恒興黃金
HENGXING GOLD

HENGXING GOLD Holding Company Limited

(incorporated in the Cayman Islands with limited liability)
Stock Code : 2303

ANNUAL REPORT 2018

CONTENTS

2 Corporate Information
3 Corporate Profile
4 Chairman Statement
6 Management Discussion and Analysis
17 Corporate Governance Report
25 Environmental, Social and Governance Report
45 Board of Directors and Senior Management
49 Report of Directors
59 Independent Auditor's Report
63 Consolidated Statement of Profit or Loss and Other Comprehensive Income
64 Consolidated Balance Sheet
66 Consolidated Statement of Changes in Equity
67 Consolidated Statement of Cash Flows
68 Notes to the Consolidated Financial Statements
128 Five Years Summary
129 Definitions

Corporate Information

Directors

Executive directors

Mr. Ke Xiping (柯希平) *(Chairman)*
Ms. Yang Yifang *(Lydia Yang, 楊宜方, President)*
Mr. Chen, David Yu (陳宇)
Mr. Ke Jiaqi (柯家琪)

Non-executive director

Mr. Albert Fook Lau Ho (何福留)

Independent non-executive directors

Ms. Wong, Yan Ki Angel (黃欣琪)
Dr. Pan Guocheng (潘國成)
Dr. Tim Sun (孫鐵民)

Audit Committee

Ms. Wong, Yan Ki Angel (黃欣琪) *(Chairlady)*
Dr. Pan Guocheng (潘國成)
Dr. Tim Sun (孫鐵民)

Remuneration Committee

Dr. Pan Guocheng (潘國成) *(Chairman)*
Mr. Ke Xiping (柯希平)
Ms. Wong, Yan Ki Angel (黃欣琪)

Nomination Committee

Dr. Tim Sun (孫鐵民) *(Chairman)*
Ms. Yang Yifang (Lydia Yang, 楊宜方)
Ms. Wong, Yan Ki Angel (黃欣琪)

Company Secretary

Ms. Wong Wai Ling (黃慧玲) *(ACIS, ACS)*

Authorised Representatives

Ms. Yang Yifang (Lydia Yang, 楊宜方)
Mr. Albert Fook Lau Ho (何福留)

Principal Share Registrar

Estera Trust (Cayman) Ltd.
Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman, KY1-1108
Cayman Islands

Hong Kong Branch Share Registrar

Tricor Investor Services Limited
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Hong Kong

Registered Office

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Grand Cayman, KY1-1108
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Principal Place of Business and Operating Head Office in China

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China

Principal Place of Business in Hong Kong

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Hong Kong

Company's Website

www.hxgoldholding.com

Place of Listing and Stock Code

The Stock Exchange of Hong Kong Limited
2303

Auditor

PricewaterhouseCoopers
Certified Public Accountants

Legal Adviser

As to Cayman Islands law:

Estera Trust (Cayman) Ltd.

Principal Bank

Agricultural Bank of China Limited
No. 77 Airport Road
Yining City 835000
China

Corporate Profile

Hengxing Gold Holding Company Limited (the "**Company**") and its subsidiaries (collectively, the "**Group**") have been listed on the main board (the "**Main Board**") of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 29 May 2014 (Stock code: 2303).

The principal business objectives of the Company are to explore, develop and operate gold projects. The Company is currently operating the Gold Mountain Mine (as defined in the prospectus dated 19 May 2014 of the Company), the largest individual gold mine in Xinjiang, China in terms of annual ore processing capacity and gold production volume. For the year ended 31 December 2018 (the "**Period Under Review**"), the Gold Mountain Mine produced 98,228 ounces of gold and processed approximately 6.6 million tonnes of ore.

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. 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.

Chairman Statement

Dear shareholders,

On behalf of the Board of Directors of Hengxing Gold Holding Company Limited, I am pleased to present the interim report of the Company for the year ended on 31 December 2018 and express my gratitude for our shareholders along the way for your continuous support and trust.

The past 2018 has indeed been an extraordinary year. Some economists mentioned 2018 as the worst year for the economy in the past decade and the toughest year for private companies. However, under such circumstances, with the joint efforts of all colleagues, the Group has not only effectively fended off business risks, but also achieved good performance in 2018.

As I look back on the last 12 months I would like to congratulate our management team that we achieved our cost and production guidance, including record production at Gold Mountain Mine for a third consecutive year at 98,228 ounces, rose 16% over the same period last year and with a competitive AISC at RMB150.6/gram (equivalent to US$682/oz with exchange rate of RMB6.8632/US$ as at 31 December 2018. The revenue from gold sales is RMB830 million and net profit after tax is RMB261 million for the year ended 31 December 2018, increased by 11% and 8.6% respectively compared to those of last year. Meantime we maintained a strong balance sheet, finishing the year with over RMB300 million in available liquidity with a debt ratio of 17%.

Chairman Statement

We are continuously engaging with the local government and other key stakeholder groups that are interested in and affected by different aspects of our business. Our focus is on sustainable development and to demonstrate the Group's commitment to the environment and local communities which may be affected by our operations.

In 2019, the Group will focus on delivering shareholder value through operational improvements, advancement of engineering, and a diversified asset portfolio. We expect 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. Taking advantage of this opportunity, the Group will maintain its strategy to continue seeking opportunities of quality assets to strengthen the Group's asset portfolio and resource base.

At last, on behalf of the Board of Directors, I would like to express my sincere gratitude to all employees for their efforts and contributions and to stakeholders in our local community for their support and cooperation. We look forward to sharing an exciting year of 2019 with all of you.

Yours sincerely,

KE Xiping
Chairman

29 March 2019

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 annual report. 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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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

Management Discussion and Analysis

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 10 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.

Management Discussion and Analysis

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 RMB'000	31 December 2017 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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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

Management Discussion and Analysis

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

		31 December 2018			31 December 2013		
Prospect	**Category**	**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.

Corporate Governance Report

Corporate Governance Practices

The Board has committed to maintain high standards of corporate governance and procedures to ensure integrity, transparency and quality of disclosure in order to promote the ongoing development of the best long term interest of the Company and enhance value for all the shareholders.

The Company has adopted the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules on the Stock Exchange as its corporate governance code of practices and complied with all the code provisions set out in the CG Code throughout the Period Under Review.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions.

The Company has made specific enquiry of all directors of any non-compliance with the Model Code during the Period Under Review, and they have all confirmed their full compliance with the required standard as set out in the Model Code.

The Board

The overall management of the Company's business is vested in the Board. The major responsibilities of the Board include formulation of strategic plans, adoption of corporate strategies, assessment of investment projects, monitoring and controlling the Group's operating and financial performance, assessment and management of risk to which the Group is exposed. The managements of the Group are responsible for the execution of the Board's decisions and day-to-day operation of the Group.

Composition

As at 31 December 2018 the Board consists of 8 Directors, with 4 executive Directors, namely Mr. Ke Xiping (chairman), Ms. Yang Yifang (president), Mr. Chen, David Yu and Mr. Ke Jiaqi, 1 non-executive Director Mr. Albert Fook Lau Ho, and 3 independent non-executive Directors, namely Dr. Tim Sun, Ms. Wong, Yan Ki Angel, and Dr. Pan Guocheng.

Mr. Ke Xiping is the father of Mr. Ke Jiaqi. Save as aforesaid, none of the Directors of the Company are related. Relationships include financial, business, family or other material relationships. The Company's Directors are free to exercise their independent judgment.

During the Period Under Review, the positions of the chairman and president were held separately. The role of chairman was held by Mr. Ke Xiping while the role of president was held by Ms. Yang Yifang. The segregation of duties of the chairman and president ensures a clear distinction in the chairman's responsibility to manage and provide leadership for the Board and the president's responsibility to manage the Company's business.

The Company has appointed a sufficient number of independent non-executive Directors with suitable professional qualifications, such as expertise in gold mining and production, law, and accounting and financial management, in accordance with the requirements of the Listing Rules. They actively bring their valuable experience to the Board for promoting the best interests of the Company and its shareholder. The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. During the Period Under Review, the Board has at all times met the requirements of Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise, and independent non-executive Directors representing at least one-third of the Board.

Corporate Governance Report

As permitted under the articles (the "**Articles**") of association of the Company, the Company has arranged directors' and officers' liability insurance for which members of the Board and officers of the Company do not have to bear any excess.

The term of office of the Directors (including independent non-executive Directors) is 3 years. In accordance with the Articles, at each annual general meeting of the Company, one third of the Directors for the time being (or, if their number is not a multiple of 3, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Directors shall be subject to retirement at an annual general meeting at least once every three years.

During the Period Under Review, the Company held four Board meetings and one general meeting. The attendance of individual Directors during the year is as follows:

Attendance record for the Board meetings during the year ended December 31, 2018	**Number of Board Meetings attended/held**	**Number of general meetings attended/held**
Executive Directors		
Ke Xiping	4/4	1/1
Yang Yifang *(Note 1)*	3/3	1/1
Chen, David Yu	4/4	1/1
Ke Jiaqi *(Note 1)*	3/3	1/1
Non-executive Director		
Albert Fook Lau Ho	4/4	1/1
Independent Non-Executive Directors		
Tim Sun	4/4	1/1
Wong, Yan Ki Angel	4/4	1/1
Pan Guocheng *(Note 2)*	3/3	1/1
Xiao Wei *(Note 3)*	1/1	N/A

Notes:

1. Ms. Yang Yifang and Mr. Ke Jiaqi were appointed as executive Directors on 1 June 2018.

2. Dr. Pan Guocheng was appointed as an independent non-executive Director on 1 June 2018.

3. Mr. Xiao Wei resigned as an independent non-executive Director since 1 June 2018.

The draft minutes are circulated to all members of the Board for their comments and the final version of the minutes is sent to all members of the Board for their records within a reasonable time after the meeting. The minutes are also open for inspection by all members of the Board at the Company's principal place of business in China.

Corporate Governance Report

Directors' Continuous Professional Development

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. A summary of training received by Directors during the relevant period according to the records provided by the Directors is as follows:

	Training on corporate governance, regulatory development and other relevant topics
Executive Directors	
Ke Xiping	✓
Yang Yifang	✓
Chen, David Yu	✓
Ke Jiaqi	✓
Non-executive Director	
Albert Fook Lau Ho	✓
Independent Non-Executive Directors	
Tim Sun	✓
Wong, Yan Ki Angel	✓
Pan Guocheng	✓

Board Committees

Audit Committee

The Company has established the audit committee (the "**Audit Committee**") under the Board. The Audit Committee comprised three independent non-executive Directors, namely Ms. Wong, Yan Ki Angel, who serves as chairlady of the committee, Dr. Tim Sun and Dr. Pan Guocheng.

The Audit Committee's duties are mainly to review the Company's financial reports, make recommendations on the appointment, removal and remuneration of independent auditors and approve audit and audit-related services, supervise the Company's internal financial reporting procedures and management policies, and review the Company's risk management and internal control systems as well as the internal audit function.

At least two meetings of the Audit Committee will be convened annually to review the accounting policies, internal control and the relevant financial and accounting issues, so as to ensure fairness and accuracy of the Company's financial statements and other relevant information. The draft minutes are circulated to the committee members for comments and the final version of the minutes is sent to the committee members for their records within a reasonable time after the meeting. The minutes are also open for inspection by the committee members at the Company's principal place of business in China.

During the Period Under Review, the Company held two Audit Committee meetings to review the 2017 annual and 2018 interim financial result and report, financial reporting and compliance procedures and amendments to its terms of reference. All members of the Audit Committee have attended all Audit Committee meetings during the year.

Remuneration Committee

The Company has established the remuneration committee (the "**Remuneration Committee**"). The Remuneration Committee consists of two independent non-executive Directors, namely Dr. Pan Guocheng, who serves as chairman of the committee, Ms. Wong, Yan Ki Angel and one executive Director, Mr. Ke Xiping. The Company has formulated written terms of reference for the Remuneration Committee in accordance with the requirements of the Listing Rules.

The Remuneration Committee is responsible for ensuring formal and transparent procedures for developing remuneration policies and in overseeing and evaluating remuneration packages of the Directors. Its duties include making recommendations to the Board on the remuneration packages of individual executive Directors and senior management (that is, the model described in the code provision B.1.2(c)(ii) of the CG Code is adopted). The remuneration of a Director is determined with reference to his or her duties and responsibilities with the Company and the prevailing market situation.

Details of the emoluments of Directors during the Period Under Review are set out in note 42 to the financial statements of this annual report.

During the Period Under Review, there were two Remuneration Committee meetings held to review the policy and structure for the directors and senior management, assess performance of the directors and review their remuneration. All members of the Remuneration Committee attended all Remuneration Committee meetings.

Nomination Committee

The Company has established the nomination committee (the "**Nomination Committee**") under the Board. Members of the Nomination Committee consists of two independent non-executive Directors, namely Dr. Tim Sun, who serves as chairman of the committee, and Ms. Wong, Yan Ki Angel and one executive Director, Ms. Yang Yifang.

The primary duties of the Nomination Committee are to identify, screen and recommend to the Board appropriate candidates to serve as directors of the Company, to oversee the process for evaluating the performance of the Board and to develop, recommend to the Board and monitor nomination guidelines for the Company.

During the Period Under Review, there was one Nomination Committee meeting held to review and discuss the Company's nomination policy, board diversity policy, independence of the independent non-executive directors, the structure size and composition of the Board and make recommendation to the Board on the re-appointment of Directors. All members of the Nomination Committee attended the Nomination Committee meeting.

Nomination Policy

The board approved the Company's Nomination Policy on 29 March 2019, in which set up the Selection Criteria and nomination procedures.

(i) Objective

The Nomination Committee shall nominate suitable candidates to the Board for it to consider and make recommendations to the Shareholders for election as the Directors at general meetings or appoint as Directors to fill casual vacancies.

The Nomination Committee may, as it considers appropriate, nominate a number of candidates more than the number of Directors to be appointed or reappointed at a general meeting, or the number of casual vacancies to be filled.

(ii) Selection Criteria

In assessing a proposed candidate for the recommendation of appointment or re-appointment of the members of the Board, the factors would be used as reference by the Nomination Committee include but not limited to the following:

(a) integrity;

(b) accomplishment and experience in the industry of which the Company is a part;

(c) commitment in respect of available time and relevant interest;

(d) diversity in all its aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;

(e) fulfilment of independence guidelines for the appointment of independent non-executive Directors as set out in Rule 3.13 of the Listing Rules; and

(f) any factors as the Nomination Committee or the Board may from time to time consider appropriate.

The Nomination Committee will ask proposed candidates to submit the necessary personal information in a prescribed form.

The Nomination Committee may request candidates to provide additional information and documents, if considered necessary.

(iii) Nomination Procedures

The secretary of the Nomination Committee shall call a meeting of the Nomination Committee, and invite nominations of candidates from the members of the Board, if any, for consideration by the Nomination Committee prior to its meeting. The Nomination Committee may also put forward candidates for consideration.

In the context of appointment of any proposed candidate to the Board, the Nomination Committee shall undertake adequate due diligence in respect of such individual candidate and make recommendations for the Board's consideration and approval.

In the context of re-appointment of any existing members of the Board, the Committee shall make recommendations to the Board for its consideration and recommendation, for the proposed candidates to stand for re-election at a general meeting.

Please refer to the "Procedures for Shareholders to propose a person for election as a Director", which is available on the Company's website, for procedures for Shareholders' nomination of any proposed candidate for election as a Director.

The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at a general meeting.

Board Diversity

With a view to enhancing the Board effectiveness and corporate governance, the Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors) so that there is a strong independent element on the Board, which can effectively exercise independent judgment.

The Company has adopted the Board Diversity Policy with measurable objectives. The Nomination Committee evaluates the balance and blend of skills, experience and diversity of perspectives of the Board. Selection of candidates is based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge, length of services and other qualities essential to the Company's business, and merit and contribution that the selected candidates will bring to the Board. The Nomination Committee and the Board will review such measurable objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

Remuneration of the Members of the Senior Management by Band

Pursuant to paragraph B.1.5 of the CG Code, the remuneration of the senior management by band for the year ended 31 December 2018 is set out below:

Remuneration band	Number of individuals
Within HK$1,000,000	2
HKD 1,000,000—HKD 2,000,000	2

Corporate Governance Function

The Board recognizes that corporate governance should be the collective responsibility of Directors and their corporate governance duties include:

(i) to develop and review the Company's policies and practices on corporate governance;

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

(iii) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

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

(v) to review the Company's compliance with the code provisions of the CG Code and disclosure in the corporate governance report under the Listing Rules.

The Board has reviewed the Company's policies and practices on corporate governance and this corporate governance report.

Directors' Responsibility for the Financial Statements

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Company and ensure that they are prepared in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of such financial statements.

The Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Directors have prepared the financial statements of the Company on a going concern basis.

The statement of the external auditor of the Company, PricewaterhouseCoopers, with regard to their reporting responsibilities on the Company's financial statements is set out in the Auditor's Report on pages 59 to 62.

Auditors' Remuneration

The remuneration paid/payable to the Company's external auditors (including any entity under common control, ownership or management with the external auditors or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally) during the Period Under Review is as follows:

Nature of Services Rendered	**For the year ended 31 December 2018 Fees paid/payable (RMB'000)**
Audit services	
Annual audit	**800**
Non-audit services	
Interim review	**440**
Total	**1,240**

Risk Management and Internal Control

The Board has overall responsibilities to maintain a sound and effective risk management and internal control systems of the Group to safeguard the shareholders' investment and the Company's assets. The risk management and internal control system provides for risk assessment tools, controls for risks that commonly occur in the Company and monitoring and reporting procedures. The Group has established guidelines and procedures for the approval and control of expenditure. Operating expenditures and capital expenditures are subject to the overall budget control and approval process prior to commitment.

The Board has, together with the Audit Committee of the Company, conducted the annual review of the effectiveness of the Company's risk management and internal control systems for the Period Under Review and been satisfied with its effectiveness and adequacy. The review covered all material controls including financial, operational and compliance controls as well as the adequacy of resources, staff qualifications and experience training programs and budget of the Company's accounting and financial reporting function. There were no significant control failings, weaknesses or significant areas of concern identified during the year.

