恒興黃金
HENGXING GOLD

Hengxing Gold Holding Company Limited
恒興黃金控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2303)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2018

HIGHLIGHTS

The operating and financial results of the Group for the year ended 31 December 2018 is highlighted as follows:

- Gold production volume increased by 16% to 98,228 ounces from the corresponding period of last year;
- Revenue of the gold mining segment increased by 11% to RMB830 million from the corresponding period of last year;
- Net profit after tax is increased by 8.6% to RMB261 million from the corresponding period of last year;
- Total liabilities were RMB190 million, compared with RMB294 million as of 31 December 2017 and debt ratio was 17%, compared with 27% as of 31 December 2017.
- All-in gold production cost increased by 3.2% to RMB150.6/gram (equivalent to US$682/oz with exchange rate of RMB6.8632/USD as at 31 December 2018) from the corresponding period of last year.

The board of directors (the "**Board**") of Hengxing Gold Holding Company Limited (the "**Company**") is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2018 (the "**Period Under Review**"), together with comparative figures for the year ended 31 December 2017, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Year ended 31 December	
		2018	2017
		RMB'000	*RMB'000*
Revenue	*5*	**830,006**	960,516
Cost of sales	*8*	**(464,838)**	(569,236)
Gross profit		**365,168**	391,280
Other income	*6*	**1,006**	711
Other gains/(losses)— net	*7*	**4,113**	(7,795)
Selling and marketing expenses	*8*	**(479)**	(713)
General and administrative expenses	*8*	**(37,266)**	(32,362)
Write off of exploration and evaluation assets		**–**	(13,970)
Operating profit		**332,542**	337,151
Finance income	*9*	**461**	74
Finance costs	*9*	**(9,236)**	(12,911)
Finance costs— net		**(8,775)**	(12,837)
Profit before income tax		**323,767**	324,314
Income tax expense	*10*	**(62,870)**	(84,011)
Profit for the year, all attributable to owners of the Company		**260,897**	240,303
Other comprehensive income:			
Items that may be reclassified to profit or loss			
— Change in the fair value of available-for-sale financial assets		**–**	(1,683)
Total comprehensive income for the year, all attributable to owners of the Company		**260,897**	238,620
Earnings per share for the year			
— Basic and diluted (expressed in RMB)	*11*	**0.28**	0.26

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2018

	Note	As at 31 December	
		2018	2017
		RMB'000	*RMB'000*
Assets			
Non-current assets			
Prepaid lease payments		**15,151**	15,508
Property, plant and equipment		**351,075**	384,622
Investment properties		**–**	8,405
Intangible assets		**282,489**	289,187
Prepayments for purchase of property, plant and equipment		**3,422**	4,265
Deferred tax assets	*22*	**5,822**	9,565
Restricted bank balance	*16*	**10**	10
Total non-current assets		**657,969**	711,562
Current assets			
Prepaid lease payments		**357**	357
Inventories	*12*	**106,180**	107,566
Trade receivables		**–**	24,687
Other receivables and prepayments	*14*	**21,240**	23,726
Financial assets at fair value through profit or loss	*15*	**30,489**	26,534
Available-for-sale financial assets		**–**	29,000
Cash and cash equivalents	*16*	**301,477**	161,697
Total current assets		**459,743**	373,567
Total assets		**1,117,712**	1,085,129
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	*17*	**7,362**	7,362
Reserves	*18*	**366,544**	491,294
Retained earnings	*19*	**553,442**	292,545
Total equity		**927,348**	791,201

CONSOLIDATED BALANCE SHEET (CONTINUED)
AS AT 31 DECEMBER 2018

	Note	**As at 31 December** **2018** ***RMB'000***	2017 *RMB'000*
Liabilities			
Non-current liabilities			
Long-term borrowings	*21*	**–**	60,000
Deferred income	*23*	**7,419**	7,843
Provision for close down, restoration and environmental costs	*24*	**30,087**	20,608
Total non-current liabilities		**37,506**	88,451
Current liabilities			
Trade and other payables	*20*	**66,809**	80,002
Current tax liabilities	*22*	**26,049**	37,184
Current portion of long-term borrowings	*21*	**60,000**	88,291
Total current liabilities		**152,858**	205,477
Total liabilities		**190,364**	293,928
Total equity and liabilities		**1,117,712**	1,085,129

NOTES TO THE CONSOLIDATED ANNUAL RESULTS

FOR THE YEAR ENDED 31 DECEMBER 2018

1. GENERAL INFORMATION

The Company is an exempted company incorporated in the Cayman Islands with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The Company's immediate and ultimate holding company is Gold Virtue Limited, which is wholly owned by Mr. Ke Xiping.

The principal activity of the Company is investment holding. The Company's principal subsidiary, Xinjiang Gold Mountain Mining Company Limited ("**Jinchuan Mining**"), located in Xinjiang Province, the People's Republic of China (the "**PRC**"), is engaged in mining and processing of gold and sales of processed gold products in the PRC.

The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

The consolidated financial statements are presented in Renminbi ("**RMB**"), which is also the functional currency of the Company and its subsidiaries.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs those are mandatorily effective for the current year

2.1 New and amended standards adopted by the group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

- HKFRS 9 Financial Instruments
- HKFRS 15 Revenue from Contracts with Customers
- Annual Improvements 2014–2016 cycle
- Transfers to Investment Property — Amendments to HKAS 40

The impact of the adoption of HKFRS 9 and HKFRS 15 is disclosed in Note 2.3 below. The other standards did not have material impact on the Group's accounting policies and did not require retrospective adjustments.

The Group had to change its accounting policies and make certain retrospective adjustments following the adoption of HKFRS 9 and HKFRS 15. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

2.2 *New standards and interpretations not yet adopted*

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

Standards	**Effective for annual periods beginning on or after**
HKFRS 16 "Leases"	1 January 2019
(HK) Interpretation 23, "Uncertainty over Income Tax Treatments"	1 January 2019
Amendments to HKFRS 9, "Prepayment Features with Negative Compensation"	1 January 2019
Amendments to HKAS 19, "Plan Amendment, Curtailment or Settlement"	1 January 2019
Amendments to HKAS 28, "Long-term Interests in Associates and Joint Ventures"	1 January 2019
Annual Improvements to HKFRS Standards 2015–2017 Cycle	1 January 2019
Amendments to HKFRS 10 and HKAS 28	
Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group has already commenced an assessment of the impact of these new or revised standards which are relevant to the Group's operation. Except as described below, the Group considers that the application of amendments to HKFRS, amendments to HKASs and the new interpretations is unlikely to have a material impact on the Group's financial position and performance as well as disclosure in the future.

HKFRS 16 Leases

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

Impact

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in HKFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB2,756,000. Of these commitments, approximately RMB199,000 relate to short-term leases which will be recognised on a straight-line basis as expense in profit or loss.

For the remaining lease commitments, the Group expects to recognise right-of-use assets of approximately RMB2,375,000 on 1 January 2019, lease liabilities of RMB2,375,000. Overall net assets will not be affected, and net current assets will be RMB1,023,000 lower due to the presentation of a portion of the liability as a current liability.

The Group expects that profit before income tax will have no material effect for 2019 as a result of adopting the new rules.

Operating cash flows will increase and financing cash flows will decrease by approximately RMB1,023,000 as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

Date of adoption by Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

2.3 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers on the Group's financial statements.

(a) Impact on the financial statements

As a result of the changes in the entity's accounting policies, prior year financial statements had to be restated. As explained in Note 2.3(b) below, HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

The following table shows the adjustment recognised for each individual line item. Line items that were not affected by the changes have not been included. The adjustment is explained in more detail by standard below.

Balance sheet	**31 December 2017 As originally presented** *RMB'000*	**Reclassify under HKFRS 9** *RMB'000*	**1 January 2018 Restated** *RMB'000*
Current assets			
Financial assets at fair value through profit or loss	26,534	29,000	55,534
Available-for-sale financial assets	29,000	(29,000)	–

There is no impact on the statement of profit or loss and other comprehensive income by adopting HKFRS 9 and HKFRS 15.

(b) HKFRS 9 Financial Instruments

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in Note 3.11 below. In accordance with the transitional provisions in HKFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated as the Group does not have any hedge instrument. As a result, the adjustments arising from the new classification rules are not reflected in the balance sheet as at 31 December 2017, but are recognised in the opening balance sheet as at 1 January 2018.

The adoption of HKFRS 9 has no impact on the Group's retained earnings as at 1 January 2018.

