瑞金礦業
Real Gold Mining Limited

# Real Gold Mining Limited
# 瑞金礦業有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 246

# ANNUAL REPORT
# 2018

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# CORPORATE INFORMATION

## DIRECTORS

### Executive Directors

Mr. Lu Chunxiang#
Mr. Li Feng^
Mr. Ren Yancheng~ (appointed with effect from 1 June 2018)
Mr. Sean Zhang (resigned with effect from 18 April 2019)
Mr. Wang Chunqi (resigned with effect from 18 April 2019)
Mr. Shao Jiulin (resigned with effect from 18 April 2019)
Mr. Kirk Vincent Wiedemer
Mr. Guo Honggang (re-designated from independent non-executive director to executive director with effect from 18 April 2019)

# *Chairman*
^ *Chief Financial Officer*
~ *Deputy Chief Executive Officer*

### Independent Non-Executive Directors

Mr. Liu Aiguo
Ms. Zhang Hui
Ms. Wang Xu
Mr. Guo Honggang (re-designated to executive director with effect from 18 April 2019)

## NOMINATION AND REMUNERATION COMMITTEE

Mr. Liu Aiguo *(Chairman)*
Ms. Wang Xu
Ms. Zhang Hui (appointed with effect from 18 April 2019)
Mr. Guo Honggang (re-designated to executive director with effect from 18 April 2019)

## AUDIT AND RISK MANAGEMENT COMMITTEE

Ms. Zhang Hui *(Chairman)*
Ms. Wang Xu
Mr. Liu Aiguo (appointed with effect from 18 April 2019)
Mr. Guo Honggang (re-designated to executive director with effect from 18 April 2019)

## COMPANY SECRETARY

Ms. Lui Lai Chun

## AUTHORIZED REPRESENTATIVES

Mr. Guo Honggang (appointed with effect from 18 April 2019)
Mr. Wang Chunqi (resigned with effect from 18 April 2019)
Ms. Lui Lai Chun

## AUDITORS

ZHONGHUI ANDA CPA Limited
*Certified Public Accountants*
Unit 701, 7/F., Citicorp Centre,
18 Whitfield Road,
Causeway Bay,
Hong Kong

## LEGAL ADVISOR

*As to Hong Kong law*
ReedSmith Richards Butler
20th Floor Alexandra House,
18 Chater Road,
Central, Hong Kong

# CORPORATE INFORMATION (CONTINUED)

## REGISTERED OFFICE

Cricket Square,
Hutchins Drive,
P.O. Box 2681,
Grand Cayman KY1-1111,
Cayman Islands

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 502, 5/F., Bank of America Tower,
12 Harcourt Road,
Central,
Hong Kong

## HEADQUARTERS OF THE COMPANY

4th Floor, Southern Block,
243 Dizhi Zonghe Building,
No.75 Yulong Street,
Xincheng District, Chifeng City,
Inner Mongolia,
The People's Republic of China

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive,
P.O. Box 2681,
Grand Cayman KY1-1111,
Cayman Islands

## HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–1716,
17th Floor,
Hopewell Centre,
183 Queen's Road East,
Wanchai, Hong Kong

## PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
  Bank of China Tower Branch
China Guangfa Bank
  Huizhou Branch
HengFeng Bank Co., Ltd.
  Beijing Branch
Ping An Bank
  Offshore Business Department

## STOCK NAME

Real Gold Mining Limited
(RealGold Mining)

## STOCK CODE

246

## WEBSITE OF THE COMPANY

www.realgoldmining.com

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

We specialize in the mining of gold and the processing of ore into concentrates containing gold and other minerals for subsequent sale. Real Gold Mining Limited (the "Company") and its subsidiaries (together the "Group") have two gold mines in the Chifeng Municipality, Inner Mongolia, namely, Shirengou Gold Mine and Nantaizi Gold Mine which are adjacent to each other and form one operating segment of the Group. The mining permit and the safety production permit for Shirengou Gold Mine are valid until August 2020 and February 2021, respectively. The mining permit, the exploration permit and the safety production permit for Nantaizi Gold Mine are valid until November 2019, June 2020 and February 2021, respectively. Production at Shirengou Gold Mine and Nantaizi Gold Mine has been suspended since mid 2016.

Luotuochang Gold Mine, another gold mine of the Group which is also located in the Chifeng Municipality, Inner Mongolia, was in operation until the former Board decided in July 2014 to suspend the mining activities there. The mining permit and the safety production permit for Luotuochang Gold Mine are valid until January 2020 and December 2020, respectively.

## UPDATE ON THE ACTIVITIES AT THE OTHER GOLD MINES OF THE GROUP

As at the date of this annual report, the Group also owns Gaotaizi Gold Mine in Inner Mongolia and Yandan Gold Mine and two other smaller gold mines in Guangxi. None of these mines are currently in production.

The mining permit and safety production permit for Gaotaizi Gold Mine expired in February 2019 and March 2019, respectively and the Group has filed an application for the renewal of each of such permit in January 2019.

For the gold mines in Guangxi, the exploration permit for Yandan Gold Mine is valid until November 2020. The Group is in the process of renewing the exploration permit for each of Bayan Gold Mine and Yunpanshan Gold Mine which expired in January 2019. The Group has suspended its exploration activities at these gold mines.

## THE STATUS OF CHINA GUANGFA BANK ACCOUNTS OF THE GROUP

Reference is made to the announcements of the Company dated 23 May 2017, 21 August 2017, 15 September 2017, 6 December 2017, 2 March 2018, 29 March 2018, 4 May 2018, 12 June 2018, 4 July 2018, 31 July 2018 and 31 October 2018. Unless otherwise specified, capitalized terms used in this section shall have the same meaning as those defined in the announcement of the Company dated 23 May 2017.

The Company had communicated with the Huizhou Police and was informed that the Huizhou Police was not responsible for freezing or sealing any fixed deposits from the bank accounts of the Company and Rich Vision.

As advised by its People's Republic of China ("PRC") legal advisers, the Group submitted two civil writs of action against Guangfa Bank in respect of the Fixed Deposit and the Rich Vision Fixed Deposit respectively at the People's Court of Yuexiu District in Guangzhou (the "Yuexiu Court"). The Yuexiu Court suggested the Group should commence civil proceedings against Guangfa Bank for reinstatement of accounts only. However, as the Group was unable to confirm the authenticity of any alleged pledge agreement(s) submitted by Guangfa Bank to the CBRC asserting the existence or validity of any pledge over the Fixed Deposit and the Rich Vision Fixed Deposit with Guangfa Bank, the Group commenced civil proceedings against Guangfa Bank for infringement of rights as one of its causes of action.

# MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

In response to the two civil actions commenced by the Group against Guangfa Bank at the Yuexiu Court, Guangfa Bank filed an application to challenge jurisdiction, which was dismissed by the Yuexiu Court (the "Dismissal Ruling"). Guangfa Bank then indicated that it intended to appeal the Dismissal Ruling when the Dismissal Ruling was served on Guangfa Bank. As the Guangzhou Intermediate People's Court received the appeal application from Guangfa Bank but the Company had not yet been served with the appeal application, the hearings originally scheduled on 7 June 2018 were therefore cancelled.

After the appeal application for the Dismissal Ruling on the Group was served, the Group submitted a response to the appeal application to the Guangzhou Intermediate People's Court. The appeal application was subsequently dismissed.

A hearing was held by the Yuexiu Court on 7 January 2019 in respect of the two civil actions commenced by the Group against Guangfa Bank, but no ruling was made by the court which required further evidence to be submitted.

A second hearing was held by the Yuexiu Court on 10 June 2019 in respect of each of the two civil actions initiated by the Group against Guangfa Bank, but no ruling was made by the court which ordered further evidence to be submitted. According to the evidence submitted by Guangfa Bank, Guangfa exercised its rights under the alleged pledge agreement(s) to foreclose the Fixed Deposit of the Company in its entirety in the amount of HKD200,000,000 and HKD307,000,000 out of the HKD317,000,000 Rich Vision Fixed Deposit, following the expiry of the term of such alleged pledge agreement(s) and in addition, the local police has frozen HKD10,000,000 of the Rich Vision Fixed Deposit in connection with the ongoing investigation against Mr. Wu Ruilin and his related companies. Guangfa Bank was ordered by the Yuexiu Court to provide such alleged pledge agreement(s) but it has not yet complied as at the date of this annual report. The two cases are still in the discovery stage.

## THE STATUS OF CHANGES OF LEGAL REPRESENTATIVES OF SUBSIDIARIES IN THE PRC

Reference is made to the announcements of the Company dated 21 August 2017, 6 December 2017, 15 January 2018, 2 March 2018, 4 May 2018, 12 June 2018, 4 July 2018 and 31 July 2018.

The Company continues to take steps to effect changes of the legal representatives of two remaining subsidiaries, namely, Fubon and Fuqiao. Please refer to the Company's announcements dated 21 August 2017 and 6 December 2017 for details relating to the investigation by the Huizhou Police and the freezing of the entire shares in Fubon, and the consequent impediment on the progress of effecting changes of legal representatives of Fubon and Fuqiao. The Group would apply to the Huizhou branch of the SAIC to register the change in legal representative of Fubon in due course.

## RESOURCES

### Inner Mongolia Gold Mines

In April 2019, SRK Consulting China Limited ("SRK") completed a technical review of four gold mines, namely Shirengou, Nantaizi, Luotuochang and Gaotaizi (the "Four Projects"). The results and recommendations from SRK's report indicate that there is limited potential for the Four Projects since much of the resources has been depleted. If the Company decides not to conduct further exploration works, then the Four Projects should be "given up" and any processing plants to be divested/ transferred.

The Company commissioned Roma Oil and Mining Associates ("ROMA") Limited in June 2019 to complete a second opinion report for three of the four gold projects, namely Shirengou, Nantaizi and Luotuochang (the "Three Projects"), located near Chifeng City, Inner Mongolia Autonomous Region, China. The resultant recommendations of ROMA are similar to that of SRK's.

# MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

ROMA conducted a site visit of the Three Projects in June 2019. For the Three Projects inspected, the only underground visit was at Shirengou. Although mineralization had been observed and evident, most of the ore zones had been depleted. Nantaizi and Luotuochang had nearly all of their reserves mined.