The Company has an internal audit function, which carries out the analysis and independent appraisal of the adequacy and effectiveness of the Company's risk management and internal control systems. The Board has, together with the Audit Committee of the Company, conducted the annual review of the effectiveness of the Company's internal audit function and been satisfied with its effectiveness.

Corporate Governance Report

Company Secretary

The Company's company secretary, Ms. Wong Wai Ling, is responsible for facilitating the Board process, as well as communications among Board members, with shareholders and management. Ms. Wong's principal corporate contact person at the Company is Mr. Chen Yu David, the executive Director. Ms. Wong Wai Ling's biography is set out in the "Board of Directors and Senior Management" section on page 48. During the Period Under Review, Ms. Wong Wai Ling took not less than 15 hours of relevant professional training to update her skills and knowledge.

Dividend Policy

On 29 March 2019, the Board has adopted a dividend policy, pursuant to which declaration and payment of dividends shall always remain to be determined at the sole discretion of the Board. In deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account the Company and each of the members of the Group's earning performance, financial position, investment requirements and future prospects as well as any other factors that the Board may deem appropriate.

Any dividends declared by the Company shall be approved by an ordinary resolution of Shareholders at an annual general meeting and shall not exceed the amount recommended by the Board. Dividends may be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the applicable law and regulations.

The Board will review the dividend policy from time to time and may make appropriate changes if considered necessary.

Communication with Shareholders

The Company's annual general meeting and extraordinary general meeting (if any) provide the principal channels of communication with its shareholders. They provide opportunities for shareholders of the Company to share views with the Board.

Shareholders' Rights

Convening extraordinary general meeting and putting forward proposals at Shareholders' meetings

Under the Company's Articles, the Board, on the requisition of shareholders of the Company holding not less than one-tenth of the paid up capital of the Company by sending a written notice to the Board or the company secretary at the Company's principal place of business in Hong Kong, shall convene an extraordinary general meeting to address specific issues specified in such requisition of the Company within 21 days from the date of deposit of written notice. The same requirement and procedure also apply to any proposal to be tabled at shareholders' meetings for adoption.

Enquiries to the Board

Enquiries may be put to the Board through the Company's principal place of business in Hong Kong at Suite 3203, 32/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong (email: hxgold@xmhxgroup.com).

Constitutional Documents

During the Period Under Review, there is no change in the Company's constitutional documents.

Environmental, Social and Governance Report

About This Report

This report is prepared in accordance with Appendix 27 "Environmental, Social and Governance Reporting Guide" of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**") in order to principally give a description on the performance in the aspect of corporate social responsibilities by Hengxing Gold Holding Company Limited (the "**Company**" or "**we**", "**our**" or "**us**") during 2017. In this report, the gold mining business owned by the Group is covered.

Task Force of the Group in Relation to Health, Safety, Environment and Community ("SHEC")

The Group has established a task force that involves all levels from the board of directors of the Company (the "**Board**") to the production workshops at each to address issues in relation to SHEC. The Board of the Company oversees the performance of the Group concerning SHEC. A safety and environment department has been established at Gold Mountain Mine with dedicated personnel to deal with and monitor the related issues. We provide guidance and monitoring over the mines in respect of related matters. During 2017, the Company further streamlined the SHEC task force, leading to clear division of responsibility, satisfactory performance and effective overseeing.

Stakeholders' Involvement

The Company is committed to creating a win-win community for all parties, with an aim to promote the harmony and mutual prosperity between the Company and the associated organisations and individuals including investors, employees, customers, partners, communities, the public and governments (referred to as the "**Stakeholders**"), thereby achieving the maximum of social integrated benefits (including the maximum of enterprise earnings). Therefore, various channels are offered to the Stakeholders for participating in the operation of the Company, as well as understanding and supervising our operation conditions.

1. Shareholders and Investors

The Company communicates with market analysts, fund managers and other investors on a regular basis, and encourages its shareholders to attend and vote in person or by proxy at general meetings.

During 2018, there was one team of potential investors conducting site visit at our mines.

2. Customers

The sales of Luoyang Yinhui Gold Refinery Company Limited (洛陽銀輝黃金冶煉有限公司), the Company's top customer, has accounted for 98.4% of the Company's sales. The Company maintains close relationship, and often communicates and shares its opinions with the customer by ways of telephone, meetings or visits.

3. Government

During 2018, Gold Mountain Mine in aggregate received over twenty times of site visits, check or investigation concerning areas such as production safety, environment protection and seminars by various local government authorities in Xinjiang. Subsequent to these checks or investigations, the Company always proactively took actions per the government authorities' opinions, and gave them timely feedbacks.

4. Community and Public

Please see the paragraphs entitled "Community Engagement" in the report for details.

5. Banks/Financial Institutions

There were in aggregate 2 banks conducting site visits at our mines during 2018. The Company proactively responded to the post-loan tracking by the banks and financial institutions by means of phone interviews, visits, information providing, site visits to mines and enquiries, and addressed the concerns raised and provided files and informations required by them on a timely basis.

6. Industry Peers

During 2018, the Company actively attended mining industry conferences to strengthen its communication and experience sharing as well as to analyze the industry development and trends with its peers. Details of the conferences include:

(1) the Mines and Money event held in Hong Kong in April 2018;

(2) the 8th Annual Precious Metals Summit Colorado held in Denver, the United States in September 2018; and

(3) the gold forum held in Denver, the United States in September 2018.

During those conferences, the Company was promoted while industry peers were invited for a site visit at our mines. During the year, there were in aggregate two industry peers visiting the Gold Mountain Mine for on-site communication.

Environment Protection

The Group strictly complies with environmental regulations, prevents environmental pollution, promotes energy conservation and waste reduction, utilizes resources reasonably, emphasizes on continuous improvement and develops green mines. The main objectives for the Group to carry out environment operations are to strictly control the total amount of exhausting pollutants, such as waste water, waste residue and waste gas within target; implementing energy saving and consumption reduction, and launching comprehensive utilization of resources; putting an end to major pollution accidents and major environmental complaints. The Group is committed to resolutely complete the restrictive indicators of energy saving and emission reduction, strictly abiding by environmental laws and regulations, practically strengthening pollution prevention and control; strengthening the commitment of energy saving and consumption reduction and the level of technology transformation, ensuring the full realization to the goals of energy saving and consumption reduction; enhancing the operation management towards pollution management facilities, ensuring the exhaustion achieving the goal; actively implementing the clean production in each step, such as procurement, production, transportation and sales, raising the comprehensive utilization rate of resources, reducing the emission of pollutants, and ensuring zero existence of environment pollution incidents; firmly instilling the awareness of environment, resolutely realizing the indicators of environment protection, and accepting the supervision from the society. With the improvement of the industry standards, we promise further reducing the exhaustion of pollutants, increasing the investment in environmental protection, so that the enterprise environment protection level can keep up with the trend, and letting each pollutant exhausting indicators stay in the leading role in the industry, trying our best to formulate "resource-saving and environment-friendly" enterprise.

I. Emission

1. *Pollutant standards and emissions*

The main emissions in the gold production process of the Company include: dead rock, dust, noise, sulfur dioxide, nitrogen oxide, smoke and slag, in which the sulfur dioxide and nitrogen oxide are emissions generated from boiler heating for winter heating. In 2018, Gold Mountain Mine has commissioned the Environmental Monitoring Station of Ili Prefecture to monitor pollutant emission on a regular basis, and according to the regular monitoring report, exhaust gas emission and noises from Jinchuan Mining are effectively managed, whereby meeting the relevant standards steadily.

In terms of waste gas control, two SZL10-1.25-AII horizontal coal-fired steam boilers are placed in the boiler room, where two sets of SF-10 composite water film desulfurizing dust separators are installed, thus enabling the flue gas from the boilers to be finally discharged into the atmosphere through the 40-meter high iron chimney after being de-dusted and desulfurized. The system transformation of the environmental facilities and equipment of the boilers has highly improved the purifying rate of the desulfurization equipment. A JLMP6C-550 gas-box pulse bag dust collector with an exhaust funnel of 15 meters high has been installed outside the coarse crushing workshop. A JLCM340-6 long-bag low-pressure pulse-jet dust collector with an exhaust funnel of 15 meters high has been installed outside the moderate and fine crushing workshop. A JLCM340-6 long-bag low-pressure pulse-jet dust collector with an exhaust funnel of 15 meters high has been installed outside the screening workshop.

Emission of Major Waste Gas Pollutants in 2018

Type of pollutant	Unit	Emission in 2018	Emission in 2017
Smoke	Kg	**2,300**	47,029
Sulfur dioxide	Kg	**19,246**	46,485
Nitrogen oxide	Kg	**5,280**	40,224
Dust	Kg	**20,757**	155,874

The Company places great emphasis on waste management during our production and operation, requiring the use of "low harm" raw materials with low toxicity and less waste generated as long as possible from the beginning. In terms of the working process, improvement will be made on the work flow such as design and operating conditions, along with a uplift of both the conversion rate of raw materials and the product yield. At the end, optimization will be made for resources reuse so as to reduce waste generation. The waste generated shall be managed relentlessly in accordance with the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste, with a view to minimizing the impact of waste on the environment. The Company strictly identifies and manages hazardous wastes with reference to the new edition of the National Catalogue of Hazardous Wastes, and diligently carries out our operations such as temporary storage, transit and safe disposal of hazardous wastes in accordance with the "Standard for Pollution Control on Hazardous Waste Storage" (GB18597-2001) and the "Administrative Measures for the Transfer of Hazardous Wastes" (危險廢物轉移聯單管理辦法). Work on the temporary storage, transfer and safe disposal of waste.

Environmental, Social and Governance Report

In 2018, the Company's general industrial solid waste and hazardous waste were safely disposed or comprehensively utilized with the disposal rate reaching 100%. The industrial solid waste generated from mining at our mines is mainly waste rock, which is concentrated at the dump. General industrial solid wastes such as cinders derived from the Company's operations are piled in legal slag tips or comprehensively utilized. The cyanide tailings generated during ore processing are concentrated in our heap leach pad which is seepage proof. Waste oil generated because of machine repair in our moderate and fine crushing workshop, coarse crushing workshop and screening workshop, activated carbon powder generated during the use of activated carbon regeneration loop, sludge with high level of metal content generated as a results of the neutralization of acid cleaning wastewater, packaging materials left after the exhaustion of sodium cyanide and other hazardous waste take priority when it comes to comprehensive utilization within the plant. The hazardous wastes such as waste engine oil as well as those which have not yet started to be reused and other hazardous wastes will be stored en masse, and will be properly disposed of by a qualified external party when the storage has reached a certain level.

Treatment and Disposal of General Industrial Waste and Hazardous Waste in 2018

Nature of waste	Type of waste	Unit	Production	Rate of disposal	Remark
General solid waste	Waste mineral oil	Tonne	7.4	100%	Internal utilization rate of 25%
Hazardous waste	Activated carbon powder	Tonne	45.7	100%	Commission external entities to dispose of the waste in a professional manner
Hazardous waste	Sludge produced by acid cleaning wastewater	Tonne	40.8	100%	Commission external entities to dispose of the waste in a professional manner
Hazardous waste	Heap leaching slag	10,000 tonnes	500	100%	Heaped centrally
Hazardous waste	Packing bags made of sodium cyanide	Tonne	1.3	100%	Placed at the bottom of heap leach pad for penetration proof after cyanide destruction
General industrial waste	Waste rock	10,000 cubic meters	909	100%	Heaped centrally

2. Emission of greenhouse gas

Climate change has become a major challenge to the world. As a mining company, the Group has set greenhouse gas emission reduction as one of its top priorities. The Group insists on a green office path, and reduces emissions by reducing business travel, encouraging telephone conferences, promoting a paperless office, and reducing the use of printers.

The main sources of greenhouse gas emissions of the Group in 2018 included the direct emissions from the burning boilers as well as the gasoline and diesel oil consumed by construction vehicles and self-owned vehicles and the indirect energy emissions from the electricity purchased.

Scope	Source	Emission in 2018 (Tonnes)	Emission in 2017 (Tonnes)
Direct emission	Coal consumed by boilers	12,896	10,574
Direct emission	Gasoline and diesel oil	22,425	14,656
Indirect emission	Electricity purchased	32,041	25,741
Total		67,361	50,971

3. Clean production implementation

In accordance with the Law of the People's Republic of China on Promoting Clean Production, Jinchuan Mining actively implements its clean production in accordance with the requirements of the local environmental authorities, aiming at reducing consumption, energy conservation, emission reduction and efficiency enhancement, and will tie the concept of clean production up with production, management and operation. By increasing the carbon recovery unit, the amount of carbon powders in barren solution is greatly reduced, resulting in a decrease in the "lost gold" brought about by the carbon powders and a boost in the metal recovery rate. The low content level of carbon powders in the barren solution can reduce the blockage of the trickling filters, ensure the smooth flow inside, prolong their service life, and thus decrease the direct material cost. By remodeling the bottom of the barren solution tank, the screen is no longer needed, completely eliminating the problems arising from its irregular replacement and the cleaning of the activated carbon accumulated at the tank bottom after the its shut-down. This not only saves materials, but also substantially lessens the workload of workers and improves the machine operation factor, whereby highly deepening the adsorption effect of each unit of activated carbon. Meanwhile, the recovered carbon powders contains gold, thus increasing the amount of gold recovered and creating an output value of 4.72 million yuan per year for the Company. In March 2016, the Environmental Protection Bureau of Yili Prefecture (伊犁州環保局) approved the clean production inspection of Jinchuan Mining by the Yizhou Environmental Control Letter [2016] No. 17 (伊州環控函[2016]17號文).

4. *Management methods for emissions*

(1) Management and comprehensive utilization of stripped earth and rock: In the stripping operation, topsoil and waste rocks are stripped and piled at the humus storage yard and the waste dump separately. The Company manages and monitors, on a daily basis, the piles of waste rock and soil at the waste dump, in order to prevent flying dusts as well as water and soil erosion. Soil and stone separated may be used for reclamation, backfilling and construction of roads. Stripped waste rocks may be filled into the bottom of mine pits, and large rocks may be used for repair and construction of drains, while stripped topsoil is collected in a centralized manner and may be laid on the surface of mine pits during reclamation, which is helpful for the growth of vegetation and environmental restoration.

(2) Management and comprehensive utilization of heap leaching slag: Heap leaching slag is stored at the leach pad, the actual design, construction and management of which all comply with the relevant requirements set forth in the "Standard for Pollution Control on Hazardous Waste Storage" (GB18579-2001). The leach pad has a penetration proof layer at the bottom, with a structure comprising a compacted foundation +5,000g/m^2 GCL (with a hydraulic conductivity lower than 1×10-9 cm/s) + 1.5mm HDPE +600g/m^2 nonwoven geotextiles in order from the bottom up. At the downstream of the leach pad, there are two 60,000 m^3 flood control ponds, with a total volume of 1.03×105 m^3, which are mainly used to contain the rain-driven flood that contains cyanogen at the leach pad. The Company manages and monitors the leach pad on a daily basis to keep the safe operation thereof.

(3) Dust prevention and removal measures: The Company attaches importance to dust control, continuously upgrades and renovates the processing plant, and has adequate facilities and management measures for energy saving, emission reduction, dust prevention and noise reduction. For example, pulse-jet bag-house dust collectors and closed hoods are used to remove dusts, high-pressure sprays are used to reduce dust, and inhalable dusts are monitored and the ventilation system is maintained on a regular basis to ensure that the quality of air at the workplace meets the national requirements. For the stope and the ore transportation roads, sprinklers are used to reduce dusts by sprinkling water thereon. Bag-house dust collectors are equipped at the stages of crushing and screening at the processing plant and at the main plants and other workshops, spraying devices are installed at the gathering sill of the feed opening of each belt, and various measures such as high-standard emission are adopted to reduce the dusts from production, thus contributing to a dust removal rate of 98%.

(4) Noise reduction measures: The Company optimizes blasting design, conducts technical process transformation, uses low noise equipment, makes interior disposition for high noise sources, installs shock pads on crushing, screening and other equipment, and takes other measures to mitigate damages caused by noise, enabling the Company to meet the requirements of the "Emission Standard for the Noise at the Boundaries of Industrial Enterprises" (工業企業廠界雜訊標準) (GB12348-90).

(5) Recycling of wastewater with zero discharge: The wastewater generating sources of the Company mainly include the wastewater generated during processing and smelting processes, domestic sewage, water at open pit and rain-driven flood at the leach pad. The Company strictly follows the environmental impact assessment and the requirements set forth in the reply to the environmental impact assessment, and recycles the wastewater generated during the processing and smelting processes to reuse during the production process instead of discharging to the outside. An integrated buried domestic sewage treatment station is built in the working and living area of the Company, which adopts an A/O biological contact oxidation process and has a designed sewage treatment capacity of 720m^3/d. The domestic sewage is discharged into the 200 m^3 clear water tank after meeting the standards subsequent to relevant treatment, which is later used for greening, watering and dust reduction in the mining area, and is discharged in winter into the barren solution tank of the cyanide smelting plant as supplementing water for the leach pad, thus realizing complete recycling of the wastewater with zero discharge to the outside. The water at open pit mainly comes from the rain, and the Company has four sprinklers for sprinkling and greening in the mining area. The leach pad is designed to adopt a "clean water and waste water shunting" drainage system, with two flood control pools constructed in accordance with the standards that could promise safety for 100 years, which have a total volume of 1.03×105 m^3, and are used to temporarily store the cyanogen-containing flood that is caused by the rainstorm and is to be used later as the heap leaching solution.

(6) Reduction of off-gas emissions: The Company selects and uses diesel-powered equipment compliant with national emission standards in a reasonable fashion, and switches off equipment not running for a long time in a timely manner, so as to reduce its off-gas emissions.

(7) Treatment of domestic waste: Domestic waste produced from the accommodation area will be buried after treatment in septic tanks if it is perishable, or removed to the refuse depot for disposition if it is non-perishable. The Company promotes waste sorting and forbids employees to throw away or burn domestic waste at will.

II. Consumption of Resources

1. Consumption of mineral resources

Mineral resource is the living basis and development power of mineral development enterprises. The Company attaches importance to the resources utilization efficiency, in order to prevent resource waste.

In 2018, the output as mined from the Gold Mountain Mine was 5,420,000 tonnes with the milling ore of 6,586,000 tonnes. The Company strengthens field operation management, strictly controls technical indicators of mining and beneficiation, through optimizing the mining method and beneficiation technology, in order to minimize the mining loss rate and dilution rate, and improve the concentration recovery rate. The gold recovery rate for 2018 was 66.5%, an increase of 3% from 2017.

