	(885,604)
Business combinations involving entities under common control	–	(265,879)	(265,879)
Dividends	(220,099)	–	(220,099)
Others	1,102	–	1,102
At 31 December 2019	6,295,370	8,755,287	15,050,657

45. NON-CASH TRANSACTIONS

- (a) During the year ended 31 December 2020, the Group entered into new arrangements in respect of buildings, and machinery and others. Right-of-use assets and lease liabilities of approximately RMB17,376,000 (2019: RMB65,727,000) were recognised at the commencement of the leases (note 19).
- (b) As detailed in note 37(a), bonus issues of 1,239,844,651 shares (2019: 885,603,323 shares) of the Company have been issued during the year ended 31 December 2020, by the capitalisation of approximately RMB1,239,844,651 (2019: RMB885,603,323) of the capital reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

46. EVENTS AFTER THE REPORTING PERIOD

(a) Pursuant to the board resolution of the Company on 30 March 2021, the board of directors of the Company has proposed a final dividend of RMB0.05 per share for the year ended 31 December 2020. Details are set out in the note 13 and the Company's announcement dated on 30 March 2021.

(b) Acquisition of Hengxing Gold Holding Company Limited ("HXG")

During the year, the board of directors approved the resolution on the acquisition of HXG and the resolution on issue of the new H shares on the Hong Kong Stock Exchange as consideration. HXG is a company incorporated in the Cayman Islands with limited liability and its shares are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 02303). It is principally engaged in gold mining and production, and its core asset is the mining right project of Gold Mountain Mine located in Yining County, Kazakh Autonomous Prefecture, Xinjiang Uyghur Autonomous Region. Subsequent to the end of reporting period, the Company privatized HXG by way of a scheme of arrangement and acquired all the shares of HXG. The consideration of the acquisition was settled fully by the issue of H Shares of the Company.

Accordingly, HXG has become a wholly-owned subsidiary of the Company. The shares of HXG had been delisted on the Hong Kong Stock Exchange. The 159,482,759 new H Shares issued by the Company are listed and traded on the Hong Kong Stock Exchange.

For details, please refer to the announcements of the Company published on the website of the Hong Kong Stock Exchange during the period from 30 September 2020 to 30 January 2021.

The Group is in the process of assessing the financial impact and hence it is not feasible to quantify the financial impacts and the disclosure thereof to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

46. EVENTS AFTER THE REPORTING PERIOD *(Continued)*

(c) Acquisition of Cardinal Resources Limited (“Cardinal”)

During the year, the board of directors considered and approved the resolutions in relation to the acquisition of Cardinal Resources. Shandong Gold Mining (Hong Kong) Co., Limited (“SDG Hong Kong”), an overseas wholly-owned subsidiary of the Company, and Cardinal Resources entered into a bid implementation agreement on 18 June 2020, pursuant to which, SDG Hong Kong proposed an off-market conditional takeover offer to shareholders holding all shares in issue of Cardinal Resources Limited at a price of AUD0.60 per share by way of off-market takeover offer, and subscribed for 26 million ordinary shares newly issued by Cardinal Resources Limited at a price of AUD0.46 per share, with a total subscription price of AUD12 million. The Company provided guarantee for SDG Hong Kong for its performance of the bid implementation agreement. Cardinal Resources is a gold exploration and development company founded in 2010 and headquartered in Perth, Australia. The shares of Cardinal Resources are listed on the Australian Securities Exchange (stock code: CDV.AX) and Toronto Stock Exchange (stock code: CDV.TO). The major assets of Cardinal Resources are three gold projects in Ghana, Africa, namely Namdini development project and Bolgatanga exploration project in the Bole-Nangodi metallogenic belt in the northeast of Ghana, and Subranum exploration project in the Sefwi metallogenic belt in the southwest of Ghana. The subscription of SDG Hong Kong for 26 million new ordinary shares of Cardinal Resources was completed on 7 July 2020 with the total subscription price of AUD11.96 million.