It is noted that the process plants for the Three Projects are still in sound condition. ROMA believes there are some value for the Three Projects' fixed assets, such as the process plant, generators and its related equipment. Under the JORC (2012) Code, a mineral resource should have reasonable prospects of eventual economic extraction. Considering the limited geological evidence of further gold mineralization, the possible high mining costs (open-pit and underground) and the low potential for economic extraction of the Three Projects in Inner Mongolia, ROMA is of the opinion that the Three Projects are not economically viable, since all of the resources had been depleted. ROMA recommends the Company to divest the Three Projects.

### Guangxi Gold Mines

The Company commissioned ROMA to conduct a technical due diligence review on the exploration works in terms of drill hole conditions, core conditions, geology, licensing and management's competence at three exploration sites located within Baise City, Guangxi Province, Southwestern China. The exploration permit of each of the three projects, namely Yandan, Bayan and Yunpanshan has expired in November 2018, January 2019 and January 2019, respectively. The Company has applied for renewal of these permits. All projects are not under any exploration or mining works currently. The Company holds 100% of the exploration rights to these three projects. The rights cover a total area of approximately 11.54 $km^2$.

ROMA conducted a site visit of the Guangxi projects in June 2019. Exploration work had been suspended for more than five years in the project areas, and drill hole collars and cores were not in good condition. Under the JORC (2012) Code, a mineral resource should have reasonable prospects of eventual economic extraction. Considering the limited geological evidence of economic mineralization, the possible high mining costs (open-pit and underground) and the low potential for economic extraction of the three projects in Guangxi, ROMA is of the opinion that the three projects are not economically viable. ROMA recommends the Company to divest the three projects.

## PROSPECTS

In view of the current situation of the Group, in particular the status of the mines owned by the Group, the Company is committed to identify suitable acquisition targets with sufficient level of operations or have assets of sufficient value to meet the requirements for continued listing of the shares under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

By leveraging on the experience of our management in mining operations and strong connections in the industry, we are confident that we can identify suitable acquisition targets in due course which can meet our requirements as well as the requirements of the regulators for the purpose of seeking resumption of trading in our shares so as to maximize the interests of both the Company and its shareholders as a whole.

We are committed to strengthening the corporate governance of the Group, and leading the Company out of the current difficulties and creating value for shareholders of the Company as a whole.

# MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

## FINANCIAL REVIEW

### Revenue and cost of sales

As the production at Shirengou Gold Mine, Nantaizi Gold Mine and Luotuochang Gold Mine were suspended, no operation, revenue nor cost of sales was recorded during the two years ended 31 December 2018 and 2017.

### Other income

Other income increased from nil for the year ended 31 December 2017 to approximately RMB23.0 million for the year ended 31 December 2018.

Other income for the year ended 31 December 2018 primarily consisted of exchange gain of approximately RMB23.0 million.

Exchange difference arose primarily from the translation and the settlement of monetary items such as bank balances, which were denominated in currencies other than Renminbi ("RMB"). Exchange gain increased because of the appreciation of Hong Kong dollars ("HKD") against RMB in 2018.

### Administrative expenses

Administrative expenses decreased from approximately RMB58.6 million for the year ended 31 December 2017 to approximately RMB57.2 million for the year ended 31 December 2018.

The administrative expenses for the year ended 31 December 2018 primarily consisted of salaries paid and payable to, and benefits for, our administrative and management staff of approximately RMB19.9 million (2017: RMB27.1 million) and professional fees of approximately RMB6.3 million (2017: RMB8.5 million).

Salaries paid and payable to, and benefits for, our administrative and management staff decreased from approximately RMB27.1 million for the year ended 31 December 2017 to approximately RMB19.9 million for the year ended 31 December 2018 as the number of employees decreased from 182 to 110.

### Other expenses

Other expenses decreased from approximately RMB43.5 million for the year ended 31 December 2017 to approximately RMB8.3 million for the year ended 31 December 2018.

Other expenses for the year ended 31 December 2018 primarily comprised impairment losses on property, plant and equipment of approximately RMB8.3 million.

Other expenses for the year ended 31 December 2017 primarily comprised impairment losses on property, plant and equipment of approximately RMB1.7 million and exchange loss of approximately RMB41.8 million.

Impairment losses were recognized as certain investments in property, plant and equipment, mining rights and exploration and evaluation assets were not expected to provide the required return. More impairment losses were recognized in 2018 than in 2017 as there were more such investments made in 2017.

### Finance costs

Finance costs, represented interest expenses for the short-term borrowings, was approximately RMB7.0 million for the year ended 31 December 2018 (2017: RMB3.5 million).

# MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

## Income tax expenses

No income tax expenses for the two years ended 31 December 2018 and 2017.

## Loss and total comprehensive loss for the year attributable to owners

Loss and total comprehensive loss attributable to owners of the Company for the year ended 31 December 2018 was approximately RMB48.2 million (2017: RMB103.6 million).

## Cash flows

The following table sets out certain information regarding our consolidated statement of cash flows for the years ended 31 December 2018 and 2017:

| | For the year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Net cash used in operating activities | **(7,978)** | (107,025) |
| Net cash used in investing activities | **(8,813)** | (1,773) |
| Net cash (used in)/generated from financing activities | **(9,562)** | 5,878 |
| Net decrease in cash and cash equivalents | **(26,353)** | (102,920) |
| Cash and cash equivalents at beginning of the year | **571,163** | 674,083 |
| Cash and cash equivalents at end of the year | **544,810** | 571,163 |

Cash and cash equivalents decreased by approximately RMB26.4 million from approximately RMB571.2 million as at 31 December 2017 to approximately RMB544.8 million as at 31 December 2018.

Approximately RMB8.0 million was used in operating activities for the year ended 31 December 2018. Net cash used in operating activities was the net cash flow relating to cash outflow in respect of loss before tax adjusted for items not involving movement of cash, cash inflow in respect of the decrease in working capital under operating activities.

Cash used in investing activities amounted to approximately RMB8.8 million for the year ended 31 December 2018, consisting of approximately RMB8.8 million related to the cash outflow in respect of the purchases of property, plant and equipment.

Net cash used in financing activities amounted to approximately RMB9.6 million for the year ended 31 December 2018, of which approximately RMB7.0 million related to the cash outflow in respect of the loan interest payment, and approximately RMB16.9 million related to the cash outflow in respect of the repayment of short-term borrowings, partially being offset by the cash inflow of approximately RMB14.3 million related to the short-term borrowings.

## Borrowings

The short-term borrowings for the year ended 31 December 2018 was approximately RMB20.7 million (2017: RMB23.2 million). Details of short-term borrowings and interest rate are set out in Note 22 to the consolidated financial statements. Gearing, being total interest-bearing debt divided by total assets, was approximately 0.04 for each of the two years ended 31 December 2018 and 2017.

# MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

## Pledge of assets

There were no significant charges on Group assets as at 31 December 2018 and 2017.

## Use of net proceeds from the Company's Initial Public Offering ("IPO")

Information of the use of net proceeds from the Company's IPO is set out in the Directors' Report in this annual report.

## Capital expenditure

For the year ended 31 December 2018, the Group invested approximately RMB8.8 million (2017: RMB1.8 million) in property, plant and equipment, mainly in the construction of mining structures at the mines for maintenance.

## Contingent liabilities

The Group did not have any significant contingent liabilities as at 31 December 2018 and 2017.

## Capital commitment

As at 31 December 2018 and 2017, the Group did not have capital commitment of capital expenditure contracted for but not provided in the consolidated financial statements.

## Operating lease commitments

As at 31 December 2018, the Group had contracted obligations consisting of operating leases which totaled approximately RMB4.1 million (2017: RMB2.8 million), with approximately RMB2.4 million (2017: RMB2.5 million) due within one year and approximately RMB1.7 million (2017: RMB0.3 million) due between two to five years. The term of the lease ranged from two to three years with fixed rentals for the two years ended 31 December 2018 and 2017.

## Financial instruments

The Company did not have any hedging contracts or financial derivatives subsisting for the two years ended 31 December 2018 and 2017.

## Segment analysis

Segment information is disclosed in Note 7 to the consolidated financial statements set out in this annual report.

## Employees and emoluments policy

As at 31 December 2018, the number of employees of the Group was 110 (2017: 182). For the year ended 31 December 2018, the staff cost (including directors' remuneration in the form of salaries and other allowances but excluding sub-contracting labour cost) was approximately RMB19.7 million (2017: RMB26.4 million). Staff cost decreased mainly because the number of employees decreased.

The Group's emolument policies (including the emolument policies for its directors) are formulated based on the performance of individual employee and on the basis of the salary trends in Hong Kong and the PRC, and will be reviewed regularly. Subject to the Group's profitability, the Group may also distribute discretionary bonus to its employees as an incentive for their contribution to the Group. The Group has adopted a share option scheme for its employees.

## Dividends

No final dividend was recommended by the Board for the two years ended 31 December 2018 and 2017.

# MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

## FOREIGN EXCHANGE RISK

The Group has foreign currency transactions which expose the Group to market risk arising from changes in foreign exchange rates. We conduct our operations in the PRC and RMB is the functional and presentation currency of the Company. During the year ended 31 December 2018, the Group had bank balances that were denominated in foreign currencies which exposed the Group to foreign currency risks. The Group was mainly exposed to the fluctuation of HKD. The Group manages and monitors foreign exchange exposure to ensure appropriate measures are implemented in a timely and effective manner. No foreign currency hedging activity is currently undertaken by the Group.