2. *Consumption of natural resources*

Except for mineral resources, other main resources used by the Company include water, electricity, coal and diesel oil. The following illustration shows use of these resources and measures to improve resource usage efficiency.

Types of Resource	Consumption in 2018	Consumption in 2017	Density in 2018	Density in 2017
Water (10,000 tonnes)	33	31	0.047 tonne/tonne	0.062 tonne/tonne
Power (10,000 kwh)	4,862	3,906	7.4 kwh/tonne	7.8 kwh/tonne
Coal (tonne)	7,160	5,871	0.0011 tonne/tonne	0.0012 tonne/tonne
Diesel oil (L)	8,255,187	5,395,226	1.25 L/tonne	1.08 L/tonne
Gasoline (L)	596,325	31,495	0.09 L/tonne	0.006 L/tonne

Note: 1. The diesel oil has included the diesel oil consumed by the mining fleet of the operators

2. Density refers to resources consumed for every tonne of ore processed

Since the ore processing capacity increased by 21% in 2018 compared to that in 2017, the consumption of various resources increased, but the resources consumed for processing each tonne of ore did not increase.

In terms of water resource management, Gold Mountain Mine has a water recycling system, with which, the process water used in the mining area will be recycled and no efflux is allowed, with a view to reducing the water used for production. An integrated buried treatment plant for domestic sewage is built in the office area and the living quarter, and such plant adopts the A/O biological contact oxidation technique with a designed treatment capacity of 720m^3/d. Domestic sewage enters a 200 m^3 clean water tank after being treated to reach the standard, and then is used for greening, watering and lowering dust in the mining area. Moreover, it enters the barren solution tank of cyanide smelting factory as supplementing water for the heap leaching plant. In this way, the domestic sewage will be fully recycled and no efflux is allowed. In order to enhance the production water management, through strengthening inspection and maintenance of water pipelines and water reserve facilities, posting water saving labels and fostering a habit of water saving, water “leakage”, “over flow”, “dripping” and “seepage” will be avoided so as to minimize the loss of water resources.

In terms of power saving, operators of energy-consuming equipment will be provided with energy-saving education and training to arouse their energy-saving awareness and enthusiasm. The Company prefers to use the new series of energy-saving LED lamps, transducers and soft starters for the energy-saving and cost-reducing. Energy-saving projects and techniques have been adopted to replace obsolete equipment in order to reduce power consumption. Our employees are required to shut down the energy-consuming equipment left idle for a long period in a timely manner, and power-saving labels are posted in the prominent places to foster their power-saving awareness and avert unnecessary waste. In 2018, the Company will carry on its efforts to disseminate power-saving messages and strengthen the energy-saving education and training provided to operators of energy-consuming equipment, in the hope of fully arousing our employees’ energy-saving awareness and enthusiasm. Power factor has been enhanced through installing local compensation devices to the low voltage side of distribution rooms and centralized high voltage compensation devices to the high voltage side of substations in all the workshops for the purposed of achieving the ultimate goal of improving energy efficiency and saving energy. The equipment has been utilized at full through refitting and modifying the high-power pump equipment to reduce costs and save power. In addition, the Company installed an energy-consuming management and control system to evaluate various energy-saving measures and ensure their good performance.

The diesel consumption has been cut down by means of optimizing the ore transportation plan and shortening the transportation distance.

III. Environmental Management

1. *Environmental management mechanism*

The Company gives top priority to environmental protection, and has established and perfected the environmental protection management system comprising the Company, workshops (departments of the plants) and work teams, in accordance with the requirements of the national laws and regulations, technical specification, technical standards and policies in respect of environmental protection. In order to highlight professional management, the Company has established the Safety and Environmental Protection Department, which is responsible for the day-to-day environmental protection and ecological management across the Company. Each branch company has set up its own environmental protection management function to manage the specific affairs relating to environmental protection. The Safety and Environmental Protection Department has designated a safety and environmental protection supervisor and an environmental protection administrator to take charge of the supervision and management of the environmental protection in all the plants, which, in turn, have assigned part-time environmental protection administrators to take charge of the environmental protection management in their respective regions. The Company formulated the annual implementation plan for environment monitoring, and commissioned qualified environment monitoring entities to monitor the major pollutants in the plants on a regular basis as per the monitoring plan.

In accordance with the relevant requirements stipulated in the Notice on Promulgating the Tentative Administrative Measures for the Emergency Plan in Response to Environmental Incidents (《關於印發突發環境事件應急預案暫行管理辦法的通知》) and the National Emergency Plans in Response to the Outbreak of Environmental Incidents (《國家突發環境事故應急預案》) issued by the Ministry of Environmental Protection of the People's Republic of China, Jinchuan Mining formulated its own Emergency Plans for Environmental Incidents according to its production techniques, pollution-generating production stages and environmental risks, and reported and filed the same to the local competent authorities for environmental protection. Moreover, the branch companies had set up command offices for emergency relief with corresponding emergency facilities and sufficient supplies in reserve, and carried out emergency drills on a regular basis to put into practice the measures for emergency prevention, pre-warning and response. These steps ensured that the whole process was under thorough control, thus effectively preventing the outbreak of environmental incidents and mitigating environmental risks.

2. *Development of circular economy*

The Company attaches great importance to circular economy. Through independent research and development, and cooperation with scientific research institutes and universities, the Company leveraged on scientific research and technical improvement for the exploration of such resources as low-grade ores, ores with associated materials, refractory ores, tailings and waste materials from refinery, and to promote the comprehensive recovery of various kinds of valuable elements from raw materials. The Company has also established a sound resource recycling system to raise the comprehensive recovery rate of resources.

(1) Through the technology upgrading on high-pressure grind roller and the secondary recycling of heap leaching tailings, the grade of heap leaching tailings can be reduced to 0.2 g/tonne and the total recovery rate can reach 75–80%, resulting in the maximum recovery of ores.

(2) A large number of independent exploration experiments were conducted, by which, it was confirmed that the addition of the leaching agent to improve the leached ores containing arsenic and carbon can increase the ore leaching rate by more than 5%, and thus effectively enhance the comprehensive utilization rate of resources.

(3) By raising the efficiency of heap leaching recovery rate, the cut-off grade of recoverable ores can amount to 0.2 g/tonne, while the amount of workable ores can be increased by at least 10 million tonnes.

(4) Through the leaching solution for impurity removal, the carbon-powder filter box for leaching solution filtration and other measures, the long-term circumfluence of the leaching solution is resulted, realizing zero discharge and concurrently recovering the gold-containing carbon-powder so that the phenomenon of “lost gold” engendered by the entry of carbon-powder into the production system of the stock yard can be avoided.

(5) The independent research and development of closed automatic mercury steamer not only enable the mercury-related standard alignment in the workshop and improves the working environment of the field staff, but also recover the by-product of mercury, creating additional economic benefits.

(6) By adding precipitant for precipitation, filter press for pressure filtration, alkalimetry and other measures, not only the waste water in the desorption and electrolysis workshop can be recycled, but also the majority of gold-containing sediments are recovered.

(7) The technology upgrading of high-temperature activation for activated carbon has enabled the activated carbon to be reused more than three times, creating good economic benefits.

3. Management of hazardous chemicals

None of the raw and auxiliary materials used or the products produced by Gold Mountain Mine involve any prohibited substance under national laws, regulations and international conventions. The major hazardous chemicals involved in production and operation include sodium cyanide, sulfuric acid, hydrochloric acid and sodium hydroxide, which are stored in special containers or warehouses equipped with the relevant facilities to guard against penetration and leakage, and managed by specific personnel with two persons keeping two different keys for the same lock, in accordance with the requirements of the Regulations on the Safety Management of Hazardous Chemicals (《危險化學品安全管理條例》).

4. Response to climate change

The Company pays close attention to the impact of the climate change caused by greenhouse effect on the Earth. The Company proactively and thoroughly followed the carbon emission guidelines and policies promulgated by the relevant state authorities, incorporated the idea of low carbon emission into the Company’s production and operation, and carried out technological innovation on energy conservation, disposed of obsolete equipment, introduced large-scale energy conservation equipment and optimized mining, processing and refining techniques. Examples of the steps taken include conversion of the frequency of electricity, management and compensation of the harmonics of electricity, installation of new Y-series electric generators and S7 transformers, generating electricity with surplus energy and heat, installation of LED lamps, etc. Vegetation was also recovered at the mines, and the use of afforestation as carbon sink contributed to the reduction of CO^2e emission across the Company by approximately 15,000 tons per year (Mainly focuses on the reduction of CO^2).

5. Conservation of biodiversity

Throughout its production and operation, the Company attaches great importance to the conservation of wildlife near its production sites, relentlessly carries out publicity and educational activities on wildlife protection, and prohibits its staff from trading, killing and eating wild animals. Additionally, the Company strives to optimize the design in the course of mine development to avoid the occupation and destruction of meadows, wetland and forests, conducts re-vegetation for the areas with soil damage, and carries out afforestation, greening and reclamation, etc. by adhering to the principle of "carrying out development and environmental remediation synchronously", in order to improve the environment in the mining area. In 2018, the Company invested a total of RMB4,200,000 for ecological recovery and remediation with 12,000 square meters of vegetation recovered, approximately 380,000 square meters of accumulated greening area and over 7,000 trees of various kinds as well as 11,530 kg of grass seeds sown.

6. Environment protection training and environmental information exchange

(1) Environment protection training

The Company attaches great importance to environment protection publicity, education and training, and collects the latest environmental laws and regulations, typical emergency case of environmental incident various kinds for analysis, by promoting to and educating our staff with the latest environment protection policies such as environmental management, soil remediation and water conservation as well as ecological management and with a view to strengthening environmental protection awareness of all our employees.

(2) Environmental information exchange

Since its listing, Jinchuan Mining has strictly followed the "Guidelines for Environmental Information Disclosure of Listed Companies (上市公司環境資訊披露指南)" (Consultation Draft), the "Administrative Measures on Environmental Information Disclosure (環境資訊公開管理辦法)" (Trial) and the "Measures for Disclosure of Environmental Information of Enterprises and Institutions (企業事業單位環境資訊公開辦法)" (Order No. 31) by the Ministry of Environmental Protection (環境保護部) of the PRC and the CSRC with a disclosure system for corporate environmental information established. The Company publishes the "Environmental and Social Responsibility Report" every year. The report contains environment protection chapters for the disclosure of environmental information such as the Company's green concepts, environment protection measures, green mines, sustainability and energy management.

Workplace and Labor

I. Employment and Labor Practices

Adhering to the people-centered concept, the Company creates staff members with good working environment and ensures them with a good health and a safe place. We encourages staff members to give play to their creativities and potentials, expecting that they can seek personal development from the company and achieve the mutual development.

1. Equal opportunity

The Company abides by local laws and regulations and adheres to the principle of equal and non-discriminatory employment, so stat our staff will be provided with equal opportunities and a fair and non-discriminatory atmosphere. Staff are treated fairly and equally regardless of genders, races, religious beliefs and cultural backgrounds. Female employees have equal job opportunities as their male counterparts, and will neither lose their jobs, have their salaries reduced nor be demoted as a result of childbirth. Meanwhile, the Company considers the local employment situation, and provide all manner of employment opportunities to digest the local surplus manpower. Child labor is forbidden and equal employment opportunity is guaranteed for vulnerable groups such as the disabled.

2. *Diversity*

Staff of Jinchuan Mining come from 13 ethnic groups, including, inter alia, 12 ethnic minorities such as the Uygur, the Kazakh, the Muslims, the Tibetans, the Tujia (土家族) and the Russians. The total number of ethnic minorities is 134. Please refer to the table below for the geographical distribution of the staff of Jinchuan Mining:

Ethnic group or place of the employees	Number of employees	As a percentage of the total number of employees	Turnover	Turnover rate
Xinjiang Locals	218	60.2%	44	12.2%
Outside Xinjiang	144	39.7%	41	11.3%
Ethnic minority	134	37%	32	8.8%

The distribution of the board of directors of the Company also chimes with the diversity standards. There are 8 members in the Board, including, inter alia, 2 female directors accounting for 25% of the Board. The background of the directors involves professional aspects of mining, capital markets, investment and finance.

3. *Recruitment*

The Company recruit talents on the principle of openness, equality, competition and merits. As at 31 December 2018, the Company has a total of 377 employees,among whom 362 comes from Jinchuan Mining. Employees in all our functions are "professional with expertise".

The employees of Jinchuan Mining by function for 2018 are categorized as follows:

Function	Number of employees at the end of the year	As a percentage of the total number of employees at the end of the year	Turnover	Turnover rate
Mining	32	8.84%	6	18.7%
Ore processing	103	28.45%	35	32.7%
Cyanide smelting	68	18.78%	15	22%
Production supporting services	70	19.34%	5	1.43%
Logistic function	89	24.58%	9	9.78%
Total	362		70	

The information table as to the employees of Jinchuan Mining by gender and age for 2018

Gender and age	Number of employees at the end of the year	As a percentage of the total number of employees at the end of the year	Turnover	Turnover rate
Male				
18–20	1	0.3%	2	0.5%
21–30	102	28.2%	34	9.4%
31–40	100	27.6%	29	8.0%
41–50	70	19.3%	12	3.3%
over 50	38	10.5%	5	1.38%
Subtotal	311	86%	82	22.65%
Female				
under 20	0	0.00%	0	0.00%
20–30	21	6.29%	2	0.50%
31–40	19	4.57%	1	0.27%
41–50	7	2.86%	0	0.00%
over 50	4	0.29%	0	0.00%
Subtotal	51	14%	3	0.83%

4. *Remuneration and benefits*

The remuneration of the senior management of Gold Mountain Mine includes basic salary and performance salary on an annual basis while the remuneration of the ordinary employees includes standard salary, performance salary and year end bonus. Employees's remuneration is subject to adjustment with reference to financial performance of the Company, the value contribution of the function the relevant employee works at, the ability and performance of the relevant employee, and the prevailing market rates. The Company also make social insurance payment, provide board and lodging (for immigrant workers), and transportation and communication allowances for its employees.

To enrich employees's after-work life and enhance their physical and mental health, the arrange health check, entertainment, sports and social activities for them. The Company also has a employee's club featuring, inter alia, a library and recreational and fitness facilities.

5. *Promotion and layoff*

The Company provides employees equal promotion prospects, offers promotion channels to various posts, and furnishes the stage to make the aspiring, competent, and diligent and hard-working employees' dream come true and show their brilliance. The Company is aware of the importance of talents to its development, and tries its best to retain its talents. The management of the Company hold production planing meeting on a regular basis to discuss with key employees their career development and work related issues.

6. *Working hours and rest periods*

The Company recognizes the importance of appropriate rest to the work performance of its employees. The Company strictly complies with the laws and regulations of the jurisdictions in which the Company operates. The Company has adopted a comprehensive working hour system, whereby the production departments at each mine work in shifts. The Company also provides personal leave, sick leave, marriage leave, compassionate leave, maternity leave, work injury leave, home leave and annual leave for the balance of work and life of the employees.

II. Health and Safety

The Company adheres to the production safety approach of "Safety First, Prevention as a Key Approach and Comprehensive Management" especially on the topics of occupational health and workplace safety, by setting up a dedicated department with delegated personnel, systems and operating procedure, and enhances employees' safety awareness as well as safeguards their health and the production safety through, among other things, financial resources, technical upgrade, performance monitoring and assessment.

1. *Compliant Fulfillment of the Production Safety Responsibilities of the Entity in Charge*

The Company will compliantly fulfill our responsibilities being in charge of production safety to achieve the "Five Responsibilities Defined and Five Responsibilities Performed" by strictly managing and gradually realizing our annual production safety targets one by one in view of the requirement of "those responsible for production operations are responsible for safety, and those responsible for business are responsible for safety". Production safety will be taken into account together with all our tasks when they are being arranged, inspected and assessed, and production safety investment will be increased. The sum provided for production safety will all be dedicated to the intended uses accordingly, while all manner of liability insurance will be in place for production safety. At the beginning of the years, overall goal as well as assessment indicators for reward and punishment will be formulated for production safety, with Production Safety Guarantee is signed between Li Shanren (director of the Safety Committee of the Company), our departments and external operators. The appraisals, which are directly linked to monthly bonuses of each department, are implemented monthly and at year-end. At the end of each month, the appraisal team will mark and rate the scores for each department, which will be directly linked to the bonuses of each employee in every department. At the end of the year, an overall appraisal are conducted, whereby, award or punishment will be given through the election of, inter alia, the Best Safety Managing Officer, the Best Safety Management Department and the Best Safety Employee.

2. *Intensified check and remedies for emission risks and stringent source control*

A comprehensive potential risk identification and control system is in place, under which potential risks are identified and controlled through closed-loop management from potential risk reporting, review, rectification and acceptance check to account-deleting.

In 2018, our mines were inspected 8 times by the State Administration of Work Safety from the county, the prefecture or the autonomous region, and were found 60 items of hidden dangers, 57 of which have been rectified with a rectification rate of 95%. For the outstanding rectification projects, we have applied to the State Administration of Work Safety for extending the deadline for rectification, and a reply has been received, requiring our guarantee on full completion of rectifications within the time limit. The Company has carried out 12 comprehensive safety inspections, 8 special inspections, 5 seasonal inspections and 320 daily inspections internally throughout the year. 47 rectification notices for safety risks have been issued, with 444 items of safety risks identified, amongst which, 440 rectifications have been completed with a rectification rate was 99.1%. Some rectifications have been outstanding, mainly attributed to the thick snow and inadequate prerequisites for rectification. Special monitoring measures have been formulated for the outstanding items.

3. *Strengthening of occupational disease prevention*

(1) Established and perfected the responsibility system for prevention and control of occupational diseases, clarify the responsibilities and obligation of the principal responsible person, complement responsible person, and the management staff. The department of safety and the environment is responsible for the occupational health management of the Company.