- Classification and measurement

  On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The main effect resulting from this reclassification is as follows:

Financial assets — 1 January 2018	*Note*	**FVPL**	**Financial assets at fair value through other comprehensive income (FVOCI) (Available-for-sale 2017)**
		RMB'000	*RMB'000*
Closing balance 31 December 2017 — HKAS 39		26,534	29,000
Reclassify investments from available-for-sale to FVPL	*(i)*	29,000	(29,000)
Opening balance 1 January 2018 — HKFRS 9		55,534	–

  (i) Reclassification from available-for-sale to FVPL:

  Certain investments in bank financial products with non-guaranteed floating profit were reclassified from available-for-sale to financial assets at FVPL (RMB29,000,000 as at 1 January 2018). They do not meet the HKFRS 9 criteria for classification at amortised cost or at fair value through other comprehensive income, because their cash flows do not represent solely payments of principal and interest.

  None of related fair value gains was transferred from the available-for-sale financial assets reserve to retained earnings on 1 January 2018 since there was no other comprehensive income in the fair value of available-for-sale financial assets in 2017.

- Impairment of financial assets

  The Group has trade receivables for sales of products that are subject to HKFRS 9's new expected credit loss model, and the Group was required to revise its impairment methodology under HKFRS 9 for these receivables.

  While cash and cash equivalents and other receivables are also subject to the impairment requirements of HKFRS 9, no impairment loss was identified.

- Trade receivables

  The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The identified impairment loss was immaterial.

(c) HKFRS 15 Revenue from Contracts with Customers — Impact of adoption

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies. There are no adjustments to the amounts recognised in the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS) and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622.

3.2 Basis of preparation

The financial statements have been prepared on a historical cost basis, except for the following:

- certain financial assets and liabilities (including derivative instruments).

3.3 Principles of consolidation and equity accounting

3.3.1 Subsidiaries

Subsidiaries are all entities (including structured entities) 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 3.4).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

3.4 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group, and
- fair value of any asset or liability resulting from a contingent consideration arrangement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

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

3.5 Separate financial statements

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

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

3.6 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("**CODM**"). CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Company's Board of directors that makes strategic decisions.

3.7 Exploration and evaluation assets

All costs directly associated with exploration and evaluation are initially capitalised. Subsequent to initial recognition, exploration and evaluation assets are stated at cost less any accumulated impairment loss. Exploration and evaluation assets are those expenditures for an area where technical feasibility and commercial viability has not been determined. Exploration and evaluation assets include topographical and geological surveys, exploratory drilling, sampling and trenching and activities in relation to commercial and technical feasibility studies, and expenditure incurred to secure further mineralisation in existing ore bodies and to expand the capacity of a mine.

Expenditure incurred prior to acquiring legal rights to explore an area is written off as incurred. When the technical feasibility and commercial viability of extracting mineral resources become demonstrable, previously recognised exploration and evaluation assets are reclassified to intangible assets. These assets are assessed for impairment annually and before reclassification.

3.8 Impairment of exploration and evaluation assets

The carrying amount of the exploration and evaluation assets is reviewed annually and adjusted for impairment whenever one of the following events or changes in circumstances indicate that the carrying amount may not be recoverable (the list is not exhaustive):

- the period for which the Group has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Group has decided to discontinue such activities in the specific area; or
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset exceeds its recoverable amount. Recoverable amount is the higher of fair value less costs of disposal and value in use.

3.9 Intangible assets

(i) Mining rights

Exploration and evaluation assets became demonstrable and reached the development phase in prior years, and were transferred to mining rights. At the time of transfer, the exploration and evaluation assets incorporate both mining rights (intangible) and the underlying mineral reserves (tangible) elements. The directors of the Company consider the mining rights to be more significant element and hence the entire amount is classified as intangible assets. Mining rights with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment loss. Amortisation is provided using the unit of production method based on the actual volume mined over the estimated total proven and probable reserves of the ore mine within the terms of the mining license.

(ii) Meadow compensation costs

The amount is initially recognised at the fair value of the consideration paid by the Group for the rights to use the agricultural meadow over the relevant terms of contracts and are carried at cost less accumulated amortisation and any accumulated impairment loss. Amortisation is provided using the straight-line method over the relevant terms of contracts granted or the terms of the Group's mining license.

(iii) Restoration costs

Land restoration and rehabilitation costs incurred to the extent to give rise to future benefit of the gold ores have been included as part of the cost of the intangible assets. The amount represents the present value of the estimated present obligation of the restoration costs for any land damaged as a result of the Group's exploration or mining activities. Amortisation is provided using the unit of production method based on the actual volume mined over the estimated total proven and probable reserves of the mine within the terms of the mining license.

(iv) Stripping costs

Stripping costs resulted from the waste removal activities of the Group's surface mines during the development phase of the mine (before production begins) are carried at cost less accumulated amortisation and impairment. Amortisation is provided using the unit of production method over the identified component of the ore body, the access to which has been improved by the stripping activity.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

3.10 Impairment of non-financial assets other than exploration and evaluation assets

Assets that are subject to amortisation are tested 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 inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

3.11 Investments and other financial assets

(i) Classification

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

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

- those to be measured at amortised cost.

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

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

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

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership

(iii) Measurement

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

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

Debt instruments

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

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

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

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

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

(iv) Impairment

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

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

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

(v) Accounting policies applied until 31 December 2017

(a) Classification

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Until 31 December 2017, the Group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss,
- loans and receivables,
- held-to-maturity investments, and
- available-for-sale financial assets.

The classification determined on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluated this designation at the end of each reporting period. See Note 13 for details about each type of financial asset.

a. Financial assets at fair value through profit or loss

The Group classifies financial assets at fair value through profit or loss if they are acquired principally for the purpose of selling in the short term, ie are held for trading. They are presented as current assets if they are expected to be sold within 12 months after the end of the reporting period; otherwise they are presented as non-current assets. The Group has not elected to designate any financial assets at fair value through profit or loss.

b. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. The Group's loans and receivables comprise of trade and other receivables, cash and cash equivalents and restricted bank balance.

c. Held-to-maturity investments

The Group classifies investments as held-to-maturity if:

- they are non-derivative financial assets
- they are quoted in an active market
- they have fixed or determinable payments and fixed maturities
- the Group intends to, and is able to, hold them to maturity.

Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which would be classified as current assets.

d. Available-for-sale financial assets

Investments are designated as available-for-sale financial assets if they do not have fixed maturities and fixed or determinable payments, and management intends to hold them for the medium to long-term. Financial assets that are not classified into any of the other categories (at FVPL, loans and receivables or held-to-maturity investments) are also included in the available-for-sale category.

The financial assets are presented as non-current assets unless they mature, or management intends to dispose of them within 12 months of the end of the reporting period.

(b) Subsequent measurement

The measurement at initial recognition did not change an adoption of HKFRS 9, see description above.

Subsequent to the initial, recognition loans and receivables and held-to-maturity investments were subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at FVPL were subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognised as follows:

- for 'financial assets at FVPL' — in profit or loss within other gains/(loss)

- for available-for-sale financial assets that are monetary securities denominated in a foreign currency — translation differences related to changes in the amortised cost of the security were recognised in profit or loss and other changes in the carrying amount were recognised in other comprehensive income for other monetary and non-monetary securities classified as available-for-sale — in other comprehensive income.

When securities classified as available-for-sale were sold, the accumulated fair value adjustments recognised in other comprehensive income were reclassified to profit or loss as gains and other losses from investment securities.

(c) Impairment

The Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost was considered an indicator that the assets are impaired.

Assets carried at amortised cost

For loans and receivables, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss. If a loan or held-to-maturity investment had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract. As a practical expedient, the group could measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss was recognised in profit or loss.

Assets classified as available-for-sale

If there was objective evidence of impairment for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — was removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or were not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increased in a subsequent period and the increase could be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss was reversed through profit or loss.

3.12 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(i) 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's subsidiaries and associates 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.

(ii) Deferred income tax

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 substantially 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 tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in 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.

3.13 Safety production fund

Pursuant to regulation, enterprises in high-risk industry should accrue safety production fund under China's law and regulation, and the fund should be accrued in the retain earnings. The safety expenditures of the Group that are expenses in nature are directly debited to production costs. The safety expenditures of the Group that are formed into fixed assets through collection of construction in progress are recognised as fixed assets when the safety projects are completed and to the expected conditions for use. As expenditures occurs, the same amount of safety production fund in the retain earnings is written down.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Provision for restoration cost

The provision for restoration cost as set out in Note 24 has been estimated by the management based on current regulatory requirements and is discounted to the present value where the effect is material. However, significant changes in the regulation in relation to the restoration requirement will result in changes to provision from period to period.