## THE COMPANY'S RESPONSE ON AUDITORS' QUALIFICATIONS

| | Audit qualifications | The Company's response |
|---|---|---|
| 1. | Exchange gain/loss | (a) The exchange gain/loss related to the exchange gain/loss on the bank deposits with Guangfa Bank which is the subject matter of the legal proceedings against Guangfa Bank (please refer to item 6 below). The management estimates that the legal proceedings against Guangfa Bank will be completed within 2019 and as such, the basis of disclaimer of the audit qualifications will be addressed in the consolidated financial statements of the Company for the year ending 31 December 2019. |
| 2. | Property, plant and equipment and impairment loss and depreciation on property, plant and equipment | (a) The current Board took control of the management of the Group in late 2016. There is limited information and documents available to the current Board for the preparation of the financial statements of the Group.<br><br>(b) There was also limited information available to the current Board to engage an independent technical consultancy firm to carry out an assessment based on JORC and VALMIN standard.<br><br>(c) The management engaged a professional party, SRK Consulting China Limited ("SRK") to carry out a review on the mines based on data available to SRK and give its opinions on the mines. SRK conducted limited exploration, basically trenching and tunneling. As per SRK's opinion, the estimated exploration cost for a proper assessment will be large.<br><br>(d) Based on SRK's opinion, the reserves of the mines are either mined out or limited or the grade becomes lower in depth, and highly uncertain. As such, the economic benefit is low.<br><br>(e) The management provided the impairment of property, plant and equipment, exploration and evaluation assets, mining rights and prepaid lease payments based on the SRK's opinion. However, the impairment is not based on the JORC and VALMIN standard information.<br><br>(f) The Company plans to dispose of the companies holding the existing mines and if the disposal proceeds in 2019 and completion takes place in 2019, this basis of disclaimer of audit qualifications will be addressed in the consolidated financial statements of the Company for the year ending 31 December 2019. |
| 3. | Exploration and evaluation assets | |
| 4. | Mining rights | |
| 5. | Prepaid land lease payments | |

# MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

| | Audit qualifications | The Company's response |
|---|---|---|
| 6. | Bank and cash balances | (a) The Group has initiated legal proceedings against Guangfa Bank regarding the withholding of the bank deposits. For details, please refer to Note 21 to the consolidated financial statements of the Company for the year ended 31 December 2018.<br><br>(b) The management is confident that the Yuexiu Court will rule in favour of as such, the existence and valuation of the bank balances will be verified.<br><br>(c) The management estimates that the legal proceedings against Guangfa Bank will be completed within 2019 and as such, this basis of disclaimer of audit qualifications will be addressed in the consolidated financial statements of the Company for the year ending 31 December 2019. |
| 7. | Provision for restoration cost | (a) As provided in points 2 to 5 above, the management did not have sufficient information to prepare JORC and VALMIN standard information, the management cannot estimate the provision accurately.<br><br>(b) The Company plans to dispose of the companies holding the existing mines and if the disposal proceeds in 2019 and completion takes place in 2019, this basis of disclaimer of audit qualifications will be addressed in the consolidated financial statements of the Company for the year ending 31 December 2019. |
| 8. | Deferred tax liabilities | (a) As provided in points 2 to 5 above, the management did not have sufficient information to prepare JORC and VALMIN standard information, the management cannot calculate the deferred tax liabilities accurately.<br><br>(b) The Company plans to dispose of the companies holding the existing mines and if the disposal proceeds in 2019 and completion takes place in 2019, this basis of disclaimer of audit qualifications will be addressed in the consolidated financial statements of the Company for the year ending 31 December 2019. |
| 9 | Non-controlling interests | (a) As provided in points 2 to 5 above, the management did not have sufficient information to prepare JORC and VALMIN standard information, the management cannot calculate the deferred tax liabilities accurately.<br><br>(b) The Company plans to dispose of the companies holding the existing mines and if the disposal proceeds in 2019 and completion takes place in 2019, this basis of disclaimer of audit qualifications will be addressed in the consolidated financial statements of the Company for the year ending 31 December 2019. |

# MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

| Audit qualifications | The Company's response |
|---|---|
| 10. Going Concern | (a) The auditors' concern was based on the fact that the Group incurred a loss attributable to owners of the Company of approximately RMB48,215,000 for the year ended 31 December 2018 and the issue on the bank deposits with Guangfa bank as described in Note 21 to the consolidated financial statements of the Company for the year ended 31 December 2018.<br><br>(b) The management estimates that the legal proceedings against Guangfa Bank will be completed within 2019 and as such, the existence and valuation of the bank balances will be verified. The Company will be able to demonstrate that it has sufficient fund for the operations by the bank balances and sufficient shareholders' fund supports. Accordingly, this basis of disclaimer of audit qualifications will be addressed in the consolidated financial statements of the Company for the year ending 31 December 2019. |

# PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

**Mr. Lu Chunxiang ("Mr. Lu")**
*Chairman and Executive Director*

Mr. Lu, aged 62, was appointed as the chairman of the Board of the Company on 12 December 2016. He has been an executive director of the Company since 30 September 2016. Mr. Lu has more than 7 years of experience in managing mining enterprise. He obtained his bachelor's degree in agricultural studies from Shenyang Agricultural University in May 1984.

**Mr. Li Feng ("Mr. Li")**
*Chief Financial Officer and Executive Director*

Mr. Li, aged 55, was appointed as the chief financial officer of the Company on 12 December 2016. He has been an executive director of the Company since 30 September 2016. He has more than 30 years of experience in accounting and more than 30 years of experience in managing mining enterprise.

At the date of this annual report, Mr. Li is also a director of Lita Investment Limited, Rich Vision Holdings Limited and Great Future Investments Limited.

**Mr. Ren Yancheng ("Mr. Ren")**
*Deputy Chief Executive Officer and Executive Director*

Mr. Ren, aged 38, has been the deputy chief executive officer and executive director of the Company since 1 June 2018. Mr. Ren graduated from China Central Radio and TV University in July 2015 majoring in computer science and technology and has served as the deputy general manager of the Company during December 2016 to May 2018.

At the date of this annual report, Mr. Ren is also a director of Lita Investment Limited, Rich Vision Holdings Limited and Great Future Investments Limited.

**Mr. Kirk Vincent Wiedemer ("Mr. Wiedemer")**
*Executive Director*

Mr. Wiedemer, aged 72, has been an executive director of the Company since 30 September 2016. He is a qualified lawyer in the United States of America and has more than 35 years of experience in legal practice. He obtained a Bachelor of Arts degree from St. John Fisher College in Rochester, New York in 1969 and a Juris Doctor Degree from Suffolk University Law School in Boston, Massachusetts in 1976. Mr. Wiedemer was admitted to the practice of law in the state of Pennsylvania in 1976 and had worked in the Delaware County Public Defender's Office and the Delaware County District Attorney's Office in Media, Pennsylvania, the Philadelphia District Attorney's Office in Philadelphia, the Office of Attorney General of Pennsylvania and various law firms including one that was established by him. Mr. Wiedemer is currently a member of Philadelphia Bar Association, Pennsylvania Bar Association and American Immigration Lawyers Association.

# PROFILE OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

**Mr. Guo Honggang ("Mr. Guo")**
*Executive Director*

Mr. Guo, aged 49, was appointed as an independent non-executive director of the Company on 30 September 2016 and re-designated to executive director with effect from 18 April 2019. Mr. Guo has more than 20 years of experience in operating and managing mining business, especially in Inner Mongolia Province, PRC and possesses the qualification of assistant engineer (junior level) in mining business issued by the Human Resources and Social Security Bureau of Chifeng City, Inner Mongolia Province in October 2009. Mr. Guo has been a deputy general manager of Tongbo Juneng Mining Co., Ltd., which is principally engaged in the selection, mining and smelting of gold mine, since October 2010 and is primarily responsible for overseeing business operations, risk management and human resources of that company.

At the date of this annual report, Mr. Guo is also an authorized representative of the Company under Rule 3.05 of the Listing Rules.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Liu Aiguo ("Mr. Liu")**
*Independent Non-executive Director*

Mr. Liu, aged 66, has been an independent non-executive director of the Company since 23 May 2016. He graduated from Inner Mongolia Normal University's political education department with a bachelor's degree in 1982. He served as the Chief of Personnel of the Inner Mongolia Institute of Metallurgy in 1986 and became director of the Party Committee Office of the institute in 1987, where he served until 1989. Mr. Liu passed the National Bar Examination in 1986 and joined Inner Mongolia Economic Law Firm as a lawyer in 1990, practicing corporate law and civil and commercial law. Mr. Liu has been a chief lawyer at Jingshi Law Firm (the successor to Inner Mongolia Economic Law Firm) from 1995 till present. Mr. Liu is experienced in corporate law. He specializes in initial public offerings and has broad experience in advising investment banks and corporate clients based in China and Inner Mongolia. Mr. Liu also served as an independent non-executive director of Inner Mongolia Mengdian Huaneng Thermal Power Corporation Limited (listed on the Shanghai Stock Exchange, stock code: 600863), from May 2002 to June 2008.

**Ms. Zhang Hui ("Ms. Zhang")**
*Independent Non-executive Director*

Ms. Zhang, aged 52, has been an independent non-executive director of the Company since 30 September 2016. She has more than 20 years of experience in financial management and is currently the deputy general manager of Everbright Capital Investment Management Co., Ltd.. She taught at the School of Economics and Management, Tsinghua University between 1990 and 1996 and Beijing National Accounting Institute between 2002 and 2006. Ms. Zhang obtained a bachelor's degree and master's degree both in economics from Nankai University in July 1987 and June 1990, respectively.

# PROFILE OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

**Ms. Wang Xu ("Ms. Wang")**
*Independent Non-executive Director*

Ms. Wang, aged 41, has been an independent non-executive director of the Company since 24 November 2017. She obtained a bachelor's degree in law from the China University of Political Science and Law in June 2001 and a master's degree in law from the University of International Business and Economics in December 2010. Ms. Wang has over 10 years of experience in the legal field, she has been a partner of Qiyunbang Partners since December 2016, she was a partner of Beijing Lantai Partners from October 2015 to December 2016, a partner of Beijing Lantai Partners (Qianhai office) from January 2014 to October 2015 and a partner of Beijing Lantai Partners from April 2007 to January 2014.

## OTHER SENIOR MANAGEMENT

**Ms. Lui Lai Chun ("Ms. Lui")**
*Accounting Manager and Company Secretary*

Ms. Lui, aged 36, joined the Company on 12 October 2011 and was further appointed as company secretary with effect from 12 December 2016. Ms. Lui currently hold the position of the accounting manager and company secretary of the Company.

Ms. Lui graduated from Griffith University in Australia with a bachelor of commerce degree in accountancy and applied finance and has been a member of Certified Public Accountants of Australia since February 2014 and a member of The Hong Kong Institute of Certified Public Accountants since March 2015.

Over the course of her career, Ms. Lui has accumulated more than 10 years of extensive experience in accounting, auditing, finance and general administration. Ms. Lui has also been serving as an independent non-executive director of Lai Group Holding Company Limited (listed on the growth enterprise market of The Stock Exchange of Hong Kong Limited, stock code: 8455) since March 2017.

# DIRECTORS' REPORT

The Board hereby presents its report and the audited consolidated financial statements of the Group for the year ended 31 December 2018.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. Particulars of the principal activities of its principal subsidiaries are set out in Note 20 to the consolidated financial statements.

## RESULTS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 42 of this annual report.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year in the Group's property, plant and equipment are set out in Note 16 to the consolidated financial statements.