(2) Established occupational health records in accordance with the "Guidelines for Occupational Health Records Management" (《職業衛生檔案管理規範》) issued by the National Bureau of Safety Production Supervision (國家安全生產監管總局);

(3) Technical service organizations with corresponding qualifications for occupational health are engaged to conduct testing once for understanding occupational hazard elements;

(4) For job positions with serious occupational disease dangers, warning signs and Chinese warning instructions were set up and occupational health bulletin boards were placed in striking positions;

(5) Equip employees with labor protection products compatible with their positions that conform to national standards or industry standards, and supervise related operated employees to wear and use them in right way;

(6) When signing a labor contract, the new employee shall be notified of occupational hazards in the form of an attachment, and each employee shall be required to perform occupational health examinations of pre-post, on-post and off-post. The human resources department of the Company responsible for notifying the entrants to conduct the pre-post body checks and the safety and environment department is responsible for reviewing the body check results. The approval of resignation procedure by the department of the Company's safety and environment department is subject to the off-post personnel's conducting body checks;

(7) In 21 June 2018, the 2018 annual occupational health check for the staff who were in the positions exposed to injury was completed with 185 times of check recorded in aggregate. No staff was found infected with occupational or suspected occupational diseases with their checkup results recorded respectively in their accounts related to the occupational health management every time;

(8) According to eight guidelines of dust control, namely, "reform", "water", "closed", "wind", "pipe", "education", "protection", "inspection", we invested more than 200,000 yuan in open pit and crushing workshop of mineral processing plant on the basis of previous governance to comprehensively controlled the dust and achieved good effects.

4. *Improvement on emergency rescue capabilities*

Revise and perfect the emergency rescue plan for production safety accidents, strengthen management of emergency response program, intensify emergency drills, and establish emergency rescue team for safety production, so as to ensure unimpeded information, timely rescue, and properly arrange. No delay to report or omits to report the production safety accidents is allowed.

In 2018, the Company in aggregate organized five emergency drills, including one comprehensive emergency rescue drill focusing on the leakage of dangerous chemicals and highly toxic substances, one for firefighting, one for anti-terrorism, one for vehicle-related injury accidents and one for immediate response upon dangerous chemical leakage. We summarized after drills and amend the emergency response program against the existing problems and defects to further improve the capabilities of various departments to respond to emergencies, meanwhile ensure the pertinence and timeliness of the response program.

5. Related work about "Month of Publicity of Production Safety"

In June 2018, we seriously materialized the strategies for the activities of "Month of Publicity of Production Safety" formulated by the country, the autonomous regions, the autonomous prefectures and Yining County, by thoroughly and soundly implementing the "Month of Publicity of Production Safety" activities assigned to Jinchuan Company in 2018. From 1 to 30 June 2018, such activity was carried out by all the departments of the Company and outsourcing units simultaneously. The content of such activities were mainly about safety training and education, viewing safety warning education films, outdoor activities of safety themes, and production of promotional materials, publicity and consultation in the Company, organize safety knowledge competitions, emergency drills for hazardous chemicals, and carry out investigation and management activities about hidden dangers of "crackdowns on illegitimacy and violation".

III. Development and Training

The Company understands that the improvement of the overall quality and professional skills of all staff not only means the improvement of the staff's ability, but also the enhancement of the Company's overall competitiveness. The Company pays much attention to the employees' development and training, and has developed and implemented the training management system, training system and process in respect of its employees, with an aim to promote the improvement of both employees and the Company. The ongoing training programmes include induction training, on-site training, safety training, and security and counter-terrorism training.

1. Training for directors and management

The Company places great emphasis on trainings for directors and management, and requires its directors to learn Guidelines on Disclosure of Inside Information issued by the SFC and training materials provided by the Stock Exchange. The company secretary shall attend not less than 15 hours of professional training courses every year. In addition, a variety of training programs and seminars have been organised by the Company.

2. Internal trainers

In 2018, Jinchuan Mining started the establishment of the "internal trainer team", so as to support the realization of the Company's strategy and human resources development plan of developing and utilizing our internal intellectual resources, inheriting our corporate management and technical experience and creating a knowledge-sharing atmosphere and to further refine our training system, a platform providing our staff with training for their growth. The Company has set up a training system including internal trainer management methods for building a team of internal trainers. The internal trainers are currently selected from the internal management and some key employees, who are divided into three levels (elementary, intermediate or advanced) according to their training ability. We are also going to improve our evaluation, training, assessment on, promotion of and incentives for internal trainers, aiming at encouraging internal trainers to raise their own abilities and develop training courses as well as other types of training. The internal training records for 2018 are as follows:

No.	Training course name	Internal trainer	Level of internal trainer	Training level	Duration of single training session	Number of participant	Accumulated training hours
1	Training on maintenance precautions	張家勝	Intermediate		2	All the mechanics technicians	72
2	Work training	張家勝	Intermediate		2	All the staff	344
3	Occupational health education	胡鵬飛	Elementary		4	Staff at the mineral processing plant	240
4	Safety education on new staff	楊發福	Elementary		4	New staff	180
5	Production safety conference	孫樹明	Intermediate		2	Person in charge of the mineral processing plant	20
6	New staff orientation	Human Resources Department	楊帥帥		4	New staff	180

IV. Labor Practices

The Company strictly abides by the labor practices of the business site, prohibiting the recruitment and use of child labor, ensuring the health and safety of employees and prohibiting forced labor. The employment or use of child labor or forced labor does not occur in the Company.

V. Supply Chain Management

The Company has a specific Supplier Management System to assess and select the qualified suppliers through the review to confirm that the supplier has the ability to provide products and services which meet the requirements of the Company's demands. The centralized procurement, warehousing and distribution management for all the materials needed by the mines shall be implemented. According to the material requirements plan of production department and material varieties, materials purchasing shall be generally completed by bidding, price inquiry and comparison and fixed procurement. All procurements are contracted; the Company strictly monitors the performance of the contract and controls the payment of funds. The Company has a list of suppliers and regularly assesses and updates it; the Company constantly analyzes the completion of material inventory, procurement varieties and material consumption. The Company regularly evaluates the environmental and social risks of the supply chain to ensure supply chain safety.

During 2018, the Company entered into 137 purchase and sale agreements in aggregate. The involving suppliers mainly come from the sectors such as liner, sodium cyanide, belt conveying equipment, activated carbon and hardware, including, inter alia, 61 local suppliers from Xinjiang.

The Company outsource mining activities to qualified and independent third-party contractors. We enter into agreements with them with a one-year term. Upon the expiration of these agreements, they have the priority to sign a new agreement with us provided that they have strictly performed their obligations under the current agreements.

VI. Product Responsibility

The Company attaches great importance to product quality and reputation and has developed and implemented the quality and sales management system to strengthen product quality inspection and sales management and ensure to provide customers with high-quality products.

The major product of the Company is alloyed gold. In the analytical electrolysis workshop which finally products alloyed gold, there are strict access and out management system as well as supervision and management system in the process of gold extraction. In the process of delivering the alloyed gold out of the mine, there are relevant securities measures. Measurement and quality inspection shall be carried out when the alloyed gold are delivered to customers.

VII. Anti-corruption

The Company and its employees have strictly abided by the relevant laws and regulations and ethical standards. In 2018, there were no corruption, bribery, extortion, fraud and money laundering cases against the Group or its employees. The supervision and auditing department did not receive relevant reports. The Company has developed and implemented an auditing and reporting system, and hired the independent auditor to conduct external audits of the Company through internal and external audits to prevent and control the Company's fraud or unethical behavior.

The Company is committed to comply with the laws and regulations of business operations; employees have the right to report to the Company on suspicion of violation of national laws and regulations, policies and internal control problems and other behaviors of fraud and violation of corporate discipline. Informants can provide our Supervision and Auditing department with details by phone, letters, e-mails or reporting face to face. For tip-off out of the acceptance scope of our Supervision and Auditing Department, the whistleblower may report it to the related department. However, serious problems or emergencies shall be reported to the senior management or board of directors of the Company. We will seriously protect the private information of the reporting employee, so that the employee could be away from illegal retaliation or discrimination of all forms caused by the tip-off.

Generally, specialised clauses of "anti-corruption" are always stipulated in our major contracts. According to such clauses, no private violation is allowed for both parties, so that the major project that may lead corruption could be restrained.

Community Relationship

Developing a harmonious relationship between the community in which we operate and us is always the focus of the Company. We get to know the demands of the community from taking part in the activities of the community actively, and, with actual actions, we try hard to make sure that the interests of the community would be considered during the Company's execution of its business activities.

1. The strengthened communication with the community

Adhering to the concept of "building harmonious relationship between village and company", we strengthen the communication with the community, so as to promote harmonious coexistence of village and company. Besides, based on the practical situation, a series of systems for acquiring community demands and dealing with the relationship between village and company are prepared by us, so as to ensure smooth communication and active coordination between the company and community. Moreover, we play a leading role to establish a coordination mechanism for the equal communication among the local government, village and company, so the harmonious and stable relationship between village and enterprise could be coordinated and maintained fairly.

2. Community environment

In 2018, the Group invested RMB4.2 million in our ecological restoration and management, with our greening work of tree and grass planting completed in more than 10 areas, ranging from, inter alia, the peripheral areas, the office area to the trunk road at the main gate and the production area of the mines. The contracted greening area of grass seed sowing was about 75,000 square meters with 470 trees planted by contractors. The internal grass seed sowing involves an area of about 50,000 square meters with about 800 trees internally planted.

We actively take part in the environmental construction of the community where we operate, and help to improve the environmental awareness of the community. In the whole year, we maintained more than 50km of mine entrance path, which ensures the smooth of the mine entrance road. This further ensures the material transport of the company. Meanwhile, it becomes much more convenient for the herdsmen to drive their livestock up and down the mountain and change meadows for their cattle and sheep.

3. Community care

The Company cares about and offers help to the people in need from the communities in which it operates. We offers daily necessities including rice, flour and edible oil to impoverished employees and their families in the communities in which we have operations before Hari Raya, Eid al-Adha and Spring Festival every year. The Company's clinics regularly provide free diagnosis and treatment to herders in the adjacent areas. By 2018, we have lent out hand to more than 1,000 herders with difficulties in terms of medical care were.

Through the Yining County Charity Federation (伊寧縣慈善總會), 100,000 yuan (one hundred thousand yuan) has been donated to the Kalayagaqi Township Government of Yining County, the recipients, to help the recipients actively carry out new rural construction, environmental conservation and village appearance improvement and other public affairs. In May 2018, we donated 2 computers and 2 printers to the Quluhai Village Committee of Quluhai Township, Yining County.

In the winter of 2018, the Company donated 200 tonnes of coal to neighbouring villages and towns to solve their heat supply difficulty in winter.

4. Education

In 2018, we participated in the activity of "Study-Aid in Golden Fall" organized by the Party Committee and the Government in Yining County, and donated 800,000 yuan to the impoverished students.

5. Labor demands

We selected a batch of young hardworking Kazakhstan people with certain Chinese base and good comprehensive quality from Oyiman Bulak Village in Kalayagaqi Township in Yining County, and trained them. Those met the job requirements of our company could be employed to work in the mine.

6. Culture

We attach great importance to the cultural activities implemented in the community, so we usually organize different forms of cultural communication activities there. Various forms of cultural activities are held from time to time. Safety knowledge contests and fire safety competitions were held in June, while the knowledge contest of "welcoming the first of July and learning the party constitution and its history", and the tug of war as the "warmly celebration of the 97th anniversary since the party founding" were hosted in July. In August, a variety of events such as the wild walking activities took place.

Labor skills competitions were organized any times, in order to further stimulate the eagerness of a vast number of employees in learning, practising and competing for technology and skills, and to build a platform for front-line workers' exchange and demonstration on their abilities. In August, a labor skills competition related to trickling filter installation was launched, while that related to triaxial screening and another related to ore identification came about in September.

The Company organises celebrations during major holidays to enrich employees' cultural life, including galas where shows are planned, directed and performed by employees of the Company.

7. Sports

We organised different kinds of sport activities with the village, including basketball, badminton, hiking, football, etc. Such activities not only improve the fitness of the employees but also promote the harmonious relationship between the village and the company. The Company encourages its employees to participate the sports activities organised by local residents, and the employees who are responsible for environment protection often race horse with local residents.

Board of Directors and Senior Management

Board of Directors

Executive Directors

Mr. Ke Xiping (柯希平), aged 58, is the founder of the Group. Mr. Ke has been an executive Director and the chairman of the Board since the incorporation of the Company in April 2012, responsible for overall strategies and operations of the Group. He has also been the founder of Xiamen Hengxing and its chairman of the board since September 1994. Mr. Ke has been overseeing the Group's overall business strategies since November 2009 when Xiamen Hengxing purchased the entire equity interest in Tianshan Gold HK, which then held 90% equity interest in Jinchuan Mining. From May 1999 to May 2007, Mr. Ke was the general manager of Fujian Xinhuadu Engineering Co., Ltd (福建新華都建設工程有限責任公司) for eight years. Xinhuadu Engineering is a professional engineering company and its principal business activities include mining engineering design, mining plan, mine drilling and blasting and ore extraction, loading and transportation. Mr. Ke also served as a non-executive director of Zijing Mining from August 2002 to June 2008. Since 2005, Mr. Ke has also been managing and overseeing the exploration and mining activities of various mining companies that are controlled by Xiamen Hengxing. Mr. Ke has 16 years of relevant experience in mining industry. He is the brother of Mr. Ke Xizheng and the father of Mr. Ke Jiaqi.

Mr. Ke was accredited as an economist by Xiamen Bureau of Personnel (廈門市人事局) in November 2007. He is also a member of the Thirteenth Session of the National Committee of the Chinese People's Political Consultative Conference (第十三屆全國人民政治協商會議委員會), and a member of the Standing Committee of the Thirteenth Session of Xiamen Municipal Committee of the Chinese People's Political Consultative Conference (廈門市第十三屆政治協商會議常務委員會). He is the chairman of the Thirteenth Session of Xiamen Federation of Industry and Commerce (the General Chamber of Commerce and Industry) (第十三屆廈門市工商聯(總商會)), the vice chairman of Fujian Federation of Industry and Commerce (福建省工商聯) and a member of the Standing Committee of National Association of Industry and Commerce (全國工商聯常務委員會).

Ms. Yang Yifang (楊宜方), aged 41, is an executive Director and the president of the Company since June 2018. Ms. Yang has extensive experience in global mining industry, focus on strategic planning, mergers & acquisitions, business development and management of public companies. Before joining our company, Ms. Yang was appointed as assistant to Chairman in Zijin Mining Group Co., Ltd (a company listed both on the Shanghai Stock Exchange and Hong Kong Exchange, stock code: 601899/02899), and was also assigned to various senior management positions in the Group's affiliates in China, Hong Kong, Canada, UK and Peru. During this period, she was the manager director of Gold Mountains (HK) International Mining Co., the executive chairman of Xiamen Zijin Tongguan Investment Development Co., Ltd and the president of Rio Blanco Copper S.A. During 2011 to 2013, she was the executive director and CEO of CST Mining Group (Stock Code: 00985).

Ms. Yang obtained Bachelor Degree of Arts in Tamkang University in Taiwan in 2000.

Mr. Chen, David Yu (陳宇), aged 50, is an executive Director since March 2013.He was the Vice Chairman of the Board and the president of the Company from September 2013 to May 2018. Mr. Chen has been a director of Jinchuan Mining since September 2012.

Mr. Chen has over 15 years of experience in venture investment and capital raising. Mr. Chen was an independent director of Zhonglu Co., Ltd. (中路股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 600818) from May 2009 to November 2014 and the non-executive Chairman of Range Resources Ltd, (dual listed ASX: RRS; AIM: RRL) from December 2014 to November 2016. He was an independent non-executive director of Sinco Pharmaceuticals Holdings Limited, a company listed on the Stock Exchange (Stock Code: 6833) from January 2018 to April 2018.

Mr. Chen obtained a Bachelor of Economics degree from Monash University in Australia in April 1992.

Board of Directors and Senior Management

Mr. Ke Jiaqi (柯家琪), aged 28, is an executive Director of the Company since June 2018. Mr. Ke was appointed as a Director and Vice President of Xiamen Hengxing Group Co., Ltd. ("**Xiamen Hengxing**") in 2014 and takes charge of investment business of Xiamen Hengxing from 2017. Mr. Ke is the son of Mr. Ke Xiping, the Chairman of the Company, and the relative of Mr. Ke Xizheng.

Non-executive Director

Mr. Albert Fook Lau Ho (何福留), aged 73, is an non-executive Director of the Company since June 2018 and has been an executive Director from March 2013 to May 2018. He was a director of Jinchuan Mining since November 2009 to November 2015 and was the chairman of the board of Jinchuan Mining from November 2009 to September 2012. Mr. Ho has 20 years of relevant experience in exploration and/or extraction activities, all of which related to gold mines. From January 1981 to August 1988, Mr. Ho worked as a project engineer for Kilborn Engineering B.C. Ltd. Between August 1988 and May 1994, Mr. Ho acted as a partner of CSFM Engineering Ltd. From 1994 to 1997, he was appointed as the managing director of Guangxi Baise Bowland Gold Mining Company Limited (廣西百色寶侖黃金礦務有限公司) in charge of exploration work in Baise Guangxi, including the Gaolong Gold Mine (廣西百色高龍金礦). From 1997 to November 2009, Mr. Ho advised various clients in Hong Kong and China on preliminary assessment, project planning, project development and construction budget estimation, financing arrangement and internal control for mining projects.

Mr. Ho obtained a Bachelor of Applied Science (Civil Engineering) degree from University of Waterloo in Canada in 1977, and a Master of Engineering degree from University of Toronto in 1983. He has been a member of the Association of Professional Engineers and Geoscientists of British Columbia ("**APEGBC**"), Canada since 1982. APEGBC regulates and governs the profession under the authority of the Engineers and Geoscientists Act of Canada by setting and maintaining high academic, experience and professional practice standards for all of its members.

Independent non-executive Directors

Dr. Tim Sun (孫鐵民), aged 57, is an independent non-executive Director since April 2014. Mr. Sun obtained a Bachelor in Mineral Processing Engineering degree from Northeast University (東北大學) in June 1982. He obtained a Master in Mineral Processing Engineering degree from Beijing General Research Institute of Mining and Metallurgy (北京礦冶研究總院) in 1985 and a Ph.D. degree from Queen's University, Canada, in October 1993.