(b) Amortisation and impairment of mining rights

Mining rights is amortised over its estimated useful life using the unit of production method. The estimated useful lives of the mining rights is assessed according to the total gold reserves estimate taking into accounts the maximum amount of gold ores that are allowed to be mined daily and annually as specified in the gold mining permit and mining license respectively, which is reviewed by the Group annually and any material decrease in the amount of the reserves may cause material change of amortisation or impairment of the carrying value of the mining rights.

Reserves are estimates of the amount of gold ores that can be economically and legally extracted from the mines. In order to calculate reserves, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand and commodity prices, the maximum amount of gold ores that are allowed to be mined daily and annually specified in the mining license, among others.

Estimating the quantity and/or grade of reserves requires the size, shape and depth of ore bodies or fields to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgements and calculations to interpret the data.

Because the economic assumptions used to estimate reserve changes from period to period, and because additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in estimated reserves may affect the Group's financial results and financial position in a number of ways. Amortisation and impairment of mining rights charged to profit or loss are determined by the unit-of-production basis. Such amounts might change where reserve estimates change or the useful economic lives of these assets change.

(c) **Useful lives of property, plant and equipment**

The Group estimates 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 items of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and actions of the Group's competitors. The depreciation charge will increase where useful lives are less than previously estimated.

5 SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("**CODM**"), being the executive directors of the Company, in order to allocate resources to segments and to assess their performance.

For the year ended 31 December 2018, the Group is primarily engaged in gold exploration in the PRC. Therefore, for the year ended 31 December 2018, the management considers that the Group only had one operating segment.

For the year ended 31 December 2017, the Group is primarily engaged in gold exploration and trading in the PRC. Therefore, for the year ended December 31 December 2017, the management considers that the Group had two (note (a) and (b))reportable segments respectively:

(a) Gold mining segment which held gold mines and was mainly engaged in the mining, ore processing and sales of gold products;

(b) International trading segment was mainly engaged in the palm oil and iron ore trading.

The CODM assesses the performance of the operating segments based on gross profit. Interest income and expenditure at the level of Group are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group. No analysis of the Group's assets and liabilities by operating segments is disclosed as it is not regularly provided to CODM for review:

	2018	2017		
	Gold mining segment	Gold mining segment	International trading segment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December				
Sales to customers	**830,006**	748,166	212,350	960,516
Cost of sales	**(464,838)**	(357,351)	(211,885)	(569,236)
Results of reportable segments	**365,168**	390,815	465	391,280

A reconciliation of results of reportable segments to profit for the year is as follows:

Results of reportable segments	**365,168**			391,280
Selling and marketing expenses	**(479)**			(713)
General and administrative expenses	**(37,266)**			(32,362)
Write off of exploration and evaluation assets	**–**			(13,970)
Other income	**1,006**			711
Other gains/(losses)— net	**4,113**			(7,795)
Finance income	**461**			74
Finance expenses	**(9,236)**			(12,911)
Profit before income tax expense	**323,767**			324,314
Income tax expense	**(62,870)**			(84,011)
Profit for the year	**260,897**			240,303
Amortisation	**42,122**	39,203	–	39,203
Depreciation	**44,740**	34,972	–	34,972
Write off of exploration and evaluation assets	**–**	13,970	–	13,970

The Group operates in mainland China and Hong Kong, and revenue for the year ended 31 December 2018 is generated from mainland China. The Group's non-current assets are located in mainland China and Hong Kong.

For year ended 31 December 2018, the Group's income of sales of processed gold from Shanghai Gold Exchange was RMB830,006,000 (2017: RMB748,166,000), which was derived from gold mining segment.

6 OTHER INCOME

	2018	2017
	RMB'000	*RMB'000*
Government grants related to assets *(Note 23)*	**424**	424
Others	**582**	287
	1,006	711

7 OTHER GAINS/(LOSSES)— NET

	2018	2017
	RMB'000	*RMB'000*
Investment gains on future contracts *(Note 15 (c))*	**4,356**	5,726
Investment gains of debt investments *(Note 15 (b))*	**2,777**	2,076
Net foreign exchange gains/(losses)	**2,384**	(6,459)
Investment gains of equity investments *(Note 15 (a))*	**279**	96
Investment gains of available-for-sale financial assets	**–**	2,045
Net losses on disposal of property, plant and equipment	**(486)**	(8,768)
Net fair value losses on financial assets at fair value through profit or loss *(Note 15 (a))*	**(5,197)**	(2,413)
Other losses	**–**	(98)
	4,113	(7,795)

8 EXPENSES BY NATURE

	2018	2017
	RMB'000	*RMB'000*
Changes in inventories of finished goods and work in progress *(Note 12)*	**3,529**	(9,007)
Purchase of finished goods	**–**	211,885
Depreciation and amortisation	**86,862**	73,601
Employee benefit expenses	**55,929**	55,788
Raw materials and consumables used	**243,656**	179,842
Miscellaneous tax charges other than income tax	**48,927**	38,337
Fuel charges	**19,394**	16,275
Transportation expenses	**18,232**	13,332
Repair and maintenance expenses	**7,277**	7,944
Utilities and office expenses	**4,816**	3,103
Advisory expenses	**3,392**	1,137
Auditors' remuneration	**1,240**	1,180
Other expenses	**9,329**	8,894
Total cost of sales, selling and marketing expenses and general and administrative expenses	**502,583**	602,311

9 FINANCE INCOME AND COSTS

	2018	2017
	RMB'000	*RMB'000*
Finance income:		
— Interest income on bank deposits	**(461)**	(74)
Finance income	**(461)**	(74)
Finance costs:		
— Bank borrowings	**6,794**	12,618
— Accretion on environmental restoration costs *(Note 24)*	**2,442**	293
Finance costs	**9,236**	12,911
Net finance costs	**8,775**	12,837

10 INCOME TAX EXPENSE

	2018	2017
	RMB'000	*RMB'000*
Current tax:		
Current tax on profit for the year	**59,127**	73,530
Total current tax expense	**59,127**	73,530
Deferred income tax:		
Decrease in deferred tax assets *(Note 22)*	**2,533**	10,518
Increase/(decrease) in deferred tax liabilities *(Note 22)*	**1,210**	(37)
Total deferred tax expense	**3,743**	10,481
Income tax expense	**62,870**	84,011
Income tax expense is attributable to:		
Profit from continuing operations	**62,870**	84,011

The Company is an exempted company incorporated in the Cayman Islands and, as such, is not liable for taxation in the Cayman Islands on its non-Cayman Islands income.

Golden Planet Investments Limited is exempted company incorporated in the BVI and, as such, is not liable for taxation in the BVI on their non-BVI income.

Tianshan Gold Securities (Hong Kong) Limited was subject to Hong Kong profits tax at tax rate of 16.5% for the year ended 31 December 2017. Pursuant to the enactment of two-tiered profit tax rates by the Inland Revenue Department from the year of assessment 2018/19 onwards, the first HKD2 million of assessable profits of one of the Group's companies incorporated in Hong Kong under Hong Kong profits tax during the year ended 31 December 2018 is subject to a tax rate of 8.25%. The Group's remaining assessable profits above HKD2 million will continue to be subject to a tax rate of 16.5%.

The applicable tax rate of Goldfield (Xinjiang) Investment Advisory Limited for each of the years ended 31 December 2017 and 2018 was 25%.

The applicable tax rate of Jinchuan Mining for the years ended 31 December 2017 was 25%. Jinchuan Mining obtained the qualification of certified high and new technology enterprises in 2018 and registered in the local tax bureau to apply the preferential tax rate of 15% from 2018 to 2020.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2018	2017
	RMB'000	*RMB'000*
Profit before income tax expense	**323,767**	324,314
Tax calculated at domestic tax rates applicable to profits in the respective countries	**48,687**	86,542
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
— Withholding income tax on dividend of Jinchuan Mining paid to its immediate holding company outside PRC	**8,889**	–
— Re-measurement of deferred tax due to the change in tax rate	**3,826**	–
— Expenses not deductible	**1,520**	638
— Tax losses for which no deferred income tax assets was recognised	**124**	154
— Utilisation of previously unrecognised tax losses	**(61)**	(23)
— Income not taxable for tax purpose	**(115)**	(3,300)
Income tax expense	**62,870**	84,011

11 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2018	2017
	RMB'000	*RMB'000*
Profit attributable to owners of the Company for the purpose of basic earnings per share	**260,897**	240,303
Weighted average number of ordinary shares in issue for the purpose of basic earnings per share *(in thousands)*	**925,000**	925,000
Basic and diluted earnings per share *(RMB)*	**0.28**	0.26

(b) Diluted earnings per share

No diluted earnings per share was presented as there were no potential dilutive ordinary shares in issue during both years.