## SHARE CAPITAL

Details of the movements during the year in the issued share capital of the Company are set out in Note 25 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES OF THE COMPANY AND DECLARATION OF DIVIDEND

As at 31 December 2018, the Company's reserves available for distribution to shareholders were as follows:

| | **2018**<br>**HKD'000** | 2017<br>HKD'000 |
|---|---|---|
| Share premium | **2,765,899** | 2,765,899 |
| Accumulated losses | **(401,959)** | (404,024) |
| | **2,363,940** | 2,361,875 |

Under the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which any dividend is proposed to be distributed, the Company will be able to pay its debts as they fall due in the ordinary course of business.

No final dividend was recommended by the Board for the two years ended 31 December 2018 and 2017.

# DIRECTORS' REPORT (CONTINUED)

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five years are set out on page 82 of this annual report.

## MAJOR CUSTOMERS AND SUPPLIERS

As the production at Shirengou Gold Mine, Nantaizi Gold Mine and Luotuochang Gold Mine remained suspended in 2018 and 2017, there is no transaction had taken place with any customers or suppliers during the two years ended 31 December 2018 and 2017.

## DIRECTORS

The directors during the year and up to the date of this annual report are as follows:

### Executive Directors

| | |
|---|---|
| Mr. Lu Chunxiang | |
| Mr. Li Feng | |
| Mr. Ren Yancheng | (appointed with effect from 1 June 2018) |
| Mr. Zhang Yanchun | (resigned with effect from 8 June 2018) |
| Mr. Li Zenghu | (resigned with effect from 20 June 2018) |
| Mr. Sean Zhang | (resigned with effect from 18 April 2019) |
| Mr. Wang Chunqi | (resigned with effect from 18 April 2019) |
| Mr. Shao Jiulin | (resigned with effect from 18 April 2019) |
| Mr. Kirk Vincent Wiedemer | |
| Mr. Guo Honggang | (re-designated to executive director from independent non-executive director with effect from 18 April 2019) |

### Independent Non-executive Directors

| | |
|---|---|
| Mr. Liu Aiguo | |
| Ms. Zhang Hui | |
| Ms. Wang Xu | |
| Mr. Guo Honggang | (re-designated as an executive director with effect from 18 April 2019) |

Pursuant to Article 84 of the Company's Articles of Association, at each annual general meeting one-third of the directors are subject to retirement by rotation or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third shall retire from the office and shall be eligible for re-election. All the current directors will retire from their office at the forthcoming annual general meeting and, being eligible, shall offer themselves for re-election.

## DIRECTORS' BIOGRAPHIES

Biographical details of the directors are set out on pages 13 to 15 of this annual report.

# DIRECTORS' REPORT (CONTINUED)

## INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, confirmation of his or her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent in accordance with Rule 3.13.

## REMUNERATION OF THE DIRECTORS AND SENIOR MANAGEMENT

The remuneration of each director is determined by the members of the Nomination and Remuneration Committee with reference to the duties, responsibilities, performance of the directors and the results of the Group.

Details of the remuneration of the directors are set out in Note 14 to the consolidated financial statements of this annual report.

The emoluments of senior management (other than directors) fell within the following band:

| | Number of individuals | |
|---|---|---|
| | **2018** | 2017 |
| HKD1,000,001 to HKD1,500,000 | **1** | 1 |

## EMOLUMENTS POLICY

The Group's emolument policies are formulated on the performance of individual employee and on the basis of the salary trends in Hong Kong and the PRC, and will be reviewed regularly. Subject to the Group's profitability, the Group may also distribute discretionary bonus to its employees as an incentive for their contribution to the Group. The Group has adopted a share option scheme for its employees.

## RETIREMENT BENEFIT SCHEMES

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme ("MPF Scheme") in Hong Kong under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The Group also participates in a defined contribution retirement scheme organized by the government in the PRC. The Group is required to contribute a specific percentage of the payroll of its employees to the retirement scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the retirement scheme.

No forfeited contributions may be used by the employers to reduce the existing level of contributions.

# DIRECTORS' REPORT (CONTINUED)

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at 31 December 2018 so far as known to any directors or chief executive of the Company, neither the directors nor the chief executive had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO")) which were required (a) 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 they are taken or deemed to have under such provisions of the SFO); or (b) to be and were entered into in the register that was required to be kept under Section 352 of the SFO; or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## RIGHTS TO PURCHASE SHARES OR DEBENTURES OF DIRECTORS AND CHIEF EXECUTIVES

Other than the Share Options Scheme disclosed below, at no time during the year (i) there subsisted any arrangement to which the Company or any of its subsidiaries is a party and whose object(s) is(are) to enable the existing directors or chief executive to have the right to acquire benefits by means of acquisition of shares or debentures in the Company or any other body corporate; and (ii) there subsisted any equity-linked agreements that will or may result in the Company issuing shares or requiring the Company to enter into such agreement.

# DIRECTORS' REPORT (CONTINUED)

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2018 so far as known to any director or chief executive of the Company, shareholders (other than a director or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO were as follows:

### Long and short positions in ordinary shares of the Company

*(including equity derivative interests)*

| Name of shareholder | Capacity | Long position number of ordinary shares | Long position percentage of the issued share capital of the Company | Short position number of ordinary shares | Short position percentage of the issued share capital of the Company |
|---|---|---|---|---|---|
| Lead Honest Management Limited (Note i) | Beneficial owner | 140,000,000 | 15.41% | 107,408,809 | 11.82% |
| Tercel Holdings Limited (Note i) | Interest of controlled corporation | 140,000,000 | 15.41% | 107,408,809 | 11.82% |
| Credit Suisse Trust Limited (Note i) | Trustee | 140,000,000 | 15.41% | 107,408,809 | 11.82% |
| Wu Ruilin (Note i) | Founder of a discretionary trust | 140,000,000 | 15.41% | 107,408,809 | 11.82% |
| Citigroup Inc. (Notes ii & iii) | Interest of controlled corporation | 107,866,856 | 11.87% | N/A | N/A |
| | Custodian corporation/ approved lending agent | 4,434,802 | 0.49% | N/A | N/A |
| | Person having a security interest | 362,000 | 0.04% | N/A | N/A |
| Value Partners Limited (Note iv) | Investment manager | 54,421,500 | 5.98% | N/A | N/A |
| Value Partners Group Limited (Note iv) | Interest of controlled corporation | 54,421,500 | 5.98% | N/A | N/A |
| Cheah Capital Management Limited (Note iv) | Interest of controlled corporation | 54,421,500 | 5.98% | N/A | N/A |
| Cheah Company Limited (Note iv) | Interest of controlled corporation | 54,421,500 | 5.98% | N/A | N/A |
| BNP Paribas Jersey Nominee Company Limited (Note iv) | Nominee | 54,421,500 | 5.98% | N/A | N/A |
| BNP Paribas Jersey Trust Corporation Limited (Note iv) | Trustee | 54,421,500 | 5.98% | N/A | N/A |

# DIRECTORS' REPORT (CONTINUED)

| Name of shareholder | Capacity | Long position number of ordinary shares | Long position percentage of the issued share capital of the Company | Short position number of ordinary shares | Short position percentage of the issued share capital of the Company |
|---|---|---|---|---|---|
| Cheah Cheng Hye (Note iv) | Founder of a discretional trust | 54,421,500 | 5.98% | N/A | N/A |
| To Hau Yin (Note iv) | Interest of spouse of a substantial shareholder | 54,421,500 | 5.98% | N/A | N/A |
| Victory Gold Management Inc. (Note v) | Beneficial owner | 113,125,333 | 12.44% | N/A | N/A |
| Mao Hua Limited (Note v) | Interest of controlled corporation | 113,125,333 | 12.44% | N/A | N/A |
| Wu Jiamao (Note v) | Interest of controlled corporation | 113,125,333 | 12.44% | N/A | N/A |
| Quanmin Investments Limited (Note vi) | Beneficial owner | 226,250,667 | 24.90% | N/A | N/A |
| Rosy China Enterprise Limited (Note vi) | Interest of controlled corporation | 226,250,667 | 24.90% | N/A | N/A |
| Tao Yumin (Note vi) | Interest of controlled corporation | 226,250,667 | 24.90% | N/A | N/A |
| Niu Jinsheng (Note vi) | Interest of controlled corporation | 226,250,667 | 24.90% | N/A | N/A |
| Manulife Financial Corporation (Note vii) | Investment manager | 46,485,000 | 5.12% | N/A | N/A |

## Equity derivative interests in ordinary shares of the Company

*(included in long and short positions)*

| Name of shareholder | Long position number of ordinary shares | Long position percentage of the issued share capital of the Company | Short position number of ordinary shares | Short position percentage of the issued share capital of the Company |
|---|---|---|---|---|
| Lead Honest Management Limited (Note i) | N/A | N/A | 107,408,809 | 11.82% |
| Tercel Holdings Limited (Note i) | N/A | N/A | 107,408,809 | 11.82% |
| Credit Suisse Trust Limited (Note i) | N/A | N/A | 107,408,809 | 11.82% |
| Wu Ruilin (Note i) | N/A | N/A | 107,408,809 | 11.82% |

# DIRECTORS' REPORT (CONTINUED)

Notes:

(i) As at 31 December 2018, Lead Honest Management Limited was 100% controlled by Tercel Holdings Limited, which in turn was ultimately controlled by Credit Suisse Trust Limited. Credit Suisse Trust Limited was a trustee of Tercel Trust, of which Mr. Wu Ruilin was the founder.

(ii) The 4,434,802 shares, representing 0.49% of the issued share capital of the Company, was also held by Citigroup Inc. as a "Lending Pool".

(iii) Citigroup Inc.'s interests were held by its wholly-owned (directly and indirectly) subsidiaries.

(iv) As at 31 December 2018, Value Partners Limited was 100% controlled by Value Partners Hong Kong Limited, which in turn was 100% controlled by Value Partners Group Limited, which in turn was 21.80% controlled by Cheah Capital Management Limited, which in turn was 100% controlled by Cheah Company Limited, which in turn was 100% controlled by BNP Paribas Jersey Nominee Company Limited, which in turn was 100% controlled by BNP Paribas Jersey Trust Corporation Limited. BNP Paribas Jersey Trust Corporation Limited was the trustee of the C H Cheah Family Trust, of which Mr. Cheah Cheng Hye was the founder. Ms. To Hau Yin was the spouse of Mr. Cheah Cheng Hye.

(v) As at 31 December 2018, Mr. Wu Jiamao held these shares through Victory Gold Management Inc., a company 100% controlled by Mao Hua Limited, which was 100% controlled by Mr. Wu Jiamao.

(vi) As at 31 December 2018, Quanmin Investments Limited was 100% controlled by Rosy China Enterprise Limited, which was controlled by Mr. Tao Yumin and Mr. Niu Jinsheng as to 50% and 50%, respectively.