Dr. Sun was a director of Norton Gold Fields Limited, an Australian gold mining company listed on the Australian Stock Exchange (Stock Code: NGF), from March 2010 to May 2011 and the chief strategic consultant of China Precious Metals, a gold mining company listed on the Stock Exchange (Stock Code: 1194), from January 2010 to 2011. Dr. Sun was appointed as a director and chairman of FeOre Ltd, an iron ore mining company in Mongolia listed on the Australian Stock Exchange (Stock Code: FEO), from 2011 to July 2014. He is also a director of Minco Silver Corporation, a silver mining company listed on the Toronto Stock Exchange (Stock Code: MSV), since July 2011.

Ms. Wong, Yan Ki Angel (黃欣琪), aged 47, is an independent non-executive Director since March 2013. Ms. Wong obtained a Bachelor of Arts degree, majoring in international accounting, from Xiamen University in July 1994, a post-graduate certificate in professional accounting from the City University of Hong Kong in November 2000 and a master degree of business administration from Cheung Kong Graduate School of Business (長江商學院) in PRC in October 2009. Ms. Wong has been admitted as fellow member of the Institute of Financial Accountants in the United Kingdom since October 2003, full member of the Society of Registered Financial Planners in Hong Kong since November 2003, full member of the Singapore Institute of Directors since October 2009, member of the Hong Kong Institute of Directors since November 2014, fellow member (FIPA, Australia) of the Institute of Public Accountants since April 2015, founding member of the Hong Kong Independent Non-Executive Director Association since October 2015 and fellow member of CPA Australia since May 2017. Ms. Wong has been the president and executive director of Advanced Capital Limited (匯財資本有限公司), where she provides consultancy services for both listed companies and companies preparing for listing.

Ms. Wong was appointed as an independent non-executive Director of China Best Group Holding Limited (Stock Code: 370) since June 2011 to September 2014, China Public Procurement Limited (Stock Code: 1094) since December 2015 to July 2018, Miko International Holdings Limited (Stock Code: 1247) since July 2017 to July 2018, Yuhua Energy Holdings Limited (Stock Code: 2728) since November 2016 to December 2018. She was also appointed as an independent non-executive Director of China Shengda Packaging Group Inc. (NASDAQ:CPGI) since August 2014 to September 2015. Since November 2015, Ms. Wong has been an independent non-executive director of 500.com Limited (NYSE: WBAI).

Dr. Pan Guocheng (潘國成), aged 61, is an independent non-executive Director since June 2018. He was appointed as an executive Director, CEO and President in China Hanking Holdings Limited ("**Hanking Holdings**") (Stock Code: 03788) from September 2011 to March 2018. Dr. Pan is a non-executive Director in Hanking Holdings and vice chairman in Hanking Industrial Group Ltd. Before joining Hanking Group, Mr. Pan held technical and management positions in several mining companies, including Director of technical development department at AngloGold North America, President of GeoSight, Inc. and General Manager of the China region of Gold Fields (BVI) Ltd.

Dr. Pan obtained a Bachelor in Geochemistry from Peking University in 1982, a Master Degree of Mathematical Geology from Changchun College of Geosciences in 1985 and a Ph.D. Degree of Mineral Economics from University of Arizona in 1989.

Senior Management

Mr. Ke Xizheng (柯希正), aged 56, has been the chairman of the board of Jinchuan Mining since October 2015 and served as the general manager of Jinchuan Mining since March 2019. Mr. Ke has around 30 years' experience in government affairs. Prior to joining the Group, he served in Xiamen, Huli District as vice minister of United Front Work Department (福建省廈門市湖里區委統戰部副部長) from February 2012 to September 2014. His substantial experience in government is expected to benefit the governance and community relations of Gold Mountain Mine.

Mr. Ke obtained a bachelor degree from Xiamen University (廈門大學), majoring in International Business and Economics in July 1984. He is the brother of Mr. Ke Xiping, who is the Chairman of the Board of the Company, and the relative of Mr. Ke Jiaqi.

Mr. Li Shanren (李善仁), aged 57, has been the General Manager of Jinchuan Mining from October 2015 to March 2019. Mr. Li has nearly 25 years' experience in gold mining industry. Prior to joining the Group, he previously served as general manager of Yunnan Guoyi Mining Group (雲南國一礦業投資有限公司) from February 2014 to July 2015. Mr. Li was the Chief Engineer of Shandong Zhaojin Group from November 2010 to February 2014 and Vice President of Zhaojin Mining Industry Company Limited (招金礦業股份有限公司) (HKSE: 1818) from December 2009 to November 2010. Before that Mr. Li has served as the deputy section chief, section chief, deputy mine operation manager, deputy mine production manager of Zhaoyuan Xiadian Gold Mine (招遠市夏甸金礦), deputy mine infrastructure manager of Zhaoyuan Dayingezhuang Gold Mine (招遠市大尹格莊金礦), the deputy mine manager of Zhaoyuan Canzhuang Gold Mine (招遠市蠶莊金礦), the general manager of Zhaojin Beijiang Mining Company Ltd. and the chairman of Kunhe Zhaojin Mining Company Limited in Aleitai, Xinjiang (阿勒泰市昆合礦業有限公司).

Mr. Li graduated from Kunming Institute of Engineering (昆明工學院), and qualified as a mining engineer.

Ms. Lin Yanjuan (林艷娟), aged 35, has been the finance director of the Group since July 2015. Prior to joining the Group, Ms. Lin previously served as the auditor of PricewaterhouseCoopers Zhong Tian LLP from August 2006 to July 2015.

Ms. Lin obtained a bachelor degree majoring in Economics from University of International Business and Economics (對外經濟貿易大學) in China in July 2006 and the CICPA qualification in June 2015.

Board of Directors and Senior Management

Mr. Zhang Jinghe (張景河), aged 49, is the executive deputy general manager of Jinchuan Mining since March 2019. Mr. Zhang joined Jinchuan Mining as the deputy chief metallurgy engineer on June 2014 and has been the chief metallurgy engineer since January 2016. He has over 20-year working experience in gold mines. He previously served as the deputy chief engineer in Sichuan Chuncan Mining Company Limited (四川純燦礦業有限公司) and in senior management positions in Xi'an Tianzhou Mining Technology Development Company Limited (西安天宙礦業科技開發有限責任公司). He started his mining career from 1992 to 2002 served as deputy section chief of metallurgy department and various positions in Lingbao Andi Gold Mine (靈寶市安底金礦) then as the deputy plant manager of Lingbao Gold Refinery Plant (靈寶市黃金精煉廠). From 2003 to 2011, he served in various management positions in Lingbao Huabao Industry Company Limited (靈寶市華寶產業有限責任公司).

He obtained a bachelor degree from School of General Education of Northeastern University (東北大學基礎學院) (previously known as Shenyang Gold Institute (瀋陽黃金學院) majoring in ore processing engineering in June 1992. He was also accredited as engineer of mine by the People's Government of Sanmenxia (三門峽人民政府) in May 2000.

Company Secretary

Ms. Wong Wai Ling (黃慧玲) (ACIS, ACS), aged 39, was appointed as the company secretary in August 22, 2013. She has over 10 years of experience in providing company secretarial services in Hong Kong.

Ms. Wong currently serves as a vice president of SWCS Corporate Services Group (Hong Kong) Limited (方圓企業服務集團(香港)有限公司) ("**SWCS**") and has been responsible for assisting listed companies in professional company secretarial work since she joined SWCS in May 2011.

Ms. Wong obtained a Bachelor of Arts degree in Marketing and Public Relations from the Hong Kong Polytechnic University in October 2007 and a degree of Master of Corporate Governance from The Open University of Hong Kong in December 2011. She became an associate member of both of The Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom in July 2013.

Report of Directors

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the Period Under Review.

Global Offering

The Company was incorporated in Cayman Islands on 10 April 2012 as an exempted company with limited liability under the Cayman Company Law. The Company's Shares were listed on the Stock Exchange on 29 May 2014.

Principal Activities

The principal activity of the Company is investment holding and the Group is principally engaged in gold mining and production. Analysis of the principal activities of the Group including its subsidiaries during the Period Under Review is set out in the note 5 to the consolidated financial statements.

Results

The results of the Group for the Period Under Review are set out in the consolidated statement of profit or loss and other comprehensive income on page 63 of this report.

Final Dividends

The Directors recommend the payment of a final dividend of HK$0.1 (inclusive of tax) per share in cash, totaling approximately HK$92,500,000 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.

Financial Summary

A summary of the Group's results, assets, liabilities for the last five financial years are set out on page 128 of this report. This summary does not form part of the audited consolidated financial statements.

Business Review

The business review the Group is set out in the section of "Business Review" in the Management Discussion and Analysis.

Principal Risks and Uncertainties

The financial risk the Group faced and risk management objectives and policies is set out in note 3 to the consolidated financial statements.

Future Development

The future development of the Group is set out in the section of "Development Strategy" in the Management Discussion and Analysis.

Environmental Policies and Performance

The Company has established environmental policies and implemented environmental protection systems in accordance with relevant PRC rules and regulations, including the re-planting trees or grasses after the mining has been completed.

Report of Directors

Compliance with Laws and Regulations

The Group recognizes the importance of compliance with regulatory requirements and has been allocating staff resources to ensure ongoing compliance with rules and regulations. During the Period Under Review, the Group has complied, to the best of our knowledge, with the Listing Rules, the Stock Exchange's Trading Rules as well as the PRC's laws and regulations relating to mineral resources, administration of gold, environmental protection, production safety, taxation and land.

Relationships with Stakeholders

The Group's success also depends on the support from key stakeholders which comprise employees, suppliers and shareholders.

Employees are regarded as the most important and valuable assets of the Group. The objective of the Group's human resource management is to reward and recognize performing staff by providing a competitive remuneration package and implementing various occupational health, safety, training systems.

We believe that our suppliers (including contractors) are equally important in enhancing our productivity. During the Period Under Review, we proactively collaborate with our business partners (including suppliers and contractors) to improve durability of key wearable components, leading to better ore crushing results.

One of the corporate goals of the Group is to enhance corporate value to shareholders. The Group is poised to foster business developments for achieving the sustainability of earnings growth and rewarding shareholders by stable dividend payouts taking into account capital adequacy levels, liquidity positions and business expansion needs of the Group.

Use of Net Proceeds from Listing

The net proceeds from the Listing (after deducting underwriting fees and related expenses) amounted to approximately HK$330.4 million, which are intended to be applied in the manner consistent with that in the Company's prospectus dated 19 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 for new specific purposes, set out on page 8 of this report.

Major Customers and Suppliers

The percentages of sales and purchases for the Period Under Review attributable to the Group's major customers and suppliers are as follows:

Sales

— the largest customer 98.4% (2017: 77.89%)
— five largest customers 100% (2017:100%)

Purchases

— the largest supplier 24.95% (2017: 13.87%)
— five largest suppliers 77.27% (2017: 64.86%)

None of the Directors or any of their associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers.

Report of Directors

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Company and the Group during the Period Under Review are set out in note 15 to the consolidated financial statements.

Share Capital

Details of movements in the share capital of the Company during the Period Under Review are set out in note 26 to the consolidated financial statements.

Reserves

Details of movements in the reserves of the Company and the Group during the Period Under Review are set out in note 27 in the consolidated statement of changes in equity.

Distributable Reserves

Pursuant to the Distributable Reserves Under section 34 of the Companies Law (Revised) of the Cayman Islands, the Company's share premium is available for distribution to shareholders subject to the provisions of the articles of association of the Company. The balance of the distributable reserve of the Company was RMB215,769,000 as at 31 December 2018 being the excess of the amount of share premium over the accumulated losses of the Company as at 31 December 2018.

Bank Loans and other Borrowings

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2018 are set out in note 30 to the consolidated financial statements.

Taxation

If the Shareholders are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to the Shares, they are advised to consult their tax adviser.

Directors

The Directors during the Period Under Review and up to the date of this report were:

Executive Directors:

Mr. Ke Xiping
Ms. Yang Yifang
Mr. Chen, David Yu
Mr. Ke Jiaqi

Non-executive Director:

Mr. Albert Fook Lau Ho

Independent non-executive Directors:

Ms. Wong, Yan Ki Angel
Dr. Pan Guocheng
Dr. Tim Sun

Report of Directors

Board of Directors and Senior Management

Biographical details of the Directors and senior management of the Group are set out on pages 45 to 48 of this report.

Confirmation of Independence of Independent Non-Executive Directors

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") from each of the independent non-executive Directors and the Company considers such Directors to be independent during the year ended 31 December 2018.

Directors' Service Contracts and Letter of Appointments

Each of the executive Directors has entered into a service agreement and each of the non-executive Director and independent non-executive Directors has entered into a letter of appointment with the Company. Each of the service agreements and the letters of appointment has a term of three years and may be terminated by not less than three months' notice in writing served by either party on the other and is subject to termination provisions therein and provisions on retirement by rotation of Directors as set out in the Memorandum and Articles of Association of the Company.

None of the Directors has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Directors' Interests in Transaction, Arrangement or Contracts of Significance

No Director had a material interest in, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the Period Under Review.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Period Under Review.

Emolument Policy

The Remuneration Committee was set up for reviewing the Group's emolument policy and structure for all remuneration of the directors and senior management of the Group, having regard to the Group's operating results, individual performance of the directors and senior management and comparable market practices.

Remuneration of Directors and Five Individuals with Highest Emoluments

Details of the emoluments of the Directors and five highest paid individuals are set out in note 9 and note 42 to the consolidated financial statements.

Directors' and Chief Executive's Interests and Short Position in Shares, Underlying Shares and Debentures

As at 31 December 2018, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO), or (ii) which were required, pursuant to section 352 of the SFO, to be entered into the register maintained by the Company, or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(i) Interest in the Company

Name of Director	Nature of Interest	Number and class of Shares *(Note 1)*	Approximate percentage of interest in the issued capital *(Note 2)*
Mr. Ke Xiping *(Note 3)*	Interest of controlled corporation	555,000,000 (L)	60.0%
Mr. Ke Jiaqi *(Note 4)*	Interest of controlled corporation	138,750,000 (L)	15.0%

Note:

(1) The letter "L" denotes the person's long position in such shares.

(2) As at 31 December 2018, the total number of issued Shares of the Company was 925,000,000.

(3) Mr. Ke Xiping holds the entire issued share capital of Gold Virtue and is its director, therefore is deemed to be interested in the 555,000,000 Shares held by Gold Virtue.

(4) Mr. Ke Jiaqi holds the entire issued share capital of Xi Wang Developments and is its director, therefore is deemed to be interested in the 138,750,000 Shares held by Xi Wang Developments.

(ii) Interest in associated corporations of the Company

Name of Director	Name of associated corporation	percentage of interest in associated corporation
Mr. Ke Xiping	Gold Virtue *(Note 1)*	100%
Mr. Ke Jiaqi	Xi Wang Developments *(Note 2)*	100%

Note:

(1) Gold Virtue holds more than 50% of the Company's Shares, therefore Gold Virtue is the holding company and an associated corporation of the Company.

(2) Xi Wang Developments holds 15% of the Company's Shares, therefore Xi Wang Developments is the holding company and an associated corporation of the Company.

Report of Directors

Save as disclosed above, as at 31 December 2018, none of the Directors and the chief executive of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register of the Company required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Rights to Acquire Shares or Debentures

Save as otherwise disclosed in this report, at no time during the Period Under Review were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

Permitted Indemnity Provision

The articles of association of the Company provide that every director of the Company is entitled to be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he/she may incur or sustain in or about the execution of the duties of his/her office or otherwise in relation thereto.

The Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against its directors and officers.

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2018, to the best knowledge of the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name	**Capacity/Nature of interest**	**Number of Shares** *(Note 1)*	**Approximate percentage of interest in the issued capital** *(Note 2)*
Gold Virtue *(Note 3)*	Beneficial owner	555,000,000 (L)	60.0%
Xi Wang Developments *(Note 4)*	Beneficial owner	138,750,000 (L)	15.0%
Central China Dragon Global Opportunity Fund SP1	Beneficial owner	55,848,000 (L)	6.04%

Notes:

(1) The letter "L" denotes the person's long position in such shares.

(2) As at 31 December 2018, the total number of issued Shares of the Company was 925,000,000.

(3) Mr. Ke Xiping holds the entire issued share capital of Gold Virtue and is its director, therefore is deemed to be interested in the 555,000,000 Shares held by Gold Virtue. Mr. Ke Xiping is the father of Mr. Ke Jiaqi.

(4) Mr. Ke Jiaqi holds the entire issued share capital of Xi Wang Developments and therefore is deemed to be interested in the 138,750,000 Shares held by Xi Wang Developments. Mr. Ke Jiaqi is the son of Mr. Ke Xiping.

Save as disclosed above, and as at 31 December 2018, the Directors were not aware of any persons (who were not directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

Purchase, Sale or Redemption of Listed Securities

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

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of association or the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands where the Company was incorporated, which would oblige the Company to offer new Shares on a pro rata basis to existing Shareholders.

Non-Competition Undertaking

Each of Mr. Ke Xiping, Gold Virtue, Mr. Ke Jia Qi and Xi Wang Developments has executed a deed of non-competition through which they have irrevocably and unconditionally warranted and undertaken to the Company not to, whether directly or indirectly or as principal or agent, and whether on its/his/her own account or with each other or in conjunction with or on behalf of any person, firm or company or through any entities (except in or through any subsidiary of the Company).

The Controlling Shareholders have confirmed in writing to the Company of their compliance with the deed of non-competition for disclosure in this report during the year ended 31 December 2018.

The independent non-executive Directors ("**INEDs**") have reviewed the deed of non-competition whether the Controlling Shareholders have abided by the non-competition undertaking. The INEDs confirmed that they had determined that the Controlling Shareholders have not been in breach of the non-competition undertaking during the year ended 31 December 2018.

Report of Directors

Review of the Deed of Options

Reference is made to a deed of options dated 5 May 2014 entered into by Mr. Ke Xiping, Mineral Securities Golden Sea Limited and Xiamen Hengxing Group Co., Ltd. in relation to Shandong Yantai Golden Sea Mining Company Ltd. (山東煙台金海礦業有限公司) and Sichuan Xintianwei Mining Co., Ltd. (四川新天緯礦業有限公司) (collectively, "**Excluded Companies**") disclosed in the section headed "Relationship with our Controlling Shareholders" in the Prospectus. The Directors (including all independent non-executive Directors) reviewed such deed of options. Considering that (a) the tenements held by the Excluded Companies were all at a very preliminary stage of exploration, which might bring high uncertainty whether there will be any economically feasible mining project and production at these tenements in the future. Therefore, it is not in the interests of the Company and the Shareholders to include the Excluded Companies into the Group at this stage and (b) the Excluded Companies do not compete directly or indirectly with the Group's business, the Group has no intension to purchase any of the Excluded Companies or exercise any rights under such deed of options.