12 INVENTORIES

	2018	2017
	RMB'000	*RMB'000*
Current assets		
Raw materials	**3,558**	2,826
Gold in process	**78,132**	82,737
Gold dore bars	**6,303**	5,227
Consumables and spare parts	**18,187**	16,776
	106,180	107,566

Inventories recognised as expense and included in "cost of sales" during the year ended 31 December 2018 amounted to RMB464,838,000 (2017: RMB569,236,000).

13 FINANCIAL INSTRUMENTS BY CATEGORY

	Notes	**2018**	2017
		RMB'000	*RMB'000*
Financial assets			
Financial assets at amortised cost			
Trade receivables		**–**	24,687
Other receivables	*14*	**7,113**	14,974
Cash and cash equivalents	*16*	**301,477**	161,697
Restricted bank balance	*16*	**10**	10
Available-for-sale financial assets		**–**	29,000
Financial assets at fair value through profit or loss ("**FVPL**")	*15*	**30,489**	26,534
Total		**339,089**	256,902

	Notes	**2018**	2017
		RMB'000	*RMB'000*
Financial liabilities			
Financial liabilities at amortised cost			
Borrowings	*21*	**60,000**	148,291
Trade and other payables excluding non-financial liabilities	*20*	**45,893**	60,359
Total		**105,893**	208,650

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

14 OTHER RECEIVABLES AND PREPAYMENTS

	2018	2017
	RMB'000	*RMB'000*
Current assets		
Prepayments	**9,921**	4,840
Input VAT deductible	**4,206**	3,912
Deposits held by a securities broker *(note (i))*	**3,236**	12,467
Deposits held by China International Capital Corporation Limited ("**CICC**") *(note (ii))*	**1,566**	994
Deposits held by an interactive broker *(note (iii))*	**394**	652
Other receivables	**1,917**	861
	21,240	23,726

Notes:

(i) The deposits as at 31 December 2018 and 2017 represented the outstanding balance of cash account held by a securities broker for gold futures contract transactions.

(ii) The deposits as 31 December 2018 represented the outstanding balance of cash account held by CICC for equity securities transactions.

(iii) The deposits as at 31 December 2018 and 2017 represented the outstanding balance of cash account held by an interactive broker for equity securities transactions.

The carrying amounts of the Group's other receivables and prepayments are denominated in the following currencies:

	2018	2017
	RMB'000	*RMB'000*
RMB	**19,209**	22,080
HK dollars	**2,031**	1,646
	21,240	23,726

15 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018	2017
	RMB'000	*RMB'000*
Current assets		
Equity investments (a)	**26,761**	25,362
Debt investments (b)	**3,700**	–
Futures contracts (c)	**28**	1,172
	30,489	26,534

(a) Equity investments

Movements in equity investments are analysed as follows:

	2018	2017
	RMB'000	*RMB'000*
At 1 January (Restated at 1 January 2018 *(Notes 2.3)*)	**54,362**	45,477
Additions	**10,360**	7,309
Disposals	**(33,043)**	(25,107)
Gains on disposal *(Note 7)*	**279**	96
Fair value losses *(Note 7)*	**(5,197)**	(2,413)
At 31 December	**26,761**	25,362

As at 31 December 2018 and 31 December 2017, equity investment classified as financial assets at fair value through profit or loss represented the Group's equity investments in certain companies listed on The Stock Exchange of Hong Kong, which are quoted in an active market.

Changes in fair values of financial assets at fair value through profit or loss are recorded in "Other gains/(losses) — net" in the consolidated statement of profit or loss.

The fair values of all equity securities are based on their quoted prices as of 31 December 2018 in the stock exchange.

(b) Debt investments

Movements in debt investments are analysed as follows:

	2018	2017
	RMB'000	*RMB'000*
At 1 January	**–**	–
Additions	**858,700**	907,000
Disposals	**(857,777)**	(909,076)
Gains on disposal *(Note 7)*	**2,777**	2,076
At 31 December	**3,700**	–

As at 31 December 2018, debt investments classified as financial assets at fair value through profit or loss represented the Group's debt investments in structured deposits.

(c) Futures contracts

	2018	2017
	RMB'000	*RMB'000*
Derivatives not under hedging accounting:		
Fair value of gold futures contracts — assets	**28**	1,172

The Group used futures contracts to reduce its exposure to fluctuations in the gold prices. The Group does not currently designate any hedging relationship on the gold futures contracts for the purpose of hedge accounting.

Changes in the fair values of gold futures contracts were gains of RMB4,356,000 (2017: gains of RMB5,726,000) and were recognised in the consolidated statement of profit or loss (Note 7).

As at 31 December 2018, notional amount of gold futures contract was RMB14,527,500 (31 December 2017: RMB72,417,550).

16 CASH AND CASH EQUIVALENTS/RESTRICTED BANK BALANCE

	2018	2017
	RMB'000	*RMB'000*
Current assets		
Cash in hand	**206**	178
Cash at banks	**271,271**	111,519
Bank deposits	**30,000**	50,000
Cash and cash equivalents	**301,477**	161,697
Non-current assets		
Restricted bank balance	**10**	10
	301,487	161,707

Balances can be analysed as follows:

	2018	2017
	RMB'000	*RMB'000*
Denominated in:		
— RMB	**284,811**	90,171
— Hong Kong dollars	**16,589**	23,132
— US dollars	**87**	48,404
	301,487	161,707

Note:

(i) The cash at banks and bank deposits were interest bearing at rates based on bank deposit rates as agreed with banks. The weighted average effective interest rate on cash at banks and bank deposits ranged from 0.125% to 3.5% per annum as at 31 December 2018 (31 December 2017: 0.001% to 5 %).

17 SHARE CAPITAL

	Number of shares	Share capital *HK$'000*
Ordinary shares of HK$0.01 each		
Authorised:		
At 31 December 2017 and 31 December 2018	2,000,000,000	20,000
Issued:		
At 31 December 2017 and 31 December 2018 (Equivalent of RMB7,362,000)	925,000,000	9,250

There was no movement of share capital of the Company in 2018 and 2017.

18 RESERVES

	Share premium *(note a)* *RMB'000*	Other reserves *(note b)* *RMB'000*	Investment revaluation reserves *RMB'000*	Total *RMB'000*
Balance at 1 January 2017	540,052	31,523	1,683	573,258
Disposal of available-for-sale financial assets	–	–	(1,683)	(1,683)
Dividends relating to 2016 paid in 2017	(80,281)	–	–	(80,281)
Balance at 31 December 2017	459,771	31,523	–	491,294
Dividends relating to 2017 paid in 2018	(124,750)	–	–	(124,750)
Balance at 31 December 2018	335,021	31,523	–	366,544

Notes:

(a) Share premium represents the difference between nominal value of share issued and the fair value of net assets/considerations received by the Company.

(b) Other reserves mainly represent the difference between the interest of a loan due to the controlling shareholder of the Company charge thereon based on prevailing market interest rates and the amount charged by the controlling shareholder over the loan period and the waiver of the amount due to the controlling shareholder of the Company.

19 RETAINED EARNINGS

As at 31 December 2018, the consolidated retained earnings included the balance of its subsidiary's reserve fund of RMB67,959,000 (31 December 2017: RMB41,343,000) which would be specifically used to offset accumulated losses or to increase capital and cannot be appropriated according to relevant PRC regulations.

Pursuant to the relevant regulations in the PRC, its subsidiary is required to provide for safety production fund based on volume of ores sold in previous year.

For the year ended 31 December 2018, the Group appropriated RMB27,102,000 (2017: RMB26,861,000) from retained earnings for the safety production fund and utilised RMB12,729,000 (2017: RMB6,062,000) for the safety production expenditure according to relevant PRC regulations.

As at 31 December 2018, the consolidated retained earnings included the balance of PRC safety production fund of RMB57,859,000 (31 December 2017: RMB43,486,000) which would be specifically used to safety related expenditure and cannot be appropriated according to relevant PRC regulations.