Subsequent to the end of reporting period, the Group has completed the acquisition of 100% shares of Cardinal Resources. Cardinal Resources has become a wholly-owned subsidiary of SDG Hong Kong. For details, please refer to the announcements of the Company published on the website of the Hong Kong Stock Exchange during the period from 18 June 2020 to 15 March 2021.

The Group is in the process of assessing the financial impact and hence it is not feasible to quantify the financial impacts and the disclosure thereof to the consolidated financial statements.

DEFINITIONS

DEFINITIONS

In this annual report, unless otherwise indicated in the context, the following expressions have the meanings set out below:

“A Share(s)”	the domestic share(s) issued by the Company to domestic investors with a nominal value of RMB1.0 each, which are listed on the Shanghai Stock Exchange;
“AGB II”	Argentina Gold (Bermuda) II Ltd., a company incorporated in Bermuda on 6 October 1994 and registered by way of continuation into the Cayman Islands on 25 November 2015 which is owned as to 50% by SDG Hong Kong and 50% by Barrick Cayman;
“Articles of Association”	the articles of association of the Company;
“Barrick Cayman”	Barrick Cayman (V) Ltd., an exempted company incorporated in the Cayman Islands on 29 March 2016 and holder as to 50% equity interest in AGB II;
“Barrick Gold”	Barrick Gold Corporation, a corporation incorporated in Ontario, Canada on 14 July 1984 and holder as to 100% equity interest in Barrick Cayman (V) Ltd.;
“BAW Report”	the 2020 annual resources and reserves update report prepared by BAW (Beijing) Technical Consultancy Co., Ltd. (寶萬(北京)技術諮詢有限責任公司) (“BAW”), an independent third party qualified as a competent person;
“Board” or “Board of Directors”	the board of directors of the Company;
“CG Code”	the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Hong Kong Listing Rules;
“China” or the “PRC”	the People’s Republic of China but for the purpose of this annual report, excludes Hong Kong, Macau Special Administrative Region and Taiwan;
“CSRC”	China Securities Regulatory Commission;
“Director(s)” or “our Directors”	the director(s) of the Company;
“Group”, “the Group”, “our Group”, “we” or “us”	the Company and all of our subsidiaries or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, the businesses operated by such subsidiaries or their predecessors (as the case may be);
“H Share(s)”	the overseas-listed foreign invested share(s) in the Company’s share capital, with a nominal value of RMB1.0 each, which are listed on the Hong Kong Stock Exchange;

DEFINITIONS

“Hong Kong”	Hong Kong Special Administrative Region of the PRC;
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time;
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“PRC Company Law”	the Company Law of the PRC (中華人民共和國公司法), as amended, supplemented or otherwise modified from time to time;
“Prospectus”	the prospectus issued by the Company in connection with the Hong Kong public offering dated 14 September 2018;
“Reporting Period”	from 1 January 2020 to 31 December 2020;
“RMB”	Renminbi, the lawful currency of China;
“SDG Capital Management”	SDG Capital Management Co., Ltd. (山金金控資本管理有限公司), a limited liability company incorporated in the PRC on 14 November 2012 and a wholly-owned subsidiary of the Company;
“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 the Company;
“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 the 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 Group Finance”	Shandong Gold Group Finance Co., Ltd. (山東黃金集團財務有限公司), a limited liability company incorporated in the PRC on 17 July 2013, which was held as to 30% by the Company and 70% by SDG Group Co.;
“Shandong Gold” or “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;

DEFINITIONS

“Shanghai Stock Exchange” or “SSE”	Shanghai Stock Exchange (上海證券交易所);
“Share(s)”	shares in the share capital of the Company, with a nominal value of RMB1.0 each, comprising our A Shares and our H Shares;
“Shareholders”	holder(s) of our Share(s);
“Supervisor(s)”	the supervisor(s) of the Company;
“Supervisory Committee”	the supervisory committee of the Company;
“Syndicated Term Loan(s)”	the loan available under the US\$960 million term loan facilities agreement dated 20 June 2017 entered into by, among others, SDG Hong Kong and several financial institutions, for which China Merchants Bank Co., Ltd. New York Branch acted as the facility agent.