(vii) These shares were held by Manulife Financial Corporation through its wholly-owned subsidiaries. The event that triggered a filing obligation was the replacement of investment manager of Manulife Global Fund — China Value Fund from a third-party investment manager to Manulife Investment Management (Hong Kong) Limited.

Other than as disclosed above, as at 31 December 2018, the Company has not been notified by any person (other than the directors or chief executive of the Company) who had interests or short position in the shares or underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO.

## SHARE OPTIONS

The Company has adopted a share option scheme on 30 January 2009 (the "Share Option Scheme"). The following is a summary of the principal terms of the Share Option Scheme:

### (a) Purpose

The purpose of the Share Option Scheme is to enable us to grant options to selected participants as incentives or rewards for their contribution to our Company.

### (b) Who may join

Our directors may, at their absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for shares at a price calculated in accordance with subparagraph (f) below:

(i) any employee or proposed employee (whether full-time or part-time and including any executive director), consultants or advisers of or to our Company, any of our subsidiaries or any entity ("Invested Entity") in which our Group holds an equity interest;

(ii) any non-executive directors (including independent non-executive directors) of our Company, any of our subsidiaries or any Invested Entity;

(iii) any supplier of goods or services to our Group or any Invested Entity;

# DIRECTORS' REPORT (CONTINUED)

(iv) any customer of our Group or any Invested Entity;

(v) any person or entity that provides research, development or other technological support to our Group or any Invested Entity; and

(vi) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity,

and for the purposes of the Share Option Scheme, the options may be granted to any company wholly-owned by one or more persons belonging to any of the above classes of participants. For the avoidance of doubt, the grant of any options by us for the subscription of shares or other securities of our Group to any person who falls within any of the above classes of participants shall not, by itself, unless our directors otherwise determine, be construed as a grant of option under the Share Option Scheme.

The basis of eligibility of any of the above classes of participants to the grant of any options shall be determined by our directors from time to time on the basis of the participants' contribution to the development and growth of our Group.

## (c) Maximum number of shares

(i) The maximum number of shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Group must not in aggregate exceed 30% of our issued share capital from time to time. No options may be granted under any schemes of our Company or the subsidiary of our Company if such grant will result in the maximum number being exceeded.

(ii) The total number of shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme) to be granted under the Share Option Scheme and any other share option schemes of our Group must not in aggregate exceed 66,000,000 shares, being 10% of the total number of shares in issue at the time dealings in our shares first commence on the Stock Exchange ("General Mandate Limit").

## (d) Maximum entitlement of each participant and connected persons

(i) Unless approved by our shareholders in general meeting, the total number of shares issued and to be issued upon exercise of all outstanding options granted under the Share Option Scheme and any other share option schemes of our Group (including both exercised and outstanding options) to each participant in any 12-month period must not exceed 1% of the shares in issue ("Individual Limit").

(ii) Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to our shareholders in compliance with the note to Rule 17.03(4) and Rule 17.06 of the Listing Rules and/or such other requirements as prescribed in the Listing Rules and the separate approval of our shareholders in general meeting with such participant and his associates abstaining from voting. The number and terms (including the exercise price) of options to be granted to such participant must be fixed before our shareholders' meeting and the date of the board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under Note (1) to Rule 17.03(9) of the Listing Rules.

# DIRECTORS' REPORT (CONTINUED)

(iii) In addition to the shareholders' approval set out in Note (1) to Rule 17.03(3) and note to Rule 17.03(4) of the Listing Rules, each grant of options to a director, chief executive or substantial shareholder of our Company or any of their respective associates must be approved by the independent non-executive directors (excluding any independent non-executive director who is the grantee of the options).

(iv) Where any grant of options to a substantial shareholder or an independent non-executive director or any of their respective associates would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, canceled and outstanding) under the Share Option Scheme or any other share option schemes of our Group to such person in the 12-month period up to and including the date of such grant:

(a) representing in aggregate more than 0.1% of the shares in issue; and

(b) having an aggregate value, based on the closing price of our shares at the date of each grant, in excess of HKD5 million,

such further grant of options must be approved by our shareholders in general meetings in which all connected persons (as defined in the Listing Rules) of the Company must obtain from voting in favor at such general meeting.

## (e) Minimum period of holding an option and performance target

Our directors may, at their absolute discretion, fix any minimum period for which an option must be held, any performance targets that must be achieved and any other conditions that must be fulfilled before the options can be exercised upon the grant of an option to a participant.

## (f) Subscription price for Shares

The subscription price of a share in respect of any option granted under the Share Option Scheme shall be such price as our Board in its absolute discretion shall determine, provided that such price shall not be less than the highest of (i) the nominal value of our shares, (ii) the average closing price of our shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of grant of the option and (iii) the closing price of our shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option (which must be a business day). A consideration of HKD1.00 is payable on acceptance of the offer of the grant of an option.

## (g) Rights are personal to grantee

An option granted under the Share Option Scheme shall not be transferable or assignable and is personal to the grantee.

## (h) Time of exercise of option

An option may be accepted by a participant within 28 days from the date of the offer of grant of the option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by our directors to each grantee, which period may commence on a day upon which the offer for the grant of the option is accepted but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof.

# DIRECTORS' REPORT (CONTINUED)

### (i) Ranking of Shares

The shares to be allotted upon the exercise of an option will be subject to all the provisions of our Memorandum of Association and the Articles of Association for the time being in force and will rank pari passu in all respects with the then existing fully paid shares in issue on the date of exercise of the option and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of exercise of the option other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with reference to a record date falling before the date of exercise of the option. A share allotted and issued upon the exercise of an option shall not carry voting rights until the name of the grantee of such option has been duly entered on our register of members or the holder thereof.

### (j) Period of the Share Option Scheme

Unless terminated by us by resolution in general meeting, the Share Option Scheme shall be valid and effective for a period of 10 years commencing on 23 February 2009, the date on which shares of the Company were first listed on the Stock Exchange.

### (k) Present status of the Share Option Scheme

No cancelled, exercised, granted and lapsed of the Company's share options held by our directors and our chief executive officer and our employees during the year ended 31 December 2018.

## MANAGEMENT CONTRACTS

None of the directors has or is proposed to have a service contract with any member of the Group which is not determinable by the relevant employer within one year without the payment of compensation (other than statutory compensation).

Other than the service contracts of the directors, the Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company during the year.

## CONTRACTS OF SIGNIFICANCE

No transactions, arrangements or contracts of significance in relation to the business of the Group, to which the Company, or any of its subsidiaries was a party and in which a director or an entity connected with the director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

So far as the directors were aware, none of the directors had any interest in a business that competes or may compete with the business of the Group.

# DIRECTORS' REPORT (CONTINUED)

## AUDIT AND RISK MANAGEMENT COMMITTEE

The Company has established an Audit and Risk Management Committee for the purposes of reviewing and providing supervision over the Company's financial reporting process and internal controls. The audited consolidated financial statements of the Group for the financial year ended 31 December 2018 have been reviewed by the Audit and Risk Management Committee (comprising Ms. Zhang Hui (the Chairman), Mr. Liu Aiguo and Ms. Wang Xu as at the date of this annual report).

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association of the Company or the Cayman Islands Companies Law, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The 2018 environmental, social and governance report of the Company will be issued within three months after the publication of this annual report.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct for dealing in securities of the Company by the directors. Having made specific enquiry to the directors of the Company who are in office as at the date of this annual report and was in offices as at 31 December 2018, the Board confirmed that they have complied with the required standard of dealings as set out in the Model Code during the year ended 31 December 2018.

## CODE OF CORPORATE GOVERNANCE PRACTICES

The Company has adopted the Corporate Governance Code as set out in Appendix 14 of the Listing Rules ("CG Code") to regulate the corporate governance issues of the Group. The Board has reviewed the Company's corporate governance practices for the year ended 31 December 2018 (the "Reporting Period"), and has formed the opinion that the Company, throughout the Reporting Period, has complied with the then applicable code provisions as set out in the CG Code except for certain deviations as set out in the Corporate Governance Report.

For details of the Corporate Governance Report please refer to pages 29 to 38 of this annual report.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

# DIRECTORS' REPORT (CONTINUED)

## USE OF NET PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING ("IPO")

The Company was listed on the Main Board of the Stock Exchange on 23 February 2009. The net proceeds from the Company's issue of new shares (after deducting relevant expenses) were approximately HKD569.3 million.

As at 31 December 2018, the net proceeds from IPO had been utilized in the following manner:

| | Future acquisition of gold resources in | | Expanding exploration activities | | | |
|---|---|---|---|---|---|---|
| | **Inner Mongolia** HKD million | **Other regions** HKD million | **Exploration activities** HKD million | **Facilitating actual production** HKD million | **Capital expenditures at existing gold mines** HKD million | **General corporate purpose** HKD million |
| Planned amount per Prospectus | 20.9 | 158.8 | 72.3 | 35.6 | 170.3 | 11.3 |
| Planned amount for actual net IPO proceeds 2009 | 25.4 | 192.7 | 87.7 | 43.2 | 206.6 | 13.7 |
| Amount utilized up to 31 December 2010 | (25.4) | (192.7) | — | — | — | (13.7) |
| Balance as at 31 December 2010 | — | — | 87.7 | 43.2 | 206.6 | — |
| Amount utilized from 1 January to 25 February 2011 | — | — | — | — | — | — |
| Balance as at 25 February 2011 | — | — | 87.7 | 43.2 | 206.6 | — |
| Change of proposed use of the unutilized net proceeds | — | 337.5 | (87.7) | (43.2) | (206.6) | — |
| Balance after change of proposed use | — | 337.5 | — | — | — | — |
| Amount utilized from 25 February 2011 to 31 December 2018 | — | — | — | — | — | — |
| **Balance as at 31 December 2018** | **—** | **337.5** | **—** | **—** | **—** | **—** |

The unutilized balance is deposited in bank accounts at commercial banks in the PRC. The Group intends to utilize the net proceeds balance in the manner as set out above.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the publicly available information and to the best of the directors' knowledge, information and belief, the Company has maintained a sufficient public float throughout the year ended 31 December 2018.

# DIRECTORS' REPORT (CONTINUED)

## AUDITORS

The consolidated financial statements have been audited by ZHONGHUI ANDA CPA Limited ("ZHONGHUI ANDA"). ZHONGHUI ANDA was the auditors of the Company for this 2018 annual report, and it was also the auditors of the Company for the 2011, 2012, 2013, 2014, 2015, 2016 and 2017 annual reports.