20 TRADE AND OTHER PAYABLES

Current liabilities	**2018** ***RMB'000***	2017 *RMB'000*
Trade payables	**14,394**	14,243
Payables for capital expenditure	**28,712**	43,287
Staff salaries payables	**15,167**	14,220
Other tax payables	**5,749**	5,423
Other payables	**2,763**	2,497
Accrued expenses	**24**	332
	66,809	80,002

At 31 December 2018, the aging analysis of the trade payables (including amounts due to related parties of trading in nature) based on invoice date was as follows:

	2018 ***RMB'000***	2017 *RMB'000*
0–30 days	**923**	2,375
31–60 days	**5,685**	3,325
Over 60 days	**7,786**	8,543
	14,394	14,243

At 31 December 2018 and 2017, the aging of payables for capital expenditure was all within 1 year.

21 BORROWINGS

(a) Long-term bank borrowings

	2018	2017
	RMB'000	*RMB'000*
Non-current	**–**	60,000
Current	**60,000**	88,291
	60,000	148,291

(b) At 31 December 2018, the Group's borrowings were repayable as follows:

Bank borrowings	**2018**	2017
	RMB'000	*RMB'000*
Within 1 year	**60,000**	88,291
Between 1 and 2 years	**–**	60,000
	60,000	148,291

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the end of the year are as follows:

Bank borrowings	**2018**	2017
	RMB'000	*RMB'000*
6 months or less	**60,000**	148,291

(c) The borrowings can be analysed as follows:

	2018	2017
	RMB'000	*RMB'000*
Representing:		
— secured *(Note (i))*	**60,000**	148,291

(i) As at 31 December 2018, the secured bank borrowings were secured by the Group's intangible assets of mining rights with a net book value of approximately RMB103,245,000 (31 December 2017: approximately RMB113,517,000) and property, plant and equipment with a net book value of approximately RMB116,145,000 (31 December 2017: approximately RMB125,830,000).

(d) The outstanding borrowings of the Group carry interest at effective interest rates 4.9% (31 December 2017: 4.9%) per annum and are repayable in accordance with payment schedule.

(e) The carrying amounts of the Group's borrowings were all denominated in RMB at 31 December 2018 and 2017.

(f) The carrying amounts and fair values of the non-current borrowings are as follows:

	Carrying amount		**Fair value**	
	2018	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank borrowings	**–**	60,000	**–**	62,153

The fair values of current borrowings approximate to their carrying amounts, as the impact of discounting is not significant.

22 DEFERRED INCOME TAX

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

	2018	2017
	RMB'000	*RMB'000*
Deferred tax assets:		
— Deferred tax assets to be recovered after more than 12 months	**6,653**	9,143
— Deferred tax assets to be recovered within 12 months	**700**	743
	7,353	9,886
Deferred tax liabilities:		
— Deferred tax liability to be recovered after more than 12 months	**(1,346)**	–
— Deferred tax liabilities to be recovered within 12 months	**(185)**	(321)
	(1,531)	(321)
Deferred tax assets (net)	**5,822**	9,565

The gross movements on the deferred income tax account are as follows:

	2018	2017
	RMB'000	*RMB'000*
At 1 January	**9,565**	20,046
Charged to the consolidated statement of profit or loss *(Note 10)*	**(3,743)**	(10,481)
At 31 December	**5,822**	9,565

The movements in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred tax assets	**Impairment losses**	**Provisions and accruals**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
31 December 2017	4,734	5,152	9,886
Charged to the consolidated statement of profit or loss	(1,893)	(640)	(2,533)
At 31 December 2018	2,841	4,512	7,353

Deferred tax liabilities	**Fair value gains**	**Difference in the policies of fixed assets**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
31 December 2017	(321)	–	(321)
Credited/(Charged) to the consolidated statement of profit or loss	317	(1,527)	(1,210)
At 31 December 2018	(4)	(1,527)	(1,531)

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. No deferred income tax assets were recognised for tax losses as at 31 December 2018 as there is uncertainty on whether the unused tax losses can be utilised in the future.

The unused tax losses of the Company and subsidiaries in Hong Kong and PRC can be carried forward infinitively in which the loss was originated to offset future taxable profits. At 31 December 2018, the Group had cumulative unutilised tax losses of RMB1,591,000 (2017: RMB1,870,000).

As at 31 December 2018, deferred income tax assets are attributable to impairment losses of RMB18,935,000 related to the Gold Mountain Periphery area and provision for close down, restoration and environmental costs of RMB30,087,000 (Note 24).

As at 31 December 2018, deferred income tax liabilities have not been recognised for the withholding income tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries in the PRC, as the parent entities are able to control the timing of distributions from their subsidiaries and are not expected to distribute these profits in the foreseeable future.

23 DEFERRED INCOME

Deferred income represents government grants received by the Company's subsidiary Jinchuan Mining for developments of mining projects.

The deferred income is released to income over the expected useful life of the relevant assets resulting from the developments of the mining projects. Movements of deferred income during both years were as follows:

Non-current liabilities	**2018**	2017
	RMB'000	*RMB'000*
At 1 January	**7,843**	8,267
Released to profit or loss *(Note 6)*	**(424)**	(424)
At 31 December	**7,419**	7,843

24 PROVISION FOR CLOSE DOWN, RESTORATION AND ENVIRONMENTAL COSTS

Non-current liabilities	**2018**	2017
	RMB'000	*RMB'000*
At 1 January	**20,608**	11,448
Additions to site reclamation	**11,278**	10,196
Accretion incurred in the year *(Note 9)*	**2,442**	293
Payment of close down, restoration and environmental costs	**(4,241)**	(1,329)
At 31 December	**30,087**	20,608

In accordance with relevant PRC rules and regulations, if any damage is caused to cultivated land, grassland or forest as a result of exploration or mining activities, a mining enterprise must restore the land to a state appropriate for use by reclamation, re-planting trees or grasses or such other measures, as appropriate, after the mining has been completed. The Group provides for the present obligation of the cost of the restoration.

The provision for restoration costs has been determined by the directors of the Company based on their best estimates for the restoration upon the closure of the mine sites taking consideration of the amount and timing of future cash flows that a third party may be required to perform the required work of restoration, including material cost and labour cost, escalated for inflation, and discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability to reflect the present value of the expenditures expected to be required to settle such obligation.

25 DIVIDENDS

	2018	2017
	RMB'000	*RMB'000*
(i) Ordinary shares		
Final dividend paid in cash for the year ended 31 December 2017 of HK$0.155 (2016: HK$0.1) per fully paid share	**124,750**	80,281

Pursuant to the resolution of Annual General Meeting dated 28 June 2018, dividend of RMB124,750,000 (2017: RMB80,281,000) relating to the year ended 31 December 2017 was declared and distributed from the share premium of the Company to the shareholders.

	2018	2017
(ii) Dividends not recognised at the end of the reporting period		
In addition to the above dividend, a final dividend for the year ended 31 December 2018 of HK$0.1 per fully paid share (2017: HK$0.155) was proposed by the Board of Directors on 29 March 2019 (2017: on 20 March 2018) and this proposal is subject to the approval by the Company's shareholders in forthcoming Annual General Meeting. The aggregate amount of the proposed dividend expected to be paid in cash and out of the Company's share premium at 31 December 2018, but not recognised as a liability at year end	**81,049**	124,750

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Healthy Financial Position

During the Period Under Review, the Group delivered sound and stable financial results. The average realized gold price was RMB272.2/gram decreasing by 1.7% from the same period of 2017. Nevertheless, revenue from the gold mining segment for the year of 2018 increased 11% over the prior year's compared period to RMB830 million. The net profit after tax has also increased 8.6% over the prior year's same period to RMB261 million. The Group has a healthy balance sheet with RMB301 million cash and cash equivalents, while bank borrowings were reduced by RMB88 million to RMB190 million since 31 December 2017.

As disclosed in the interim report, the international trading segment contributed a very insignificant portion of gross profit to the Group, reflecting less than 1% in both year 2016 and 2017. The Group does not foresee any related activities in this segment in the year forward. There was no subsequent transaction done in the year of 2018, leading to the nil revenue from the international trading segment.

Stable Operation Performance

Since 2018, the Gold Mountain Mine has processed the newly mined ore and the ore in the existing pad to maximize the productivity of the high-pressure grind roller and enhance gold production. Approximately 5.44 million tonnes of newly mined ore were processed with a feed-in grade of 0.82g/t, while 1.14 million tonnes of ore in the existing pad were processed with grade of 0.38g/t. The all-in sustaining cost was maintained at a competitive level of RMB150.6/gram (equivalent to US$682/oz with exchange rate of RMB6.8632/USD as at 31 December 2018), 3.2% higher than RMB145.9/gram from the same period last year due to the increased cost of leaching agent and cement.