Directors' Interest in Competing Business

Save as disclosed in this report, as at 31 December 2018, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete with the businesses of the Group.

Share Option Scheme

The Company has conditionally adopted the Share Option Scheme pursuant to the written resolutions of the Shareholders passed on 5 May 2014 and the resolutions of the Directors passed on 5 May 2014. The purpose of such Share Option Scheme is to provide an incentive for Eligible Participants (defined below) to work with commitment towards enhancing the value of the Company and the Shares for the benefit of our Shareholders and to retain and attract high-caliber and working partners whose contributions are or may be beneficial to the growth and development of the Group.

The Board may at its discretion grant options to any full-time or part-time employees, consultants or potential employees, consultants, executives or officers (including executive, non-executive and independent non-executive directors) of the Company or any of its Subsidiaries and any suppliers, customers, consultants, agents and advisers who, in the absolute discretion of the Board has contributed or will contribute to our Group (collectively "**Eligible Participants**").

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and any other schemes of the Company shall not in aggregate exceed the number of Shares that shall represent 10% of the total number in issue as of the Listing Date, that is 92,500,000 Shares, representing 10% of the total number in issue as at the date of the annual report.

As for the grantee's maximum holding of the grant options, no option, unless approved by the shareholders in general meeting in the manner prescribed in the Listing Rules, may be granted to any participant of the Share Option Scheme such that the total number of Shares issued and to be issued upon exercise of the options during any 12 month period exceeding 1% of the total Shares then in issue.

Pursuant to the Share Option Scheme, an option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period notified by the Board in its absolute discretion, save that such period shall not be more than ten years commencing on the date on which the option is offered (the "**Offer Date**"). The price per Share at which a Grantee may subscribe upon exercise of an option shall also be determined by the Board and in any event shall be at least the highest of:

(1) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheets on the Offer Date;

(2) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the Offer Date; and

(3) the nominal value of the Shares.

An offer of the grant of an option shall be made to an Eligible Participant by an offer document. The offer shall remain open for acceptance for a period of 14 business days from the date on which it is made provided that no such offer shall be open for acceptance after the expiry of the Scheme Period or after the termination of the Share Option Scheme. An option shall be deemed to have been granted to, and accepted by, the Eligible Participant (the "**Grantee**") and to have taken effect upon the issue of an option certificate after the duplicate offer letter comprising acceptance of the option duly signed by the Grantee together with a remittance in favor of our Company of HK$1.00 by way of consideration for the grant of the option shall have been received by our Company on or before the last day for acceptance set out above.

The Share Option Scheme shall be valid and effective for 10 years from the Listing Date, after which time no further option will be granted but the Share Option Scheme itself shall remain in full force and effect in all other aspects.

In addition to the information stated herein, the detailed terms of such Share Option Scheme have been disclosed in the prospectus of the Company dated 19 May 2014.

No share options under the Share Option Scheme were granted, exercised, lapsed or cancelled from the listing of the Shares of the Company on the Main Board of the Stock Exchange on 29 May 2014 to 31 December 2018 and up to the date hereof.

Save for the Share Option Scheme of the Company as set out in this annual report, no equity-linked agreements were entered into by the Group, or existed during the year ended 31 December 2018.

Connected Transaction

Post Balance Sheet Events

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

Audit Committee

The Audit Committee had reviewed together with the management and external auditor the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the Period Under Review.

Code of Conduct Regarding Directors' Securities Transactions

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code contained in the Listing Rules. Specific enquiry has been made to all the Directors and the Directors have confirmed that they had complied with such code of conduct during the year ended 31 December 2018.

Report of Directors

Corporate Governance

The Company is committed to maintaining the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 17 to 24 of this annual report.

Sufficiency of Public Float

Based on information publicly available to the Company and to the knowledge of the Directors, at least 25% of the Company's total issued share capital, the prescribed minimum percentage of public float approved by the Stock Exchange and permitted under the Listing Rules, are held by the public at all times as of the date of this report.

Auditor

PricewaterhouseCoopers has acted as auditor of the Company for the Period Under Review.

A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company will be proposed at the forthcoming annual general meeting to be held on 28 June 2019 (the "**AGM**").

On behalf of the Board
Ke Xiping
Chairman

Xiamen PRC, March 29, 2019

Independent Auditor's Report

羅兵咸永道

To the Shareholders of Hengxing Gold Holding Company Limited
(incorporated in the Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of Hengxing Gold Holding Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 63 to 127, which comprise:

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

Our opinion

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

Basis for Opinion

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

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

Independence

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

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Independent Auditor's Report

Key Audit Matters

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

A key audit matter of assessment of provision for restoration cost is identified in our audit and summarised as follows:

Key Audit Matter	How our audit addressed the Key Audit Matter
Assessment of provision for restoration	
Refer to Note 4(a) "critical accounting estimates and judgements on provision for restoration cost" and Note 33 "provision for close down, restoration and environmental costs" of the consolidated financial statements. Pursuant to the relevant PRC laws and regulations, the Group is responsible for the restoration of the land damaged by mining activities. As and when the mining activities are carried out, the Group periodically performs restoration work around the areas where mining activities has been completed. As at 31 December 2018, the provision for restoration cost of the Group was RMB30,087,000. For the year ended at 31 December 2018, the Group accrued provision of RMB13,720,000. The management makes the provision for the restoration, based on the cash flow forecast for the provision of the restoration cost and the rehabilitation plan prepared by a third party which was approved by the government. The following primary assumptions were used in the cash flow forecast: • The future restoration expenditure, such as transportation and construction costs, useful lives of each mining site in the rehabilitation plan; • The discount rate applied to cash outflow for the purpose of deriving the amount of provision. Any material changes of these factors may cause the fluctuation of the provision for restoration cost.	We focus on this area due to significant judgements were made by management to determine the assumptions and the complexity of calculations derived in the cash flow forecast assessment. We performed the following procedures on the cash flow forecast assessment prepared by management: We assessed the methodology adopted by management when developing the cash flow forecast model. We checked the future restoration expenditure outflow and useful life of each mining site in the cash flow forecast and compared to the data in the rehabilitation plan. To assess the reliability of the estimated data input, we compared previous estimated input to the historical actual cost incurred. We assessed the discount rate used by the management by reference to the industry report and open market data. We tested the mathematical accuracy of the calculations derived from the cash flow forecast. Based on our work, we found the provision for restoration cost was supported by the evidence obtained.

Other Information

The directors of the Company are responsible for the other information set out in the Company's 2018 annual report. The other information comprises the information included in the management discussion and analysis (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the corporate information, corporate profile, chairman statement, corporate governance report, environmental, social and governance report, board of directors and senior management, report of directors, five years summary and definition which are expected to be made available to us after that date.

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

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

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

When we read the corporate information, corporate profile, chairman statement, corporate governance report, environmental, social and governance report, board of directors and senior management, report of directors, five years summary and definition, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the audit committee and take appropriate action considering our legal rights and obligations.

Responsibilities of Directors and Audit Committee for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

(Continued)

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lam Siu Wing, Benny.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Note	Year ended 31 December 2018 RMB'000	2017 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	17	–	(13,970)
Operating profit		332,542	337,151
Finance income	10	461	74
Finance costs	10	(9,236)	(12,911)
Finance costs— net		(8,775)	(12,837)
Profit before income tax		323,767	324,314
Income tax expense	12	(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)	13	0.28	0.26

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

Consolidated balance sheet

As at 31 December 2018

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
Assets			
Non-current assets			
Prepaid lease payments	*14*	**15,151**	15,508
Property, plant and equipment	*15*	**351,075**	384,622
Investment properties	*16*	**–**	8,405
Intangible assets	*18*	**282,489**	289,187
Prepayments for purchase of property, plant and equipment		**3,422**	4,265
Deferred tax assets	*31*	**5,822**	9,565
Restricted bank balance	*24*	**10**	10
Total non-current assets		**657,969**	711,562
Current assets			
Prepaid lease payments	*14*	**357**	357
Inventories	*23*	**106,180**	107,566
Trade receivables	*21*	**–**	24,687
Other receivables and prepayments	*22*	**21,240**	23,726
Financial assets at fair value through profit or loss	*25*	**30,489**	26,534
Available-for-sale financial assets	*20*	**–**	29,000
Cash and cash equivalents	*24*	**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	*26*	**7,362**	7,362
Reserves	*27*	**366,544**	491,294
Retained earnings	*28*	**553,442**	292,545
Total equity		**927,348**	791,201

Consolidated balance sheet

As at 31 December 2018

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
Liabilities			
Non-current liabilities			
Long-term borrowings	30	**–**	60,000
Deferred income	32	**7,419**	7,843
Provision for close down, restoration and environmental costs	33	**30,087**	20,608
Total non-current liabilities		**37,506**	88,451
Current liabilities			
Trade and other payables	29	**66,809**	80,002
Current tax liabilities		**26,049**	37,184
Current portion of long-term borrowings	30	**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

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

The consolidated financial statements on pages 63 to 127 were approved by the Board of Directors on 29 March 2019 and were signed on its behalf.

Mr. Ke Xiping
Director

Miss. Yang Yifang
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

		Attributable to owners of the Company					
	Note	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Investment revaluation reserves RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2017		7,362	540,052	31,523	1,683	52,242	632,862
Comprehensive income							
Profit for the year		–	–	–	–	240,303	240,303
Other comprehensive income							
Disposal of available-for-sale financial assets		–	–	–	(1,683)	–	(1,683)
Total comprehensive income for the year		–	–	–	(1,683)	240,303	238,620
Transactions with owners in their capacity as owners:							
Dividend relating to 2016 paid in 2017	*34*	–	(80,281)	–	–	–	(80,281)
		–	(80,281)	–	–	–	(80,281)
Balance at 31 December 2017		7,362	459,771	31,523	–	292,545	791,201
Comprehensive income							
Profit for the year		**–**	**–**	**–**	**–**	**260,897**	**260,897**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**260,897**	**260,897**
Transactions with owners in their capacity as owners:							
Dividend relating to 2017 paid in 2018	*34*	**–**	**(124,750)**	**–**	**–**	**–**	**(124,750)**
		–	**(124,750)**	**–**	**–**	**–**	**(124,750)**
Balance at 31 December 2018		**7,362**	**335,021**	**31,523**	**–**	**553,442**	**927,348**

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Note	Year ended 31 December	
		2018	2017
		RMB'000	RMB'000
Cash flows from operating activities			
Cash generated from operations	*35 (a)*	**465,132**	457,123
Income taxes paid		**(70,262)**	(80,248)
Net cash generated from operating activities		**394,870**	376,875
Cash flows from investing activities			
Redemption of structured deposits		**857,777**	909,076
Proceeds from disposal of equity investments	*25 (a)*	**33,043**	25,181
Interest received	*10*	**461**	74
Proceeds from disposal of available-for-sale financial assets		**–**	2,525
Proceeds from disposal of property, plant and equipment	*35 (b)*	**–**	186
Payments for available-for-sale financial assets	*20*	**–**	(29,000)
Payments for equity investments	*25 (a)*	**(10,360)**	(7,383)
Payments for intangible assets		**(23,789)**	(78,599)
Payments for property, plant and equipment		**(36,071)**	(70,759)
Placement of structured deposits		**(858,700)**	(907,000)
Net cash used in investing activities		**(37,639)**	(155,699)
Cash flows from financing activities			
Interest paid for bank and other borrowings		**(6,570)**	(13,617)
Repayment of bank and other borrowings		**(88,291)**	(97,943)
Dividends paid to Company's shareholders	*34*	**(124,750)**	(80,281)
Net cash used in financing activities		**(219,611)**	(191,841)
Net increase in cash and cash equivalents		**137,620**	29,335
Cash and cash equivalents at the beginning of year	*24*	**161,697**	137,822
Effects of exchange rate changes on cash and cash equivalents		**2,160**	(5,460)
Cash and cash equivalents at the end of year	*24*	**301,477**	161,697

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

1 General information

Hengxing Gold Holding Company Limited ("the Company") and its subsidiaries (together, "the Group") are engaged in mining and processing of gold, sales of processed gold products in the People's Republic of China (the "PRC"). The Group has operation mainly in Xinjiang Uygur Autonomous Region, the PRC.

The Company is a limited liability company incorporated and domiciled in the Cayman Islands. The address of its registered office is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY1-1108, the Cayman Islands.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited, commencing on 29 May 2014.

The consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated, which is also the functional currency of the Company. This consolidated financial statements have been approved for issue by Board of Directors on 29 March 2019.

2 Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of Hengxing Gold Holding Company Limited and its subsidiaries.

2.1 Basis of preparation

(i) Compliance with HKFRS and HKCO

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.

(ii) Historical cost convention

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

- certain financial assets and liabilities (including derivative instruments)

(iii) 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 2.2 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 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

(iv) 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, see Note 37. 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.

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

(iv) New standards and interpretations not yet adopted (Continued)

HKFRS 16 Leases (Continued)

Impact *(Continued)*

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 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).

2.2 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.

2.2 (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 2.2 (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.

2 Summary of significant accounting policies *(Continued)*

2.2 Changes in accounting policies *(Continued)*

2.2 (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 2.14 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.

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

2 Summary of significant accounting policies *(Continued)*

2.2 Changes in accounting policies *(Continued)*

2.2 (b) HKFRS 9 Financial Instruments (Continued)

(i) Classification and measurement (Continued)

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.

(ii) 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.

2.2 (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.

2 Summary of significant accounting policies *(Continued)*

2.3 Principles of consolidation and equity accounting

(i) 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 2.4).

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.

2.4 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.

2 Summary of significant accounting policies *(Continued)*

2.4 Business combinations *(Continued)*

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

2.5 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.

2.6 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.

2.7 Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

2 Summary of significant accounting policies *(Continued)*

2.7 Foreign currency translation *(Continued)*

All foreign exchange gains and losses are presented in statement of profit or loss within "other gains/(losses) — net".

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

2.8 Property, plant and equipment

Property, plant and equipment (other than construction in progress) are stated at historical cost less depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Construction in progress represents mining structures, buildings and machinery in the course of construction for production or for its own use purposes. Construction in progress is stated at cost less any identified impairment loss. Cost comprises construction expenditure and other direct costs attributable to such projects, if the amount of capital expenditures and the time involved to complete the construction are significant. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Deprecation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives , as follows:

— Buildings and structures	20 years
— Mining structures and equipment	5–20 years
— Machinery	10 years
— Motor vehicles	4 years
— Furniture and office equipment	5 years
— Electronic equipment	3 years

The asset's resident value and useful lives are reviewed and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.13).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

2 Summary of significant accounting policies *(Continued)*

2.9 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of profit or loss on a straight-line basis over the period of the lease.

The Group's interest in leasehold land accounted for as an operating lease is presented as "prepaid lease payments" in the consolidation balance sheet and is amortised over lease terms on a straight-line basis.

2.10 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.

2.11 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.

2 Summary of significant accounting policies *(Continued)*

2.12 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 is 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.

2.13 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.

2 Summary of significant accounting policies *(Continued)*

2.14 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.

2 Summary of significant accounting policies *(Continued)*

2.14 Investments and other financial assets *(Continued)*

(iii) Measurement *(Continued)*

Debt instruments (Continued)

- 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.

2 Summary of significant accounting policies *(Continued)*

2.14 Investments and other financial assets *(Continued)*

(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 19 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, i.e. 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.

2 Summary of significant accounting policies *(Continued)*

2.14 Investments and other financial assets *(Continued)*

(v) Accounting policies applied until 31 December 2017 *(Continued)*

(a) Classification (Continued)

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.

2 Summary of significant accounting policies *(Continued)*

2.14 Investments and other financial assets *(Continued)*

(v) Accounting policies applied until 31 December 2017 *(Continued)*

(b) Subsequent measurement (Continued)

Details on how the fair value of financial instruments is determined are disclosed in Note 3.3.

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. Impairment testing of trade receivables is described in Note 3.1(b).

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.

2 Summary of significant accounting policies *(Continued)*

2.15 Inventories

Raw materials, gold in process, gold dore bars, consumables and spare parts are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.16 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Trade receivables are generally due for settlement within 30 days and therefore are all classified as current.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. See Note 2.14 for further information about the Group's accounting for trade receivables and Note 3.1 for a description of the Groups's impairment policies.

2.17 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.18 Share capital

Ordinary shares are classified as equity (Note 26).

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.19 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2.20 Borrowings

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

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

2 Summary of significant accounting policies *(Continued)*

2.20 Borrowings *(Continued)*

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

2.21 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

All borrowing costs are expensed in the period in which they are incurred.

2.22 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.

2 Summary of significant accounting policies *(Continued)*

2.22 Current and deferred income tax *(Continued)*

(ii) Deferred income tax *(Continued)*

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.

2.23 Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

(ii) Pension obligations

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

The Group operates a Mandatory Provident Fund Scheme for all its qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. Under the rule of Mandatory Provident Fund Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules.

(iii) Housing benefits

The full-time employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each period.

2.24 Provision

The Group is required to make payments for restoration of the land after the mining has been terminated. Provision for restoration cost is recognised when the Group has a present obligation as a result of past event, and it is probable that the Group will be required to settle that obligation and the amount can be reliably estimated. Provision is measured in accordance with the relevant rules and regulations applicable in the PRC at the end of the reporting period, and using the cash flows forecast to estimate the present obligation, and is discounted to their present value where the effect is material.

2 Summary of significant accounting policies *(Continued)*

2.25 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.

2.26 Revenue recognition

Sale of gold products

The revenue from sale of gold products is recognised when control of the products has transferred, being when the gold products are sold.

2.27 Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and

- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.28 Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (Note 37). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

2 Summary of significant accounting policies *(Continued)*

2.29 Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

The profits of the PRC subsidiaries of the Group are subject to withholding tax at a rate of 10% upon the distribution of such profits to foreign investor in Hong Kong.

2.30 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Note 6 provides further information on how the Group accounts for government grants.