ZHONGHUI ANDA will retire in the forthcoming annual general meeting and, being eligible, will offer itself for re-appointment. A resolution for the re-appointment of ZHONGHUI ANDA as the auditor of the Group will be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Lu Chunxiang**
*Chairman*

2 August 2019

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The Company acknowledges the need for and importance of corporate governance as one of the key elements in enhancing value for shareholders of the Company. The Company is committed to improving its corporate governance practices in compliance with regulatory requirements. The Company has adopted the Corporate Governance Code as set out in Appendix 14 of the Listing Rules ("CG Code") to regulate the corporate governance issues of the Group. The Board has reviewed the Company's corporate governance practices for the year ended 31 December 2018 (the "Reporting Period"), and has formed the opinion that the Company, throughout the Reporting Period, has complied with the code provisions ("Code Provisions") as set out in the CG Code except for the deviations set out below.

### Code Provision A.1.3

Code Provision A.1.3 of the CG Code requires that notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend. During the Reporting Period, certain regular Board meetings were convened with less than 14 days' notice in order to discuss certain urgent businesses in a timely manner and the shorter notice period was consented to by the directors each time. Notwithstanding the aforesaid, the Board will use its best endeavor to comply with Code Provision A.1.3 of the CG Code in the future.

As per the latest improved corporate governance practice of the Company, since August 2019, notice of regular board meetings has been dispatched to all directors at least 14 days before the meeting. For other Board and committee meetings, reasonable notice is generally given. Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days (or any other agreed date) before each board meeting or committee meeting to keep directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions.

### Code Provision C.1.2

Code provision C.1.2 of the CG Code provides that management should provide all members of the board with monthly updates giving a balanced and understandable assessment of the issuer's performance, position and prospects in sufficient details to enable the board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules. During the Reporting Period, management did not provide the board with monthly updates required under Code Provision C.1.2 of the CG Code. The Board notes that activities of the Group, both mining and exploration activities, have been suspended and the Group has not been conducting any operational or business activities. The Board has been updated regularly in relation to the status of the mines and corporate activities and announcements are made by the Company regularly to inform the market. As such, the management did not provide updates to the full Board on a monthly basis. During the year ended 31 December 2018, the Company made update announcements on 15 January 2018, 2 March 2018, 29 March 2018, 4 May 2018, 12 June 2018, 4 July 2018, 31 July 2018 and 31 October 2018, respectively.

# CORPORATE GOVERNANCE REPORT (CONTINUED)

Set out below is a detailed discussion of the corporate governance practices adopted and observed by the Company.

## A. Directors' Securities Transactions

The Company has adopted the Model Code as the code of conduct governing director's securities transactions. Trading in the shares of the Company on the Stock Exchange has been suspended at the request of the Company since 27 May 2011. All current directors who were also in office as at 31 December 2018 have confirmed, following specific enquiry by the Company, that they have complied with the required standards set out in the Model Code throughout the financial year ended 31 December 2018.

## B. Board of Directors

### *(i) Board Composition*

During the year 2018 and as at the date of this annual report, the composition of the Board is set out below:

**Executive directors as at the date of this annual report:**

| | |
|---|---|
| Mr. Lu Chunxiang *(Chairman)* | |
| Mr. Li Feng *(Chief Financial Officer)* | |
| Mr. Ren Yancheng *(Deputy Chief Executive Officer)* | (appointed with effect from 1 June 2018) |
| Mr. Kirk Vincent Wiedemer | |
| Mr. Guo Honggang | (re-designated form independent non-executive director to executive director with effect from 18 April 2019) |

**Executive directors during the year 2018:**

| | |
|---|---|
| Mr. Lu Chunxiang *(Chairman)* | |
| Mr. Li Feng *(Chief Financial Officer)* | |
| Mr. Ren Yancheng *(Deputy Chief Executive Officer)* | (appointed with effect from 1 June 2018) |
| Mr. Zhang Yanchun *(Former Chief Executive Officer)* | (resigned with effect from 8 June 2018) |
| Mr. Sean Zhang | (resigned with effect from 18 April 2019) |
| Mr. Wang Chunqi | (resigned with effect from 18 April 2019) |
| Mr. Shao Jiulin | (resigned with effect from 18 April 2019) |
| Mr. Kirk Vincent Wiedemer | |

**Independent non-executive directors as at the date of this annual report:**

Mr. Liu Aiguo
Ms. Zhang Hui
Ms. Wang Xu

**Independent non-executive directors during the year 2018:**

| | |
|---|---|
| Mr. Liu Aiguo | |
| Ms. Zhang Hui | |
| Ms. Wang Xu | |
| Mr. Guo Honggang | (re-designated to an executive director with effect from 18 April 2019) |

The executive directors, with the assistance from the senior management, form the core management team of the Company. The executive directors have the overall responsibility for formulating the business strategies and development plan of the Group and the senior management are responsible for supervising and executing the plans of the Company and its subsidiaries.

# CORPORATE GOVERNANCE REPORT (CONTINUED)

*(ii)* ***Board Functions and Duties***

The principal functions and duties conferred on our Board include:

- convening general meetings and reporting our Board's work at general meetings;
- implementing the resolutions passed by our shareholders at general meetings;
- deciding our business plans and investment plans;
- formulating the proposals for profit distributions, recovery of losses and for the increase or reduction of our registered capital;
- performing corporate governance duties; and
- exercising other powers, functions and duties conferred by our shareholders at general meetings.

*(iii)* ***Board Meetings***

During the year ended 31 December 2018, there were seven board meetings held. For other Board and committee meetings, reasonable notice is generally given. The company secretary of the Company is responsible for keeping minutes for the board meetings.

*(iv)* ***Attendance Record***

The following is the attendance record of the Board meetings held by the Board during the year ended 31 December 2018:

| | **Attendance at meetings** |
|---|---|
| **Executive Directors** | |
| Mr. Lu Chunxiang *(Chairman)* | 7/7 |
| Mr. Li Feng *(Chief Financial Officer)* | 7/7 |
| Mr. Rencheng *(Deputy Chief Executive Officer)* | 5/5 |
| Mr. Zhang Yanchun *(Former Chief Executive Officer)* | 2/2 |
| Mr. Sean Zhang | 7/7 |
| Mr. Wang Chunqi | 7/7 |
| Mr. Shao Jiulin | 7/7 |
| Mr. Kirk Vincent Wiedemer | 7/7 |
| **Independent Non-Executive Directors** | |
| Mr. Liu Aiguo | 7/7 |
| Ms. Zhang Hui | 7/7 |
| Ms. Wang Xu | 7/7 |
| Mr. Guo Honggang | 7/7 |

# CORPORATE GOVERNANCE REPORT (CONTINUED)

***(v) Independent Non-Executive Directors***

During the 2018 and at the date of this annual report, in compliance with Rule 3.10(1) and 3.10A of the Listing Rules, the Company has three independent non-executive directors. The Board considers that all independent non-executive directors have appropriate and sufficient industry or finance experience and qualifications to carry out their duties so as to protect the interests of shareholders of the Company. Amongst the three independent non-executive directors, Mr. Liu Aiguo and Ms. Wang Xu, both have the appropriate professional legal qualifications and Ms. Zhang Hui, has over 20 years' experience in financial management required as under Rule 3.10(2) of the Listing Rules.

Prior to their respective appointment, each of the independent non-executive directors has submitted a written statement to the Stock Exchange confirming their independence and has undertaken to inform the Stock Exchange as soon as practicable if there is any subsequent change of circumstances which may affect their independence. The Company has also received a written confirmation from each of the independent non-executive directors in respect of their independence. The Board considers that all independent non-executive directors are being considered to be independent by reference to the factors stated in the Listing Rules.

***(vi) Directors' Continuous Training and Development***

Each newly appointed director received induction on the first occasion of his or her appointment, so as to ensure that he has appropriate understanding of the business and operations of the Group and that he or she is fully aware of his or her responsibilities and obligations under the Listing Rules and relevant laws and regulations.

The Company provides regular updates relating to the Group's business and the legislative and regulatory environments in which the Group conducts its business to the directors.

Pursuant to the Code Provision A.6.5 of the CG Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

The Company has maintained a training record in order to assist the directors to record the training that they have undertaken. During the year ended 31 December 2018, all directors participated in continuous professional development relevant to his or her professional duties as director.

## C. Chairman and Deputy Chief Executive Officer

The roles of the Company's chairman and the deputy chief executive officer are segregated. Mr. Lu Chunxiang is the chairman of the Board is chiefly responsible for managing the Board, while Mr. Ren Yancheng is the deputy chief executive officer of the Company who takes charge of the supervision of the execution of the policies determined by the Board. The chairman also chairs the Board meetings and briefs the Board members on the issues discussed at the board meetings. Save and except by virtue of their offices, Mr. Lu Chunxiang and Mr. Ren Yancheng are unrelated (whether financially, by family relations or otherwise).

# CORPORATE GOVERNANCE REPORT (CONTINUED)

## D. Board Diversity Policy

The Board has adopted a board diversity policy on 30 August 2013 which aims to achieve the diversity of members of the Board to enhance the effectiveness of the Board. The Company recognizes and embraces the benefits of diversity of Board members. It endeavors to ensure that the Board possesses diverse skills, experience and perspectives appropriate to the requirements of the Company's business. All Board appointments will continue to be made on a merit basis with due regard for the benefits of diversity of the Board members. Selection of candidates of Board members will be based on diversity in their respective background and experience, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge. The ultimate decision will be made upon the merits and contribution that the selected candidates will bring to the Board.

## E. Dividend Policy

The Board has approved and adopted a dividend policy on 28 December 2018 (the "Dividend Policy"). It is the policy of the Board, in considering the payment of dividends, to allow shareholders of the Company to participate in the Company's profits whilst retaining adequate reserves for the Group's future growth. The Board shall consider the following factors before declaring or recommending any dividends: financial results; cash flow situation; availability of distributable profits; business conditions and strategies; future operations and earnings; development plans; cash requirements; capital requirements and expenditure plans; interests of shareholders; any restrictions on payment of dividends; and any other factors that the Board may consider relevant.

The declaration, recommendation and payment of any dividends are also subject to compliance with applicable laws, regulations and the articles of association of the Company. The Board will continue to review the Dividend Policy from time to time and there is no assurance that dividends will be paid in any particular amount for any given period.