Jinchuan Mining obtained the certification of High-Tech Enterprise in October 2018 with a valid term of three years to October 2021. The certification will allow Jinchuan Mining to apply to the preferential income tax rate of 15%, while the normal income tax rate is 25%.

Environment Commitment & Community Engagement

During the Period Under Review, RMB4.2 million was invested for ecological recovery and remediation, with approximately 125,000 square meters of annual greening area and 1,270 newly planted trees. The Group also recognizes that it is our corporate responsibility and business imperative to contribute to the positive social and economic development of our host communities. The Group's clinic regularly provides free diagnosis and treatment for herdsmen in the surrounding areas, which has solved the medical difficulties for more than 1,000 herdsmen by the end of 2018. In the winter of 2018, the Group donated 200 tons of coal to surrounding villages and towns.

Seek Sustainable Growth Opportunity

The Group has made in-depth desktop reviews of multiple projects in 2018 and the reviews are ongoing while the Group has not reached any definitive agreements in relation to any investment transactions as at the date of this announcement. The market consensus forecasts that there will be an increase of deal flow in gold sector in 2019 driven by higher gold price and consolidation of major gold producers. Amid the timing, the Group maintains its strategy to continue seeking opportunities of quality assets to strengthen the Group's asset portfolio and resource base.

Development Strategy

The principal business objectives of the Group are to explore, develop and operate gold assets. We also seek acquisition opportunities domestically and globally to pursue rapid growth and expansion of our asset portfolio. The Group aims at transition from a single mine group to a mid-tier gold producer through the following strategies:

Operation stability

The Group plans to strengthen mine plan and production schedule in the Gold Mountain Mine in order to maintain the stability of the output. The management team of the mine continues focusing on improving the efficiency of the operation including enhancing ore processing procedures and increasing recovery rate. We anticipate the improvement would optimize the economical outcome and the Gold Mountain Mine could at last to deliver an average annual production of approximately 90,000 ounces of gold in the next few years.

Seek sustainable growth by acquiring quality gold assets

The Group is determined to focus on gold exploration and mining operation activities. In the past years the Group has successfully and significantly improved the operational results of Gold Mountain Mine, it helped to secure a healthy ground for the Group for further growth. With strong financial support, we consider current and near-term market condition providing an opportunity for growth by acquisitions. The Group would make continual efforts to pursue high-quality gold assets from both domestic and overseas. Our primary target is pursuing gold assets in advanced stage to strengthen the Group's resource and reserve basis. In the long term, the Group plans to grow to a mid-tier gold producer with a global portfolio of long-life assets.

Further strengthening work safety and environmental protection

The Group is committed to become a model of a modern and recognized responsible mining operation. We vigorously promote cautious behavior throughout our workforce with safety control and acknowledgement of the precious ecological environment surround the mine area. In the past years the Group has developed several green projects cooperated with local communities for growing trees, vegetables, flowers and protection of biodiversity. There is also an employee program to select and train young people from local minority villages to work in the Gold Mountain Mine. The Group will continue all these projects together with the process for obtaining the qualification of Green Mining award.

Use of Proceeds from the Initial Public Offering

The net proceeds from the Group's issue of new shares in the initial public offering ("**IPO**") dated 29 May 2014, after deducting listing related expenses, amounted to approximately HK$330.4 million. The use of proceeds was disclosed in the prospectus (the "**Prospectus**") on 19 May 2014 issued by the Group relating to the IPO and further disclosed in the clarification announcement made by the Group on 28 May 2014. On 15 June 2015, the board has resolved to change the use of the unutilized IPO proceeds, amounting to approximately HK$180.3 million, and apply for new specific purposes, details of which are indicated in the table below. As at 31 December 2018, the Group has used approximately HK$244.1 million and intends to apply the remaining net proceeds in the manner consistent with that set out in the Prospectus and relevant announcements made thereafter.

	Planned amount per clarification announcement dated 28 May 2014 *(HK$ million)*	Revisions per announcement of proposed changes dated 16 June 2015 *(HK$ million)*	Amount utilized up to 31 December 2018 *(HK$ million)*	Balance of unutilized IPO proceeds as at 31 December 2018 *(HK$ million)*
Financing the Group's CIL Project, including:				
• Constructing and installing the carbon-in-leach production and ancillary facilities, purchases of relevant equipment	120.1	–	–	–
• Acquiring land use right, hiring project design and supervisory experts, implementing work safety measures and applying for relevant licenses	30.0	–	–	–
Upgrading the crushing system in order to improve the efficiency of current production process of Gold Mountain Mine	–	12.5	12.5	–
Developing a new open pit at the Kuangou prospect and a new leach pad to accommodate ore mined from the Kuangou prospect for the purpose of increasing production	–	27.5	27.5	–
Repaying outstanding loans with interests and advances from controlling shareholder Mr. Ke	138.8	–	138.8	–
Repaying part of the outstanding gold lease facilities	–	47.6	47.6	–
Financing the Group's potential acquisitions of gold resources, including expenses for due diligence, environmental and exploratory studies	15.1	77.6	1.1	76.5
Financing further exploration works at the Gold Mountain Mine and its surrounding areas where the Group holds exploration licenses	15.1	15.1	5.3	9.8
Working capital use and other general corporate purposes	11.3	–	11.3	–
Total	330.4	180.3	244.1	86.3

Financial Review

During the Period Under Review, the Group recorded revenue of the gold mining segment of RMB830,006,000, while the revenue recorded for the corresponding period of 2017 was RMB748,166,000, representing approximately increase of 11%, which is contributed by the substantial growth in gold production and sales.

The Group recorded a consolidated profit of the Group of RMB260,897,000 for the year ended 31 December 2018, while the consolidated profit for the corresponding period of 2017 was RMB240,303,000. The significant increase of consolidated profit is mainly due to substantial growth in gold production and sales as compared to the corresponding period in 2017.

Revenue

During the Period Under Review, the Group's revenue of the gold mining segment was approximately RMB830,006,000, compared with RMB748,166,000 in the corresponding period of 2017, because the gold production and sales volume increased.

Cost of Sales

During the Period Under Review, the Group's cost of sales of the gold mining segment amounted to approximately RMB464,838,000 compared with RMB357,351,000 in the corresponding period of 2017, which primarily included mining costs, processing costs, labor costs related to mining and processing activities as well as depreciation and amortisation costs including depreciation costs of property, plant and equipment and amortisation costs of intangible assets. The increase in cost of sales of the gold mining segment was due to the growth of striping volume and production volume.

Gross profit

During the Period Under Review, the Group's gross profit amounted to approximately RMB365,168,000, compared with RMB391,280,000 in the corresponding period in 2017.

Selling and distribution expenses

During the Period Under Review, the Group's selling and distribution expenses amounted to approximately RMB479,000 compared with RMB713,000 in the corresponding period of 2017.

Administration Expenses

During the Period Under Review, the Group's administration expense was approximately RMB37,266,000 compared with RMB32,362,000 in the corresponding period of 2017.

EBITDA

During the Period Under Review, the Group's earnings before interest, tax, depreciation and amortisation ("**EBITDA**") was RMB417,423,000 gain while it was RMB411,107,000 in the corresponding period of 2017.

Finance Costs

During the Period Under Review, the Group's finance costs was RMB9,236,000 (for the year ended 31 December 2017: RMB12,911,000), representing a decrease by 28.5%, compared with the corresponding period of 2017. The decrease was mainly due to the repayment of loans, details are set out in Note 21 and in consolidated financial statements.

Profit before taxation

As a result of the foregoing, the profit before taxation was RMB323,767,000 for the year ended 31 December 2018, compared with the profit before taxation of RMB324,314,000 in the corresponding period of 2017.

Profit and total comprehensive income (expense)

As a result of the foregoing, the profit and total comprehensive income was RMB260,897,000 for the year ended 31 December 2018, compared with the profit and total comprehensive income of RMB238,620,000 in the corresponding period of 2017.

Liquidity and Financial Resources

The group was in possession of reasonable operation cash flow and working capital due to the substantial growth of production. As at 31 December 2018, the Group's bank balances and cash and fixed deposit were RMB301,477,000 (as of 31 December 2017, it was RMB161,697,000). Net assets were RMB927,348,000 (as of 31 December 2017, it was approximately RMB791,201,000).

The Group recorded net current assets were RMB306,885,000 as of 31 December 2018, compared with RMB168,090,000 as of 31 December 2017, which was primarily due to (a) the increase of bank balance and fix deposits amounted RMB139,780,000 ; (b) net increase of the financial assets at fair value through profit or loss amounted RMB3,955,000 (c) the decrease of trade receivables, other receivables and prepayments and available-for-sale financial assets amounted RMB56,173,000; (d) net decrease of inventories amounted RMB1,386,000; (e) net decrease of bank borrowings amounted RMB28,291,000; (f) the decrease of the current income tax liabilities amounted RMB11,135,000 and the decrease of trade and other payables amounted RMB13,193,000.