Government grants relating to income are deferred and recognised in the statement of profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to assets are included in non-current liabilities as deferred government grants and are credited to the statement of profit or loss on a straight- line basis over the expected lives of the related assets.

2.31 Interest income

Interest income is recognised using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

3 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The Group's risk management is carried out by a central treasury department (Group treasury) under policies approved by the board of directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

3 Financial risk management *(Continued)*

3.1 Financial risk factors

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Hong Kong dollars and US dollars. The Group does not hedge against any fluctuation in foreign currency.

The sensitivity of profit or loss to changes in the exchange rates arises mainly from Hong Kong dollars and US dollars denominated bank balances and cash and other receivables.

	Impact on post tax profit	
	2018	2017
	RMB'000	RMB'000
HK$/RMB exchange rate — increase 5%	**2,168**	2,085
HK$/RMB exchange rate — decrease 5%	**(2,168)**	(2,085)
US$/RMB exchange rate — increase 5%	**2,021**	2,014
US$/RMB exchange rate — decrease 5%	**(2,021)**	(2,014)

(ii) Cash flow and fair value interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate borrowings. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure when the need arises.

The Group is exposed to cash flow interest rate risk in relation to the floating-rate bank balance and a bank borrowing.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates of variable rate bank balances and loans at the end of the reporting period. The analysis is prepared assuming the amount outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis points increase or 50 basis points decrease (2017: 50 basis points increase or decrease) represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2017: 50 basis points) higher/lower and all other variables were held constant, the Group's profit before taxation for the year ended 31 December 2018 would have been RMB300,000 lower/higher (2017: RMB750,000).

3 Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(iii) Price risk

The Group is principally engaged in mining and processing of gold and sales of processed gold products. Gold markets are influenced by global as well as regional supply and demand conditions. A decline in prices of gold products could adversely affect the Group's financial performance.

The Group is also exposed to equity securities price risk because of investment held by the Group and classified as financial assets at fair value through profit or loss.

(b) Credit risk

Credit risk arises from cash and cash equivalents and trade and other receivables. The carrying amounts or the undiscounted nominal amounts, where applicable, of each class of these financial assets represent the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

To manage the risk with respect to cash and cash equivalents, all of the Group's bank deposits were deposited with major financial institutions incorporated in the PRC, which management believes are of high-credit-quality without significant credit risk.

All of the Group's trade and other receivables have no collateral. The Group assessed the credit quality of the counterparties by taking into account their financial position, credit history and other factors. Management also regularly reviews the recoverability of these receivables and follow up the disputes or amounts overdue, if any. The management is of the opinion that the risk of default by counterparties is low.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information.

(i) Trade receivables

The Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables.

The expected loss rates are based on the payment profiles of sales over a period of 12 month before 1 January 2018 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

On that basis, no loss allowance provision for trade receivables was recognised as at 1 January 2018 (on adoption of HKFRS 9).

3 Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) *Credit risk* *(Continued)*

(ii) *Other receivables*

For other receivables, as they have a low risk of default and the counterparty has a strong capacity to meet its contractual cash flow obligations in the near term, the Group considered them to have low credit risk, and thus the impairment provision recognised is limited to 12 months expected losses.

The Group has assessed that the expected credit losses for these receivables are not material under the 12 months expected losses method. Thus, no loss allowance provision was recognised.

(c) *Liquidity risk*

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity tables

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date, which is also the agreed repayment date, on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

3 Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) *Liquidity risk* *(Continued)*

The amounts included below for variable rate instruments for non-derivative financial liabilities are subject to change if changes in variable rates differ to those estimates of interest rates determined at the end of the reporting period.

	Less than 3 months RMB'000	Between 3 months and 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000
Group				
At 31 December 2018				
Borrowings	–	61,179	–	–
Trade and other payables (excluding staff salaries payable and other tax payable)	33,412	12,481	–	–
	33,412	73,660	–	–
At 31 December 2017				
Borrowings	11,715	82,609	61,261	–
Trade and other payables (excluding staff salaries payable and other tax payable)	10,129	50,230	–	–
	21,844	132,839	61,261	–

3.2 Capital management

The Group's objectives when managing capital are to

- safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders, and
- maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the following gearing ratio:

Net debt as per Note 35 (c)
divided by
Total 'equity' (as shown in the balance sheet).

3 Financial risk management *(Continued)*

3.2 Capital management *(Continued)*

The gearing ratios at 31 December 2018 and 2017 were as follows:

	2018 RMB'000	2017 RMB'000 Restated
Net debt *(Note 35 (c))*	**(271,966)**	(68,940)
Total equity	**927,348**	791,201
Net debt to equity ratio	**(29.33%)**	(8.71%)

The decrease in gearing ratio during 2018 was resulted primarily from the profit earned and decrease of borrowings during the year.

3.3 Fair value estimation

To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the tables.

The following table presents the Group's assets that were measured at fair value at 31 December 2018.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Financial assets at fair value through profit or loss				
— Equity investments *(Note 25)*	**26,761**	**–**	**–**	**26,761**
Financial assets at fair value through profit or loss				
— Debt investments *(Note 25)*	**–**	**3,700**	**–**	**3,700**
Financial assets at fair value through profit or loss				
— Future contracts *(Note 25)*	**28**	**–**	**–**	**28**
Total assets	**26,789**	**3,700**	**–**	**30,489**

3 Financial risk management *(Continued)*

3.3 Fair value estimation *(Continued)*

The following table presents the Group's assets that were measured at fair value at 31 December 2017.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial assets				
— Equity investments *(Note 20)*	20,000	9,000	–	29,000
Financial assets at fair value through profit or loss				
— Equity investments *(Note 25)*	25,362	–	–	25,362
Financial assets at fair value through profit or loss				
— Future contracts *(Note 25)*	1,172	–	–	1,172
Total assets	46,534	9,000	–	55,534

There were no transfers between levels 1 and 2 for recurring fair value measurements during the year.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

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 33 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.

5 Segment information *(Continued)*

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 RMB'000	Gold mining segment RMB'000	International trading segment RMB'000	Total 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:

	2018	2017		
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 RMB'000	2017 RMB'000
Government grants related to assets *(Note 32)*	**424**	424
Others	**582**	287
	1,006	711

7 Other gains/(losses) — net

	2018 RMB'000	2017 RMB'000
Investment gains on future contracts *(Note 25 (c))*	**4,356**	5,726
Investment gains of debt investments *(Note 25 (b))*	**2,777**	2,076
Net foreign exchange gains/(losses)	**2,384**	(6,459)
Investment gains of equity investments *(Note 25 (a))*	**279**	96
Investment gains of available-for-sale financial assets	**–**	2,045
Net losses on disposal of property, plant and equipment *(Note 35 (b))*	**(486)**	(8,768)
Net fair value losses on financial assets at fair value through profit or loss *(Note 25 (a))*	**(5,197)**	(2,413)
Other losses *(Note 16)*	**–**	(98)
	4,113	(7,795)

8 Expenses by nature

	2018 RMB'000	2017 RMB'000
Changes in inventories of finished goods and work in progress *(Note 23)*	**3,529**	(9,007)
Purchase of finished goods	**–**	211,885
Depreciation and amortisation *(Notes 14, 15 and 18)*	**86,862**	73,601
Employee benefit expenses *(Note 9)*	**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 Employee benefit expenses

	2018 RMB'000	2017 RMB'000
Wages and salaries	**47,073**	46,962
Social security costs	**1,448**	1,277
Pension costs — defined contribution plans *(Note (a))*	**2,632**	2,349
Housing benefits *(Note (b))*	**1,337**	1,275
Others	**3,439**	3,925
Total employee benefit expenses	**55,929**	55,788

(a) Pensions — defined contribution plans

The balance represented the Group's contributions to the defined contribution pension plans organised by the relevant municipal and provincial governments at a rate of 18% of the basic salary of permanent employees in Xinjiang Uygur Autonomous region, the PRC.

(b) Housing benefits

The balance represented the Group's contributions to government-sponsored housing funds at a rate of 12% of the basic salary of permanent employees in Xinjiang Uygur Autonomous region, the PRC.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2017: one) directors whose emoluments are reflected in the analysis shown in note 42. The emoluments payable to the remaining three (2017: four) individuals during the year are as follows:

	2018 RMB'000	2017 RMB'000
Salaries and other allowances	**3,057**	3,517
Contribution to pension scheme	**23**	36
	3,080	3,553

The emoluments fell within the following bands:

	Number of the individuals	
	2018	2017
Emolument bands		
Within HKD1,000,000 (equivalent to RMB877,700)	**1**	2
HKD1,000,001 — HKD1,500,000 (equivalent to RMB877,701 — RMB1,316,550)	**2**	2

10 Finance income and costs

	2018 RMB'000	2017 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 33)*	**2,442**	293
Finance costs	**9,236**	12,911
Net finance costs	**8,775**	12,837

11 Subsidiaries

The Group's principal subsidiaries at 31 December 2018 and 31 December 2017 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held by the Group, and the proportion of ownership interests held equals the voting rights held by the Group.

Name	Country/place of incorporation	Particulars of issued share capital and debt securities	Proportion of ordinary shares directly held by parent (%)	Proportion of ordinary shares held by the Group (%)	Principal activities
Golden Planet Investments Limited	The British Virgin Islands ("BVI")	US$3	100%	100%	Investment holding
Tianshan Gold Securities (Hong Kong) Limited	Hong Kong	HK$117,000,002	–	100%	Investment holding
Goldfield (Xinjiang) Investment Advisory Limited *(Note (i))*	The PRC	HK$500,000	–	100%	Investment holding
Jinchuan Mining *(Note (ii))*	The PRC	US$51,500,000	–	100%	Mining and processing of gold and sales of processed gold products

Notes:

(i) It was a wholly owned foreign enterprise established in the PRC.

(ii) Jinchuan Mining was established as a sino-foreign co-operative joint venture enterprise with limited liability, and became a sino-foreign equity joint venture enterprise with limited liability on 31 August 2010.

None of the subsidiaries had issued any debt securities at the end of the reporting period or at any time during both years.

12 Income tax expense

	2018 RMB'000	2017 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 31)*	**2,533**	10,518
Increase/(decrease) in deferred tax liabilities *(Note 31)*	**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 HKD 2 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 HKD 2 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.

12 Income tax expense *(Continued)*

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 RMB'000	2017 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

13 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 RMB'000	2017 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.

14 Prepaid lease payments

The Group's interests in prepaid lease payments represent prepaid operating lease payments and their net book value are analysed as follows:

Leasehold land	2018 RMB'000	2017 RMB'000
At 1 January	**15,865**	16,222
Amortisation of prepaid operating lease payment *(Note 8)*	**(357)**	(357)
At 31 December	**15,508**	15,865
Current portion	**357**	357
Non-current portion	**15,151**	15,508
At 31 December	**15,508**	15,865

15 Property, plant and equipment

Non-current assets	Buildings and structures RMB'000	Mining structures and equipment RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Furniture & office equipment RMB'000	Electronic equipment RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2017								
Cost	73,304	284,887	24,235	5,252	838	11,644	23,401	423,561
Accumulated depreciation	(13,338)	(60,126)	(8,181)	(3,254)	(470)	(4,082)	–	(89,451)
Net book amount	59,966	224,761	16,054	1,998	368	7,562	23,401	334,110
Year ended 31 December 2017								
Opening net book amount	59,966	224,761	16,054	1,998	368	7,562	23,401	334,110
Additions	–	–	5,547	1,218	1,178	2,945	82,976	93,864
Transfers	31,527	39,334	22,359	–	152	1,167	(94,539)	–
Disposals *(Note 35(b))*	(157)	(634)	(79)	(16)	–	(237)	(7,831)	(8,954)
Depreciation charge *(Note 8)*	(4,551)	(23,607)	(4,010)	(586)	(164)	(1,480)	–	(34,398)
Closing net book amount	86,785	239,854	39,871	2,614	1,534	9,957	4,007	384,622
At 31 December 2017								
Cost	104,674	323,587	52,062	6,454	2,168	15,519	4,007	508,471
Accumulated depreciation	(17,889)	(83,733)	(12,191)	(3,840)	(634)	(5,562)	–	(123,849)
Net book amount	86,785	239,854	39,871	2,614	1,534	9,957	4,007	384,622
Year ended 31 December 2018								
Opening net book amount	86,785	239,854	39,871	2,614	1,534	9,957	4,007	384,622
Additions	–	1,407	5,115	1,696	111	1,981	12,029	22,339
Transfer from construction in progress	6,240	4,355	328	–	–	–	(10,923)	–
Transfer from investment property *(Note 16)*	8,405	–	–	–	–	–	–	8,405
Disposals *(Note 35(b))*	–	(110)	(281)	(10)	(2)	(83)	–	(486)
Other decreases (i)	–	(19,065)	–	–	–	–	–	(19,065)
Depreciation charge *(Note 8)*	(5,802)	(30,822)	(5,293)	(723)	(184)	(1,916)	–	(44,740)
Closing net book amount	95,628	195,619	39,740	3,577	1,459	9,939	5,113	351,075
At 31 December 2018								
Cost	122,996	309,909	56,961	7,651	2,274	16,983	5,113	521,887
Accumulated depreciation	(27,368)	(114,290)	(17,221)	(4,074)	(815)	(7,044)	–	(170,812)
Net book amount	95,628	195,619	39,740	3,577	1,459	9,939	5,113	351,075

15 Property, plant and equipment *(Continued)*

(i) The other decreases is mainly due to the fact that Jinchuan Mining received an compensation from a equipment suppliers for quality defects of a mining equipment.

(ii) All buildings are erected on land with land use rights under medium-term leases in the PRC.

(iii) Depreciation of property, plant and equipment has been charged to cost of sales and administrative expenses as follows:

	2018 RMB'000	2017 RMB'000
Total depreciation	**44,740**	34,398
Administrative expenses	**4,401**	3,458
Cost of sales	**40,339**	30,940
	44,740	34,398

As at 31 December 2018, buildings, mining structures and equipment amounting to RMB116,145,000 (2017: RMB125,830,000) were secured to Agricultural Bank of China to secure the bank borrowings of RMB60,000,000 (2017: RMB148,291,000) (Note 30 (c)(i)).

16 Investment property

Non-current assets	**2018 RMB'000**	2017 RMB'000
At 1 January		
Opening net book amount	**8,405**	8,979
Transfer to property, plant and equipment *(Note 15)*	**(8,405)**	–
Depreciation for the year	**–**	(574)
Closing net book amount	**–**	8,405
At 31 December		
Cost	**–**	12,082
Accumulated depreciation	**–**	(3,677)
Net book amount	**–**	8,405

The Group's investment property is stated at historical cost at the end of each reporting period.

16 Investment property *(Continued)*

Amounts recognised in profit and loss for investment property as follow:

	2018 RMB'000	2017 RMB'000
Other gains (rental income)	–	476
Other losses (depreciation)	–	(574)
Net loss *(Note 7)*	–	(98)

17 Exploration and evaluation assets

The Group's exploration and evaluation assets for reporting purposes are as follow:

Non-current assets	2018 RMB'000	2017 RMB'000
Net Book Value:		
At beginning of the year	–	13,970
Write off as expense (i)	–	(13,970)
At end of the year	–	–
At 31 December		
Cost	18,935	53,878
Provision for impairment losses	(18,935)	(53,878)
Net book amount	–	–

Notes:

(i) The write off of RMB13,970,000 for exploration and evaluation assets recognised during the year ended 31 December 2017 primarily related to the Yelmand West area of which economic benefit was significantly decreased and the exploration license has been cancelled.

(ii) Provision for impairment losses of RMB34,943,000 related to the Talede and Nalensayi areas was written off during the year ended 31 December 2018 due to the exploration license has been cancelled in 2018.

(iii) As at 31 December 2018, provision for impairment losses of RMB18,935,000 related to the Gold Mountain Periphery area of which the exploration license was expired in September 2016. Management intends to write off the exploration license and decides to make tax special declaration in 2020, so the deferred income tax assets attributable to this impairment losses have not been recovered.

18 Intangible assets

Non-current assets	Mining rights RMB'000	Restoration costs RMB'000	Stripping costs RMB'000	Meadow compensation costs and others RMB'000	Total RMB'000
At 1 January 2017					
Cost	141,380	16,320	115,141	36,820	309,661
Accumulated amortisation	(19,031)	(4,107)	(42,565)	(4,720)	(70,423)
Net book amount	122,349	12,213	72,576	32,100	239,238
Year ended 31 December 2017					
Opening net book amount	122,349	12,213	72,576	32,100	239,238
Additions *(Note 33)*	–	10,196	77,806	793	88,795
Amortisation charge *(Note 8)*	(8,832)	(6,902)	(21,360)	(1,752)	(38,846)
Closing net book amount	113,517	15,507	129,022	31,141	289,187
At 31 December 2017					
Cost	141,380	26,516	192,947	37,613	398,456
Accumulated amortisation	(27,863)	(11,009)	(63,925)	(6,472)	(109,269)
Net book amount	113,517	15,507	129,022	31,141	289,187
Year ended 31 December 2018					
Opening net book amount	**113,517**	**15,507**	**129,022**	**31,141**	**289,187**
Additions *(Note 33)*	**–**	**11,278**	**22,812**	**977**	**35,067**
Amortisation charge *(Note 8)*	**(10,272)**	**(6,854)**	**(22,850)**	**(1,789)**	**(41,765)**
Closing net book amount	**103,245**	**19,931**	**128,984**	**30,329**	**282,489**
At 31 December 2018					
Cost	**141,380**	**37,794**	**215,759**	**38,590**	**433,523**
Accumulated amortisation	**(38,135)**	**(17,863)**	**(86,775)**	**(8,261)**	**(151,034)**
Net book amount	**103,245**	**19,931**	**128,984**	**30,329**	**282,489**

The mining license and gold mining permit of the relevant gold mining project have been granted to the Group in 2012, which allow the Group to mine up to a predetermined level of ore every year from the date of grant through the expiry of the mining license.

At 31 December 2018, mining rights of RMB103,245,000 (2017: RMB113,517,000) was pledged to Agricultural Bank of China to secure the bank borrowings of RMB60,000,000 (2017: RMB148,291,000) (Note 30(c)(i)).