## F. Independent Non-Executive Directors

Mr. Liu Aiguo has been appointed for a fixed term of two years commencing from 23 May 2016. Upon its expiry on 23 May 2018, Mr. Liu Aiguo's independent non-executive director service contract was renewed for another three years with the same conditions of service as existed at the time of expiry of the previous contract.

Each of Ms. Zhang Hui and Mr. Guo Honggang have been appointed for a fixed term of three years commencing from 30 September 2016. Mr. Guo Honggang has been re-designated to an executive directors with effect from 18 April 2019.

Ms. Wang Xu has been appointed for a fixed term of three years commencing on 24 November 2017.

## G. Nomination and Remuneration Committee

The Company established a Nomination and Remuneration Committee on 30 January 2009 with written terms of reference in compliance with the CG Code (as amended from time to time). The primary duties of the Nomination and Remuneration Committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to the directors and senior management, and to identify suitable individuals to become members of the Board and advise on the selection of individuals nominated for directorships. The Nomination and Remuneration Committee selects and recommends candidates for directorship having regard to the balance of skills and experience appropriate to the Company's business. It is the Company's policy that the remuneration package of each director and senior management shall be determined by reference to, inter alia, their duties, responsibilities, experience and qualifications.

# CORPORATE GOVERNANCE REPORT (CONTINUED)

During the financial year under review, the Nomination and Remuneration Committee consisted of the following members:

| **Period** | **Membership of the Nomination and Remuneration Committee** | |
|---|---|---|
| 1 January 2018 – 31 December 2018 | Mr. Liu Aiguo *(Chairman)* | (Independent Non-Executive Directors) |
| | Mr. Guo Honggang | (Independent Non-Executive Directors) |
| | Ms. Wang Xu | (Independent Non-Executive Directors) |

During the year ended 31 December 2018, the Nomination and Remuneration Committee has held two meetings to identify individuals who are suitably qualified to become a Board member and to select and make recommendations to the Board on the selection of individuals nominated for directorships having regard to each candidate's merit and the benefits of diversity of the Board; to assess the independence of independent non-executive directors to determine their eligibility; and to review the structure, size and composition (including the skills, knowledge and experience) of the board and the levels of remuneration paid to the Company's executive directors and senior management.

According to the Articles of Association of the Company, at each annual general meeting one-third of the directors are subject to retirement by rotation or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third shall retire from the office and shall be eligible for re-election. The directors to be retired by rotation shall be those who have been longest in office since their last appointment or re-election. Every director shall be subject to retirement at an annual general meeting at least once every three years.

The following is the attendance record of the committee meetings held by the Nomination and Remuneration Committee during the year ended 31 December 2018.

| | **Attendance at meetings** |
|---|---|
| Mr. Liu Aiguo *(Chairman)* | 2/2 |
| Mr. Guo Honggang | 2/2 |
| Ms. Wang Xu | 2/2 |

# CORPORATE GOVERNANCE REPORT (CONTINUED)

## H. Audit and Risk Management Committee

The Company has established an Audit and Risk Management Committee on 30 January 2009 with written terms of reference in compliance with the CG Code (as amended from time to time) for the purposes of reviewing and providing supervision over the Company's financial reporting process and internal controls.

During the financial year under review, the Audit and Risk Management Committee consisted of the following members:

| Period | Membership of the Audit and Risk Management Committee | |
|---|---|---|
| 1 January 2018 – 31 December 2018 | Ms. Zhang Hui *(Chairman)* | (Independent Non-Executive Directors) |
| | Mr. Guo Honggang | (Independent Non-Executive Directors) |
| | Ms. Wang Xu | (Independent Non-Executive Directors) |

During the year ended 31 December 2018, the Audit and Risk Management Committee has held one meeting. At the meeting on 28 December 2018, the members of Audit and Risk Management Committee have adopted the revised terms of reference to include the cooling-off period for former partners of the Company's external auditor before they can be members of the Company's audit committee has been extended from a period of one year to a period for two years which became effective on 1 January 2019.

The following is the attendance record of the committee meeting held by the Audit and Risk Management Committee during the year ended 31 December 2018.

| | Attendance at meetings |
|---|---|
| Ms. Zhang Hui *(Chairman)* | 1/1 |
| Mr. Guo Honggang | 1/1 |
| Ms. Wang Xu | 1/1 |

## I. Auditors' Remuneration

ZHONGHUI ANDA CPA Limited provided audit and non-audit services for the years ended 31 December 2017 and 2018.

# CORPORATE GOVERNANCE REPORT (CONTINUED)

For the years ended 31 December 2018 and 2017, the total fee paid or payable in respect of audit and non-audit services provided by the Group's external auditors is set out below:

| | For the year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| **Nature of services** | **HKD'000** | HKD'000 |
| Annual audit services | **1,000** | 1,000 |
| **Non-audit services** | | |
| Interim review services | **250** | 250 |
| Internal control systems review services and services in relation to the environmental, social and governance reporting | **260** | 260 |

The Audit and Risk Management Committee is responsible for making recommendations to the Board as to the appointment, re-appointment and removal of the external auditors, which is subject to the approval by the Board and at the general meetings of the Company by its shareholders.

## J. Director's Responsibility on the Financial Statements

The directors acknowledge that it is their responsibility to prepare the accounts of the Group and other financial disclosures required under the Listing Rules and the management will provide information and explanation to the Board to enable it to make an informed assessment of the financials and other Board decisions.

## K. Internal Control

The internal control system is implemented to minimize the risks to which the Group is exposed and used as a management tool for the day-to-day operation of business. The internal control system has been designed to safeguard the assets of the Company, maintain proper accounting records, ensure execution of contracts with appropriate authority and ensure compliance of the relevant laws and regulations. The system can only provide reasonable but not absolute assurance against misstatements or losses.

The Board is responsible for implementing and maintaining the Group's internal control system and reviewing its effectiveness.

ZHONGHUI ANDA Risk Services Limited ("Zhonghui RS"), an external professional adviser, was engaged by the Company on 16 April 2019 to conduct an independent internal control review and to assist the management to improve the internal control systems of the Group. After a review of the work done by Zhonghui RS, the Board considered that the Company's improved internal control system is adequate and effective and the Company has complied with the Code Provisions on internal control of the CG Code.

# CORPORATE GOVERNANCE REPORT (CONTINUED)

## L. Internal Audit and Risk Management

The Board with the concurrence of the Audit and Risk Management Committee is satisfied with the adequacy of resources, staff qualifications and experience, and effectiveness of the Group's accounting, internal audit and financial reporting functions.

During the year ended 31 December 2018, the Group has complied with Code Provision C.2 of the Code by establishing appropriate and effective risk management and internal control systems. Management is responsible for the design, implementation and monitoring of such systems, while the Board oversees management in performing its duties on an ongoing basis and an internal audit on the internal control and risk management systems performed on an annual basis. Main features of the risk management and internal control systems are described as follows:

***Risk Management System***
The Group has adopted a risk management system which manages the risk associated with its business and operations. The system comprises the following phases:

- Identification: identify ownership of risks, business objectives and risks that could affect the achievement of objectives.

- Evaluation: analyze the likelihood and impact of risks and evaluate the risk portfolio accordingly.

- Management: consider the risk responses, ensure effective communication to the Board and on-going monitor the residual risks.

Based on the risk assessments conducted for the year ended 31 December 2018, no significant risk was identified.

## M. Company Secretary

Ms. Lui Lai Chun is our company secretary. She has been working for our Company on a full-time basis since October 2011 and was further appointed as company secretary with effect from 12 December 2016. The company secretary is responsible for advising the Board on corporate governance matters and ensuring board procedures are followed.

During the Reporting Period, Ms. Lui completed not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

## N. Shareholders' Rights and Constitutional Documents

According to the current Articles of Association of the Company, any one or more shareholders of the Company holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in the requisition. If within 21 days of such requisition the Board fails to proceed to convene the extraordinary general meeting, the requisitionists may themselves do so, and all reasonable expenses incurred by the requisitionists in this regard shall be reimbursed by the Company.

# CORPORATE GOVERNANCE REPORT (CONTINUED)

To ensure effective communication between the Board and the shareholders, the Company has adopted a shareholders' communication policy on 30 March 2012. Under the shareholders' communication policy, the Company's information shall be communicated to the shareholders mainly through general meetings, including annual general meetings, the Company's financial reports (interim reports and annual reports), and its corporate communications and other corporate publications on the Company's website and the Stock Exchange's website.

Shareholders may at any time make a request for the Company's information to the extent such information is publicly available. Any such questions or enquiries shall be first directed to the Company Secretary at the Company's principal place of business in Hong Kong.

The number of shareholders necessary for a requisition for putting forward a proposal at a shareholders' meeting shall be any number of shareholders representing not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings at the date of the requisition. The request to put forward a proposal must be made to the attention of the Company Secretary within 30 days from the date of the relevant shareholders' meeting.

During the Reporting Period, there has been no change to the Company's constitutional documents.

# INDEPENDENT AUDITOR'S REPORT

ZHONGHUI

**TO THE SHAREHOLDERS OF REAL GOLD MINING LIMITED**
**瑞金礦業有限公司**
*(Incorporated in the Cayman Islands with limited liability)*

## DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of Real Gold Mining Limited and its subsidiaries (collectively referred to as the "Group") set out on pages 42 to 81, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### Basis for Disclaimer of Opinion

1. ***Exchange gain/loss***
   No sufficient evidence has been received by us in respect of whether the exchange gain of approximately RMB23,015,000 and exchange loss of approximately RMB41,811,000 were properly accounted for in the consolidated financial statements for the years ended 31 December 2018 and 2017 respectively.

2. ***Property, plant and equipment and impairment loss and depreciation on property, plant and equipment***
   No sufficient evidence has been provided to satisfy ourselves as to the valuation and disclosure requirements of property, plant and equipment of approximately RMB512,000 and RMB159,000 in the consolidated statement of financial position as at 31 December 2018 and 2017 respectively and no sufficient evidence has been received by us in respect of whether the impairment loss on property, plant and equipment of approximately RMB8,274,000 and RMB1,670,000 and the depreciation on property, plant and equipment of approximately RMB184,000 and RMB109,000 were properly accounted for in the consolidated financial statements for the years ended 31 December 2018 and 2017 respectively.

3. ***Exploration and evaluation assets***
   No sufficient evidence has been provided to satisfy ourselves as to the valuation and disclosure requirements of exploration and evaluation assets in the consolidated statement of financial position as at 31 December 2018 and 2017.

4. ***Mining rights***
   No sufficient evidence has been provided to satisfy ourselves as to the valuation and disclosure requirements of mining rights in the consolidated statement of financial position as at 31 December 2018 and 2017.