Current ratio and gearing ratio

As at 31 December 2018, the Group's current ratio (current assets divided by current liabilities) was 3.01 (31 December 2017: 1.82).

As at 31 December 2018, the Group's gearing ratio (total borrowings divided by total equity) was 0.06 (31 December 2017: 0.19).

Cash flows

The following table sets out selected cash flow data from the Group's condensed consolidated cash flow statements for the year ended 31 December 2018 and 31 December 2017:

	Year ended	
	31 December 2018	31 December 2017
	RMB'000	*RMB'000*
Net cash generated from operating activities	**394,870**	376,875
Net cash used in investing activities	**(37,639)**	(155,699)
Net cash used in financing activities	**(219,611)**	(191,841)
Net increase in cash and cash equivalents	**137,620**	29,335
Effect of foreign exchange rate changes	**2,160**	(5,460)
Cash and cash equivalents at 1 January	**161,697**	137,822
Cash and cash equivalents at 31December	**301,477**	161,697

For the Period Under Review, the net cash inflow from operating activities was RMB394,870,000, which was mainly attributable to (a) profit plus non cash cost as depreciation and amortisation and minus financing cost and investment gains, amounted RMB420,367,000 (b)decrease in inventories of RMB1,386,000 (c) decrease in trade receivables, repayment deposits and other receivables of RMB38,538,000, and (d) increase in trade payables, accruals and other payables of RMB9,082,000 (e) Income tax paid RMB70,262,000 (f) Environmental restoration expenses paid RMB4,241,000.

For the Period Under Review, the net cash outflow from investing activities was RMB37,639,000, which was mainly attributable to (a) purchase of property, plant and equipment of RMB36,071,000, (b) payments of intangible assets of RMB23,789,000, and (c) cash flow out offset by the placement and redemption of structured deposits and fixed deposits of RMB923,000 and (d) interests received of RMB461,000 (e) purchases of equity investment of RMB10,360,000 and the disposal of equity investments of RMB33,043,000.

For the Period Under Review, the net cash outflow from financing activities was RMB219,611,000, which was primarily attributable to (a) payment of a final dividend of RMB124,750,000 , and (b) interest paid for bank of RMB6,570,000, (c) repayment of bank and other borrowings of RMB88,291,000.

Capital Structure

As at 31 December 2018, the total number of issued ordinary shares of the Group was 925,000,000 shares (as of 31 December 2017: 925,000,000 shares), each at HK$0.01.

Indebtedness and charge on assets

As at 31 December 2018, the Group had the bank and other borrowings of approximately RMB60,000,000 which was secured by certain buildings, mining structures and equipment with an aggregate carrying amount of RMB116,145,000 (31 December 2017: RMB125,830,000) and intangible assets with an aggregate carrying amount of RMB103,245,000 (31 December 2017: RMB113,517,000).

Save as stated above, as of 31 December 2018, the Group did not have other outstanding loan extended and outstanding, bank overdrafts, other similar indebtedness, liabilities under acceptance or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees and other material contingent liabilities.

Contingent liabilities

As at 31 December 2018, the Group did not have any material contingent liabilities or guarantees (as of 31 December 2017: nil). The Group is not currently involved in any material legal proceedings, nor is the Group aware of any pending or potential material legal proceedings, involving us. If the Group is involved in such material legal proceedings, the Group would record any loss or contingency when, based on information then available, it is likely that a loss has been incurred and the amount of the loss can be reasonably estimated.

Foreign Currency Risk

The functional currency of the Company and its subsidiaries is RMB since all of the Group's transactions are denominated in RMB.

The Group's exposure to foreign currency risk related primarily to certain bank balances and certain other payables that are denominated in HK$ and US$.

The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Employees

As at 31 December 2018, the Group employed approximately 377 employees in the PRC and Hong Kong. All employees are remunerated according to their performance, experience and prevailing trade practices. Both on-the-job and professional training are provided as well. The Group provides retirement benefits, either in the form of the Mandatory Provident Fund Exempted ORSO or Mandatory Provident Fund entitlement, to employees in Hong Kong. A similar scheme is also maintained for employees in the PRC.

The Exploration, Development and Mining Production Expenditures

Mining Production

Gold Mountain Mine includes five prospects, namely the Yelmand prospect, the Mayituobi prospect, the Jinxi-Balake prospect, the Kuangou prospect and the Lion prospect. For the Period Under Review, the total amount of ore processed was approximately 6,586 million tones. As of 31 December 2018, Gold Mountain Mine has conducted mining activities in four prospects, including the Yelmand prospect, the Mayituobi prospect, the Jinxi-Balake prospect and the Kuangou prospect.

		Year ended 31 December	
	Unit	**2018**	2017
Ore mined	Kt	**5,420**	5,372
Yelmand prospect	Kt	**3,498**	4,561
Mayituobi prospect	Kt	**757**	707
Kuangou prospect	Kt	**171**	–
Jingxi-Balake prospect	Kt	**994**	104
Overburden mined	Kt	**8,973**	21,972
Yelmand prospect	Kt	**1,270**	4,359
Mayituobi prospect	Kt	**179**	691
Kuangou prospect	Kt	**2,170**	4,820
Jingxi-Balake prospect	Kt	**5,394**	12,102
Strip ratio	:	**4.03**	4.09
Ore processed	Kt	**6,586**	5,456
newly mined ore	Kt	**5,443**	5,456
ore in the existing pad	Kt	**1,143**	–
Feed-in grade of ore	g/t	**0.74**	0.85
newly mined ore	g/t	**0.82**	0.85
ore in the existing pad	g/t	**0.38**	–
Recovery rate	%	**66.5**	64.8
Gold produced	Oz	**98,228**	84,849

During the Period Under Review, the aggregate capital expenditure on the ore mining operation and construction of stripping activities of the Group was approximately RMB208.2 million, as compared to approximately RMB164.9 million for the year ended 31 December 2017.

Exploration

For the Period Under Review, the expenditure directly relating to exploration was approximately RMB1.4 million, as compared to approximately RMB2.6 million for the year ended 31 December 2017. The Company was conducting drillings in the Lion Prospect. As at 31 December 2018, 10 holes totalling 2,844 meters in depth have been drilled.

Resources and Reserves

Mineral Resources and Ore Reserves were estimated as at 31 December 2013 in the Independent Technical Report submitted to the Stock Exchange in accordance with the requirements of Chapter 18 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the **Listing Rules**").

Mineral Resources and Ore Reserves have been estimated as at 31 December 2018, and are reported by Competent Persons in accordance with the guidelines in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" (2012 JORC Code) and Chapter 18 of the Listing Rules. Resources and Reserves were estimated as 31 December 2018 and using the updated geological models in combination with mining and processing data up to and including 31 December 2018.

Henxing Gold — Resources as at 31 December 2018

Category	**Tonnes** *(kt)*	**Gold Grade** *Au kg*	**Contained Gold** *(kg)*
Measured	20.070	0.77	15,380
Indicated	81,130	0.67	54,370
Total Measured + Indicated	101,200	0.69	69,750
Inferred	21,300	0.73	15,590
Total Including Inferred	122,500	0.70	85,790

Henxing Gold — Reserves as at 31 December 2018

Category	**Tonnes** *(kt)*	**Gold Grade** *Au kg*	**Contained Gold** *(kg)*
Proved	15,050	0.72	10,790
Probable	47,380	0.77	36,370
Total Proved + Probable	62,430	0.67	47,160