19 Financial instruments by category

Financial assets	*Notes*	**2018 RMB'000**	2017 RMB'000
Financial assets at amortised cost			
Trade receivables	*21*	**–**	24,687
Other receivables	*22*	**7,113**	14,974
Cash and cash equivalents	*24*	**301,477**	161,697
Restricted bank balance	*24*	**10**	10
Available-for-sale financial assets	*20*	**–**	29,000
Financial assets at fair value through profit or loss (FVPL)	*25*	**30,489**	26,534
Total		**339,089**	256,902

Financial liabilities	*Notes*	**2018 RMB'000**	2017 RMB'000
Liabilities at amortised cost			
Borrowings	*30*	**60,000**	148,291
Trade and other payables excluding non-financial liabilities	*29*	**45,893**	60,359
Total		**105,893**	208,650

The Group's exposure to various risks associated with the financial instruments is discussed in Note 3. 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.

20 Available-for-sale financial assets

	2018 RMB'000	2017 RMB'000
At 1 January (Restated at 1 January 2018) *(Notes 2.2 and 25)*	**–**	2,163
Additions	**–**	29,000
Disposals	**–**	(2,163)
At 31 December	**–**	29,000

Available-for-sale financial assets include the following classes of financial assets:

	2018 RMB'000	2017 RMB'000
Current assets		
Unlisted securities:		
— Bank financial products with floating profit	**–**	29,000

As at 31 December 2017, all available-for-sale financial assets were denominated in RMB .

None of the available-for-sale financial assets were either past due or impaired.

21 Trade receivables

Current assets	2018 RMB'000	2017 RMB'000
Trade receivables	**–**	24,687
Loss allowance *(Note 3.1)*	**–**	–
	–	24,687

(i) As at 31 December 2017, the aging of the analysis trade receivables were within 1 month and no trade receivables were either past due or impaired.

(ii) Fair values of trade receivables

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

(iii) As at 31 December 2017, all trade receivables were denominated in RMB.

22 Other receivables and prepayments

Current assets	2018 RMB'000	2017 RMB'000
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 and 2017 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.

22 Other receivables and prepayments *(Continued)*

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

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

23 Inventories

Current assets	**2018 RMB'000**	2017 RMB'000
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).

24 Cash and cash equivalents/Restricted bank balance

Current assets	**2018 RMB'000**	2017 RMB'000
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 RMB'000	2017 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%).

25 Financial assets at fair value through profit or loss

Current assets	**2018 RMB'000**	2017 RMB'000
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 RMB'000	2017 RMB'000
At 1 January (Restated at 1 January 2018) *(Notes 2.2 and 20)*	**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.

25 Financial assets at fair value through profit or loss *(Continued)*

(b) Debt investments

Movements in debt investments are analysed as follows:

	2018 RMB'000	2017 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 RMB'000	2017 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).

26 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.

27 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.

28 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.

29 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.

30 Borrowings

(a) Long-term bank borrowings

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

(c) The borrowings can be analysed as follows:

	2017 RMB'000	2016 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) (Note 18) and property, plant and equipment with a net book value of approximately RMB116,145,000 (31 December 2017: approximately RMB125,830,000) (Note 15).

(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.

30 Borrowings *(Continued)*

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

	Carrying amount		Fair value	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 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.

31 Deferred income tax

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

	2018 RMB'000	2017 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:

Movements	**2018 RMB'000**	2017 RMB'000
At 1 January	**9,565**	20,046
Charged to the consolidated statement of profit or loss *(Note 12)*	**(3,743)**	(10,481)
At 31 December	**5,822**	9,565

31 Deferred income tax *(Continued)*

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 (Note 17) and provision for close down, restoration and environmental costs of RMB30,087,000 (Note 33).

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.

32 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 RMB'000**	2017 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

33 Provision for close down, restoration and environmental costs

Non-current liabilities	**2018 RMB'000**	2017 RMB'000
At 1 January	**20,608**	11,448
Additions to site reclamation *(Note 18)*	**11,278**	10,196
Accretion incurred in the year *(Note 10)*	**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.

34 Dividends

		2018 RMB'000	2017 RMB'000
(i)	**Ordinary shares**		
	Final dividend paid in cash for the year ended 31 December 2017 of HK$0.155 (2016: 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 (2017:80,281,000) relating to the year ended 31 December 2017 was declared and distributed from the share premium of the Company to the shareholders.

		2018 RMB'000	2017 RMB'000
(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 (2018: 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, is	**81,049**	124,750

35 Cash flow information

(a) Cash generated from operations

	2018 RMB'000	2017 RMB'000
Profit before income tax	323,767	324,314
Adjustments for:		
— Depreciation of property, plant and equipment *(Note 15)*	44,740	34,398
— Depreciation of investment property *(Note 16)*	–	574
— Release of prepaid lease payments *(Note 14)*	357	357
— Amortisation of intangible assets *(Note 18)*	41,765	38,846
— Write off of exploration and evaluation assets	–	13,970
— Losses on disposal of property, plant and equipment *(Note 7)*	486	8,768
— Finance costs *(Note 10)*	9,236	12,911
— Fair value change on futures contracts *(Note 25(c))*	1,144	259
— Investment gains of equity investments *(Note 7)*	(279)	(96)
— Fair value losses on financial assets at fair value through profit of loss *(Note 7)*	5,197	2,413
— Investment gains of debt investments *(Note 7)*	(2,777)	(2,076)
— Investment income of available-for-sale financial assets *(Note 7)*	–	(2,045)
— Interest income *(Note 10)*	(461)	(74)
— Release of deferred income *(Note 32)*	(424)	(424)
— Foreign exchange (gains)/losses, net *(Note 7)*	(2,384)	6,459
— Environmental restoration expenses paid *(Note 33)*	(4,241)	(1,329)
Operating cash flows before movements in working capital	**416,126**	437,225
Changes in working capital:		
Decrease/(increase) in inventories *(Note 23)*	1,386	(10,023)
Decrease in trade and other receivables and prepayments	38,538	15,361
Increase in trade and other payables	9,082	14,560
Cash generated from operations	**465,132**	457,123

(b) Proceeds from disposal of property, plant and equipment

Proceeds from disposal of property, plant and equipment comprise:

	2018 RMB'000	2017 RMB'000
Net book amount disposed *(Note 15)*	486	8,954
Losses on disposal *(Note 7)*	(486)	(8,768)
Proceeds from disposal of property, plant and equipment	**–**	186

35 Cash flow information *(Continued)*

(c) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	2018 RMB'000	2017 RMB'000 Restated
Cash and cash equivalents *(Note 24)*	**301,477**	161,697
Liquid investments (i)	**30,489**	55,534
Borrowings *(Note 30)*	**(60,000)**	(148,291)
Net debt	**271,966**	68,940

	Other assets		**Liabilities from financing activities**	
	Cash and cash equivalents RMB'000	**Liquid investments** RMB'000	**Borrowings** RMB'000	**Total** RMB'000
Net debt as at 1 January 2017	137,822	46,908	(246,234)	(61,504)
Cash flows	29,335	11,962	97,943	139,240
Foreign exchange adjustments	(5,460)	–	–	(5,460)
Other non-cash movements	–	(3,336)	–	(3,336)
Net debt as at 31 December 2017	161,697	55,534	(148,291)	68,940
Cash flows	137,620	(18,201)	88,291	207,710
Foreign exchange adjustments	2,160	–	–	2,160
Other non-cash movements	–	(6,844)	–	(6,844)
Net debt as at 31 December 2018	301,477	30,489	(60,000)	271,966

(i) Liquid investments comprise available-for-sale financial assets recorded in current assets (Note 20) and short-term investments that are traded in an active market, being the Group's financial assets held at fair value through profit or loss (Note 25).

36 Contingencies

As at 31 December 2018, the Group had no significant contingent liability (31 December 2017: Nil).

37 Commitments

(a) Capital commitments

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	2018 RMB'000	2017 RMB'000
Property, plant and equipment	2,574	8,409

(b) Non-cancellable operating leases commitments

At the end of the reporting period, the total future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 RMB'000	2017 RMB'000
No later than 1 year	1,222	126
More than 1 year but no later than 2 years	1,023	–
More than 2 years but no later than 3 years	511	–

38 Assets pledged as security

The carrying amounts of non-current assets pledged as security for current and non-current borrowings are:

Non-current	2018 RMB'000	2017 RMB'000
Buildings, mining structures and equipment *(Note 15)*	116,145	125,830
Mining rights *(Note 18)*	103,245	113,517
Total non-current assets pledged as security	219,390	239,347

39 Related party transactions

(a) Parent entities

The Group is controlled by the following entities:

Name	Type	Place of incorporation	Ownership interest	
			2018	2017
Gold Virture Limited	Immediate parent entity	Hong Kong	**60%**	60%
Mr. Ke Xiping	Ultimate controlling party	–	**60%**	60%

(b) Key management compensation

Key management includes directors (executive and independent non-executive), Chief Executive Officer, Chief Financial Officer, the Company Secretary and heads of major departments. The compensation paid or payable to key management for employee services is shown below:

	2018 RMB'000	2017 RMB'000
Salaries, fees and other short-term employee benefits	**5,849**	5,917
Retirement benefit scheme contributions	**54**	49
Total	**5,903**	5,966

The remuneration of directors of the Company is determined having regard to the performance of individuals and market trends.

(c) Transactions with related parties

No significant transactions with related parties occurred during the year ended 31 December 2018 and 31 December 2017.

(d) Year-end balances arising from sales/purchases of goods/services

No outstanding balances with related parties are set out in both years end.

40 Events occurring after the reporting period

There were no significant subsequent events which were required to disclose in the consolidated financial statements by the date of issue of financial statements.

41 Balance sheet and reserve movements of the Company

Balance sheet of the Company

		As at 31 December	
	Note	**2018 RMB'000**	2017 RMB'000
Assets			
Non-current assets			
Investments in subsidiaries		**190,657**	190,657
Loans to subsidiaries		**32,129**	155,811
Property, plant and equipment		**43**	–
		222,829	346,468
Current assets			
Cash and cash equivalents		**770**	3,609
Total assets		**223,599**	350,077
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital		**7,362**	7,362
Share premium	*(Note (a))*	**335,021**	459,771
Accumulated losses	*(Note (a))*	**(119,252)**	(117,547)
Total equity		**223,131**	349,586
Liabilities			
Current liabilities			
Trade and other payables		**468**	491
Total liabilities		**468**	491
Total equity and liabilities		**223,599**	350,077

The balance sheet of the Company was approved by the Board of Directors on 29 March 2019 and was signed on its behalf:

Mr. Ke Xiping	**Miss. Yang Yifang**
Director	*Director*

41 Balance sheet and reserve movements of the Company *(Continued)*

Note (a) Reserve movements of the Company

	Share premium RMB'000	Accumulated losses RMB'000
At 1 January 2017	540,052	(108,408)
Loss for the year	–	(9,139)
Dividend relating to 2016 paid in 2017	(80,281)	–
At 31 December 2017	459,771	(117,547)
At 1 January 2018	459,771	(117,547)
Loss for the year	–	(1,705)
Dividend relating to 2017 paid in 2018	(124,750)	–
At 31 December 2018	335,021	(119,252)

42 Benefits and interests of directors

(A) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive is set out below:

For the year ended 31 December 2018:

Name	Fees RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking RMB'000	Total RMB'000
Executive directors				
Mr. Ke Xiping	–	–	–	–
Miss. Yifang Yang *(Note (i))*	–	–	1,201	1,201
Mr. Chen Yu, David *(Note (i))*	–	32	801	833
Non-executive director				
Mr. Ho Fook Lau, Albert	–	–	226	226
Independent non-executive directors				
Ms. Wong Wan Ki, Angel	131	–	–	131
Mr. Xiao Wei *(Note (ii))*	55	–	–	55
Mr. Guocheng, Pan *(Note (ii))*	77	–	–	77
Dr. Tim Sun	131	–	–	131
Total	394	32	2,228	2,654

42 Benefits and interests of directors *(Continued)*

(A) Directors' and chief executive's emoluments *(Continued)*

For the year ended 31 December 2017:

Name	Fees RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking RMB'000	Total RMB'000
Executive directors				
Mr. Ke Xiping	–	–	–	–
Mr. Chen Yu, David *(Note (i))*	–	31	2,026	2,057
Mr. Ho Fook Lau, Albert	–	–	198	198
Independent non-executive directors				
Ms. Wong Wan Ki, Angel	130	–	–	130
Mr. Xiao Wei *(Note (ii))*	130	–	–	130
Dr. Tim Sun	130	–	–	130
Total	390	31	2,224	2,645

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

Note (i): Mr. Chen Yu is the Chief Executive of the Company from 1 January 2017 to 31 May 2018 and his emoluments disclosed above include those for services rendered by him as the Chief Executive. Miss. Yang Yifang is the Chief Executive of the Company since 1 June 2018 and her emoluments disclosed above include those for services rendered by her as the Chief Executive.

Note (ii): Mr. Xiao Wei is the independent non-executive director of the Company from 1 January 2017 to 31 May 2018 and his emoluments disclosed above include those for services rendered by him as the independent non-executive director. Mr. Guocheng Pan is the independent non-executive director of the Company since 1 June 2018 and his emoluments disclosed above include those for services rendered by him as the independent non-executive director.

(B) Directors' retirement benefits and termination benefits

None of the directors received or will receive any retirement benefits or termination benefits during the year (2017: Nil).

(C) Consideration provided to third parties for making available directors' services

During the year ended 31 December 2018, the Company did not pay consideration to any third parties for making available directors' services (2017: Nil).

42 Benefits and interests of directors *(Continued)*

(D) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

During the year ended 31 December 2018, there is no loans, quasi-loans and other dealing arrangements in favour of directors, or controlled bodies corporate by and connected entities with such directors (2017: Nil).

(E) Directors' material interests in transactions, arrangements or contracts

Save as disclosed in the consolidated financial statements, no significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2017: Nil).

Five Years Summary

	As at 31 December				
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	**2018** **RMB'000**
ASSETS AND LIABILITIES					
Total assets	963,867	887,177	995,373	1,085,129	**1,117,712**
Total liabilities	589,432	459,173	362,511	293,928	**190,364**
Net assets	374,073	428,004	632,862	791,201	**927,348**
Equity attributable to owners of the Company	374,073	428,004	632,862	791,201	**927,348**

	Year ended 31 December				
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	**2018** **RMB'000**
RESULTS					
Revenue	159,817	284,554	733,034	960,516	**830,006**
Profit/(Loss) before taxation	(34,007)	53,585	237,259	324,314	**323,767**
Income tax	–	–	(34,100)	(84,011)	**(62,870)**
Profit/(Loss) and total comprehensive expense for the year, attributable to owners of the Company	(34,007)	53,585	203,159	240,303	**260,897**

Definitions

"Articles of Association" or "Articles"	the articles of association of the Company conditionally adopted on 5 May 2014 and effective on 29 May 2014
"associate"	has the meaning ascribed thereto in the Listing Rules
"Audit Committee"	the audit committee of the Company established in compliance with Rule 3.21 and Rule 3.22 of the Listing Rules
"Board" or "Board of Directors"	the board of Directors
"CIL Project"	a project of the Group which is designed to utilize carbon-in-leach technology to produce gold
"Company"	Hengxing Gold Holding Company Limited (恒興黃金控股有限公司), an exempted company incorporated under the laws of the Cayman Islands on 10 April 2012 with limited liability, whose Shares are listed on the main board of the Stock Exchange
"Company Law" or "Cayman Company Law"	The Company Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
"Controlling Shareholders"	has the meaning ascribed thereto in the Listing Rules and, unless the context otherwise requires, refers to Mr. Ke, Gold Virtue, Mr. Ke Jiaqi and/or Xi Wang Developments
"Corporate Governance Code"	corporate governance code contained in Appendix 14 to the Listing Rules
"Director(s)"	the director(s) of the Company
"Gold Mountain Mine"	金山金礦, a gold mine located in Yining County of Xinjiang, China, which covers five gold prospects, namely the Yelmand prospect, the Mayituobi prospect, the Jinxi-Balake prospect, the Kuangou prospect and the Lion prospect
"Gold Virtue"	Gold Virtue Limited, a company incorporated under the laws of the BVI with limited liability on 16 March 2012 and a Controlling Shareholder, which is wholly-owned by Mr. Ke Xiping
"Group"	the Company and its subsidiaries
"HK$" and "HK cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"Jinchuan Mining"	Xinjiang Jinchuan Mining Co., Ltd (新疆金川礦業有限公司), a limited liability company established in China on 20 June 2003 and owned as to 93.6% by Tianshan Gold HK and 6.4% by Jintian Investment
"Listing" or "IPO"	the listing of the Shares on the Main Board of the Stock Exchange on 29 May 2014

Definitions

"Listing Date"	29 May 2014
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"Model Code"	model code for securities transactions by directors of listed issuers contained in Appendix 10 to the Listing Rules
"Nomination Committee"	the nomination committee of the Company established in compliance with Rule A.5.1 and Rule A.5.2 of the Listing Rules
"Period Under Review"	the year ended 31 December 2018
"PRC" or "China"	The People's Republic of China
"Prospectus"	the prospectus of the Company dated 19 May 2014
"Remuneration Committee"	the remuneration committee of the Company established in compliance with Rule 3.25 and Rule 3.26 of the Listing Rules
"RMB"	Renminbi, the lawful currency of the PRC
"Securities and Futures Ordinance"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	shareholder(s) of the Company
"Share Option Scheme"	the share option scheme conditionally adopted by the Company under the resolutions of the Shareholders dated 5 May 2014
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Tianshan Gold HK"	Tianshan Gold Securities (Hong Kong) Limited, a limited liability company incorporated in Hong Kong on 16 April 2008 and an indirect wholly-owned subsidiary of the Company
"Xiamen Hengxing"	Xiamen Hengxing Group Co., Ltd. (廈門恒興集團有限公司), a limited liability company established in China on 14 September 1994, which is owned by Mr. Ke Xiping as to 99.34% and by Ms. Liu Haiying, Mr. Ke's wife, as to 0.66%, and except where the context otherwise requires, includes all of its subsidiaries
"Xi Wang Developments"	Xi Wang Developments Limited (熙望發展有限公司), a limited liability company incorporated in the BVI on 11 May 2012 and a Controlling Shareholders, which is wholly-owned by Mr. Ke Jiaqi, Mr. Ke Xiping's son
"%"	per cent