The Comparison of Resource Statement at 0.3 g/t Au Cutoff

Prospect	Category	**31 December 2018**			31 December 2013		
		Tonnes ***(kt)***	**Gold Grade** ***(g/t)***	**Contained Gold** ***(kg)***	Tonnes *(kt)*	Gold Grade *(g/t)*	Contained Gold *(kg)*
Yelmand	Measured	**1,520**	**0.60**	**910**	6,820	0.74	5,026
	Indicated	**12,770**	**0.69**	**8,810**	25,600	0.72	18,402
	Inferred	**5,320**	**0.69**	**3,690**	12,000	0.67	8,063
	TOTAL	**19,610**	**0.68**	**13,410**	44,400	0.71	31,490
Mayitobi	Measured	**290**	**0.73**	**210**	2,010	0.89	1,792
	Indicated	**750**	**0.81**	**610**	1,840	0.82	1,508
	Inferred	**520**	**0.74**	**390**	625	0.76	475
	TOTAL	**1,560**	**0.78**	**1,210**	4,480	0.84	3,775
Jinxi-Balake	Measured	**17,780**	**0.79**	**14,010**	14,800	0.76	11,274
	Indicated	**38,590**	**0.74**	**28,560**	38,200	0.75	28,698
	Inferred	**7,260**	**0.82**	**5,980**	10,800	0.76	8,156
	TOTAL	**63,630**	**0.76**	**48,550**	63,800	0.75	48,127
Kuangou	Measured	**–**	**–**	**–**	–	–	–
	Indicated	**9,770**	**0.84**	**8,180**	10,000	0.84	8,452
	Inferred	**6,040**	**0.71**	**4,270**	6,600	0.71	4,653
	TOTAL	**15,810**	**0.79**	**12,450**	16,600	0.79	13,105
Lion	Measured	**480**	**0.51**	**250**	–	–	–
	Indicated	**4,270**	**0.59**	**2,520**	4,550	0.55	2,510
	Inferred	**2,160**	**0.58**	**1,260**	1,880	0.57	1,077
	TOTAL	**6,910**	**0.58**	**4,030**	6,430	0.56	3,587
Stockpile	Measured	**–**	**–**	**–**	–	–	–
	Indicated	**14,980**	**0.38**	**5,690**	–	–	–
	Inferred	**–**	**–**	**–**	–	–	–
	TOTAL	**14,980**	**0.38**	**5,690**	–	–	–
TOTAL	Measured	**20,070**	**0.77**	**15,380**	23,630	0.77	18,092
	Indicated	**81,130**	**0.67**	**54,370**	80,190	0.74	59,569
	Inferred	**21,300**	**0.73**	**15,590**	32,180	0.70	22,423
	TOTAL	**122,500**	**0.70**	**85,790**	136,000	0.74	100,084

Resources were depleted due to mining (approximately 20Mt), with a further 7Mt of Inferred resources removed at Yelmand due to changes in the geological model. Approximately 1Mt of Resources were added at Jinxi-Balake from development drilling, although currently is not converted into open pit Reserves as it lies at depth. Around 15Mt of new resources are recognised in the low grade stockpile, which also reduced the average grade of the total resources.

The Comparison of Reserve Statement

Mining Method	Prospect	Category	**31 December 2018** Tonnes (kt)	**31 December 2018** Gold Grade (g/t)	**31 December 2018** Contained Gold (kg)	31 December 2013 Tonnes *(kt)*	31 December 2013 Gold Grade *(g/t)*	31 December 2013 Contained Gold *(kg)*
Open pit	**Yelmand**	Proved	**460**	**0.6**	**270**	5,330	0.73	3,870
		Probable	**660**	**0.54**	**360**	25,600	0.71	17,810
		TOTAL	**1,120**	**0.56**	**630**	30,330	0.72	21,680
	Mayitobi	Proved	**–**	**–**	**–**	1,560	0.89	1,400
		Probable	**–**	**–**	**–**	2,220	0.84	1,860
		TOTAL	**–**	**–**	**–**	3,780	0.86	3,260
	Jinxi-Balake	Proved	**14,590**	**0.72**	**10,520**	3,500	0.68	2,380
		Probable	**16,790**	**0.75**	**12,570**	47,300	0.74	35,100
		TOTAL	**31,380**	**0.74**	**23,200**	50,800	0.74	37,500
	Kuangou	Proved	**–**	**–**	**–**	–	–	–
		Probable	**8,790**	**0.85**	**7,440**	5,500	0.88	4,840
		TOTAL	**8,790**	**0.85**	**7,440**	5,500	0.88	4,840
	Stockpile	Proved	**–**	**–**	**–**	–	–	–
		Probable	**12,380**	**0.38**	**4,700**	–	–	–
		TOTAL	**12,500**	**0.38**	**4,700**	–	–	–
Underground	**Yelmand**	Proved	**–**	**–**	**–**	–	–	–
		Probable	**3,105**	**1.03**	**3,200**	–	–	–
		Total	**3,105**	**1.03**	**3,200**	–	–	–
	Jinxi-Balake	Proved	**–**	**–**	**–**	–	–	–
		Probable	**5,653**	**1.43**	**8,080**	–	–	–
		Total	**5,653**	**1.43**	**8,080**	–	–	–
TOTAL		Proved	**15,050**	**0.72**	**10,790**	10,390	0.74	7,650
		Probable	**47,380**	**0.77**	**36,370**	80,020	0.75	59,610
		TOTAL	**62,430**	**0.76**	**47,160**	90,410	0.74	67,280

The main changes of the Reserves since 2013 were:

- Approximately 22Mt @0.74g/t depletion due to mining.

- Approximately 26Mt reduction in Open Pit Reserves due to design changes based on revisions to the geological model and subsequent optimisation plan.

- Addition of 15Mt @0.38g/t stockpile Reserves added.

- Addition of approximately 9Mt Reserves in underground at Jingxi-Balake and Yelmand added.

Mine Development

For the year of 2018, the Company continued its construction and development activities in Gold Mountain Mine, including the construction of a testing heap leaching pad and the haul road in the Kuangou pit.

For the Period Under Review, the aggregate capital expenditure on the mine development and construction amounted to approximately RMB36.1 million, as compared to approximately RMB70.8 million for the year ended 31 December 2017.

Significant Investments, Acquisitions and Disposals

During the Period Under Review, the Group has no significant investments, acquisitions or disposals.

Final Dividend

The Directors recommend the payment of a final dividend of HK$0.1 per share in cash, totalling approximately HK$92,500,000 (for the year ended 31 December 2017: HK$143,375,000) for the year ended 31 December 2018. The proposed dividend is subject to approval by the Company's shareholders in the forthcoming annual general meeting to be held on 28 June 2019. It is intended that the dividend will be paid on 27 August 2019 to the Company's shareholders registered on 10 July 2019. Further information relating to the payment of the dividend will be made by the Company in due course.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 25 June 2019 to Friday, 28 June 2019, both days inclusive, in order to determine the identity of the shareholders who are entitled to attend the forthcoming annual general meeting to be held on Friday, 28 June 2019. All transfers documents accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Monday, 24 June 2019.

For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Tuesday, 9 July 2019 to Wednesday, 10 July 2019, both days inclusive. During the above period, no transfer of shares will be registered. In order to qualify for the entitlement to the proposed final dividend, subject to the approval of the shareholders at the annual general meeting, all transfers documents accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Monday, 8 July 2019.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance in the interests of the shareholders. The Company has adopted the Corporate Governance Code as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. The Company has complied with the Corporate Governance Code during the year ended 31 December 2018 and up to the date hereof.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Group has adopted The Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set forth in Appendix 10 to the Listing Rules as the code for securities transactions by the Directors. The Group has made specific enquiry with the Directors and all Directors have confirmed that they complied with the Model Code during the year ended 31 December 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2018, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

EVENTS AFTER THE PERIOD UNDER REVIEW

The Group had no material subsequent events after the Period Under Review.

REVIEW OF THE ANNUAL RESULTS

The audit committee of the Company (the "**Audit Committee**") has been established in compliance with Rule 3.21 and Rule 3.22 of the Listing Rules and with written terms of reference in compliance with the CG Code. The Audit Committee consists of three independent non-executive Directors, namely Ms. WONG, Yan Ki Angel, Dr. PAN Guocheng and Dr. Tim SUN. Ms. WONG, Yan Ki Angel serves as the chairman of the Audit Committee.

The Audit Committee has reviewed the Group's audited consolidated financial statements for the year ended 31 December 2018 and has also reviewed and confirmed the accounting principles and practices adopted by the Group and discussed the auditing, internal control and financial reporting matters.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated balance sheet consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in this announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

PUBLICATION OF THE AUDITED CONSOLIDATED ANNUAL RESULTS AND 2018 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.hxgoldholding.com). The annual report containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the shareholders and available on the same websites in due course.

By order of the Board
Hengxing Gold Holding Company Limited
KE Xiping
Chairman

Hong Kong, 29 March 2019

As at the date of this announcement, the executive directors of the Company are Mr. KE Xiping, Ms. YANG Yifang (Lydia YANG), Mr. CHEN, David Yu and Mr. KE Jiaqi, the non-executive director of the Company is Mr. Albert Fook Lau HO and the independent non-executive directors of the Company are Ms. WONG, Yan Ki Angel, Dr. Tim SUN and Dr. PAN Guocheng.