# INDEPENDENT AUDITOR'S REPORT (CONTINUED)

5. ***Prepaid land lease payments***
   No sufficient evidence has been provided to satisfy ourselves as to the valuation and disclosure requirements of prepaid land lease payments in the consolidated statement of financial position as at 31 December 2018 and 2017.

6. ***Bank and cash balances***
   No sufficient evidence has been provided to satisfy ourselves as to the existence and valuation of bank and cash balances of approximately RMB460,868,000 and RMB440,182,000 in the consolidated statement of financial position as at 31 December 2018 and 2017 respectively.

7. ***Provision for restoration cost***
   No sufficient evidence has been provided to satisfy ourselves as to the valuation of provision for restoration cost of approximately RMB9,094,000 in the consolidated statement of financial position as at 31 December 2018 and 2017.

8. ***Deferred tax liabilities***
   No sufficient evidence has been provided to satisfy ourselves as to the valuation of deferred tax liabilities of approximately RMB16,724,000 in the consolidated statement of financial position as at 31 December 2018 and 2017.

9. ***Non-controlling interests***
   No sufficient evidence has been provided to satisfy ourselves as to the valuation of the debit balances of non-controlling interests of approximately RMB118,308,000 and RMB117,080,000 in the consolidated statement of financial position as at 31 December 2018 and 2017 and no sufficient evidence has been received by us in respect of whether loss and total comprehensive loss for the year attributable to non-controlling interests of approximately RMB1,228,000 and RMB948,000 were properly accounted for in the consolidated financial statements for the years ended 31 December 2018 and 2017 respectively.

Any adjustments to the above figures might have a significant consequential effect on the consolidated financial performance for the years ended 31 December 2018 and 2017 and the consolidated financial position as at 31 December 2018 and 2017 and the related disclosures in the consolidated financial statements.

10. ***Going Concern***
    We draw attention to note 2 to the consolidated financial statements which mentions that the Group incurred a loss attributable to owners of the Company of approximately RMB48,215,000 for the year ended 31 December 2018 and there are certain issues on Guangfa bank accounts of the Group concerning approximately RMB460,848,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the financial support of the shareholder, at a level sufficient to finance the working capital requirements of the Group. The consolidated financial statements do not include any adjustments that would result from the failure to obtain the financial support. We consider that the material uncertainty has been adequately disclosed in the consolidated financial statements.

    However, we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the validity of the financial support from the shareholder as described above. There are no other satisfactory audit procedures that we could adopt to determine whether the shareholder has the financial ability to honour the financial support to the Group.

# INDEPENDENT AUDITOR'S REPORT (CONTINUED)

## RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards 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.

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

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

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

**ZHONGHUI ANDA CPA Limited**
*Certified Public Accountants*

**Sze Lin Tang**
Audit Engagement Director
Practising Certificate Number P03614

Hong Kong, 2 August 2019

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December

| | Notes | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| **Revenue** | 8 | **—** | — |
| Other income | 9 | **23,015** | — |
| Interest revenue | | **57** | 1,054 |
| Administrative expenses | | **(57,207)** | (58,628) |
| Other expenses | 10 | **(8,276)** | (43,481) |
| **Loss from operations** | | **(42,411)** | (101,055) |
| Finance costs | 11 | **(7,032)** | (3,452) |
| **Loss before tax** | | **(49,443)** | (104,507) |
| Income tax expense | 12 | **—** | — |
| **Loss and total comprehensive loss for the year** | 13 | **(49,443)** | (104,507) |
| **Loss and total comprehensive loss for the year attributable to:** | | | |
| Owners of the Company | | **(48,215)** | (103,559) |
| Non-controlling interests | | **(1,228)** | (948) |
| | | **(49,443)** | (104,507) |
| **Loss per share** | | | |
| Basic | 15 | **(RMB5.31 cents)** | (RMB11.40 cents) |
| Diluted | 15 | **N/A** | N/A |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December

| | Notes | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | 512 | 159 |
| Mining rights | 17 | — | — |
| Exploration and evaluation assets | 18 | — | — |
| Prepaid land lease payments | 19 | — | — |
| | | 512 | 159 |
| **Current assets** | | | |
| Prepayment, deposits and other receivables | | 6,858 | 5,568 |
| Bank and cash balances | 21 | 544,810 | 571,163 |
| | | 551,668 | 576,731 |
| **Current liabilities** | | | |
| Other payables | | 134,715 | 107,452 |
| Short-term borrowings | 22 | 20,710 | 23,240 |
| Current tax liabilities | | 915 | 915 |
| | | 156,340 | 131,607 |
| **Net current assets** | | 395,328 | 445,124 |
| **Total assets less current liabilities** | | 395,840 | 445,283 |
| **Non-current liabilities** | | | |
| Provision for restoration cost | 23 | 9,094 | 9,094 |
| Deferred tax liabilities | 24 | 16,724 | 16,724 |
| | | 25,818 | 25,818 |
| **NET ASSETS** | | 370,022 | 419,465 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31 December

| | Notes | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|---|
| **Capital and reserves** | | | |
| Share capital | 25 | **797,619** | 797,619 |
| Reserves | 26 | **(309,289)** | (261,074) |
| Equity attributable to owners of the Company | | **488,330** | 536,545 |
| Non-controlling interests | | **(118,308)** | (117,080) |
| **TOTAL EQUITY** | | **370,022** | 419,465 |

The consolidated financial statements on pages 42 to 81 were approved and authorized for issue by the Board on 2 August 2019 and are signed on its behalf by:

**Lu Chunxiang**
*DIRECTOR*

**Li Feng**
*DIRECTOR*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

| | Attributable to owners of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** RMB'000 | **Share premium*** RMB'000 | **Statutory reserve*** RMB'000 | **Capital reserve*** RMB'000 | **Other reserve*** RMB'000 | **Accumulated losses*** RMB'000 | **Total** RMB'000 | **Non-Controlling interests** RMB'000 | **Total equity** RMB'000 |
| At 1 January 2017 | 797,619 | 2,428,631 | 73,165 | 34,521 | (165,232) | (2,528,600) | 640,104 | (116,132) | 523,972 |
| Loss and total comprehensive loss for the year | — | — | — | — | — | (103,559) | (103,559) | (948) | (104,507) |
| At 31 December 2017 | 797,619 | 2,428,631 | 73,165 | 34,521 | (165,232) | (2,632,159) | 536,545 | (117,080) | 419,465 |
| At 1 January 2018 | **797,619** | **2,428,631** | **73,165** | **34,521** | **(165,232)** | **(2,632,159)** | **536,545** | **(117,080)** | **419,465** |
| Loss and total comprehensive loss for the year | **—** | **—** | **—** | **—** | **—** | **(48,215)** | **(48,215)** | **(1,228)** | **(49,443)** |
| At 31 December 2018 | **797,619** | **2,428,631** | **73,165** | **34,521** | **(165,232)** | **(2,680,374)** | **488,330** | **(118,308)** | **370,022** |

* These reserve accounts comprise the consolidated reserves in the consolidated statement of financial position.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Loss before tax | **(49,443)** | (104,507) |
| Adjustments for: | | |
| Interest revenue | **(57)** | (1,054) |
| Interest expense | **7,032** | 3,452 |
| Impairment losses on property, plant and equipment | **8,274** | 1,670 |
| Written off of property, plant and equipment | **2** | — |
| Depreciation of property, plant and equipment | **184** | 109 |
| Operating loss before working capital changes | **(34,008)** | (100,330) |
| Decrease in prepayment, deposits and other receivables | **1,290** | 946 |
| Increase/(decrease) in other payables | **24,683** | (8,695) |
| Cash used in operations | **(8,035)** | (108,079) |
| Interest received | **57** | 1,054 |
| **Net cash used in operating activities** | **(7,978)** | (107,025) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchases of property, plant and equipment | **(8,813)** | (1,773) |
| **Net cash used in investing activities** | **(8,813)** | (1,773) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Loan interest paid | **(7,032)** | (3,452) |
| Proceeds from borrowings | **14,390** | 11,080 |
| Repayment of borrowings | **(16,920)** | (1,750) |
| **Net cash (used in)/generated from financing activities** | **(9,562)** | 5,878 |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | **(26,353)** | (102,920) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **571,163** | 674,083 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | **544,810** | 571,163 |
| **ANALYSIS OF CASH AND CASH EQUIVALENTS** | | |
| Bank and cash balances | **544,810** | 571,163 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability. The address of the registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of the principal place of business in Hong Kong was Units 3601–3, 36/F, AIA Tower, 183 Electric Road, North Point. On 5 November 2018, the Company moved to Unit 502, 5/F., Bank of America Tower, 12 Harcourt Road, Central, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and have been suspended for trading since 27 May 2011.

The Company is an investment holding company. Its subsidiaries are principally engaged in exploration, mining and processing of gold ore and sale of concentrates in the People's Republic of China (the "PRC").

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

## 2. GOING CONCERN BASIS

The Group incurred a loss attributable to owners of the Company of approximately RMB48,215,000 for the year ended 31 December 2018 and there are certain issues on Guangfa bank accounts of the Group described in Note 21 amounting to RMB460,848,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realize its assets and discharge its liabilities in the normal course of business.

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the financial support of the shareholder, at a level sufficient to finance the working capital requirements of the Group. The shareholder has agreed to provide adequate funds for the Group to meet its liabilities as they fall due. The directors are therefore of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the consolidated financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively.

## 3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised standards, amendments and interpretations (hereinafter collectively referred to as "new and revised IFRSs") that are relevant to its operations and effective for its accounting year beginning on 1 January 2018. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's consolidated financial statements and amounts reported for the current year and prior years.

The Group has not applied the new and revised IFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised IFRSs but is not yet in a position to state whether these new and revised IFRSs would have a material impact on its results of operations and financial position.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared on the historical cost basis and in accordance with International Financial Reporting Standards ("IFRSs"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The preparation of consolidated financial statements in conformity with IFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise their judgements in the process of applying the accounting policies. The areas where assumptions and estimates are significant to these consolidated financial statements are disclosed in Note 5 to these consolidated financial statements.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

### Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealized profits are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Foreign currency translation

***(a) 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 presentation currency.

***(b) Transactions and balances in each entity's financial statements***

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognized in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

***(c) Translation on consolidation***

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

(i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) Income and expenses for each statement of profit or loss and other comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

(iii) All resulting exchange differences are recognized in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognized in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognized in consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized 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. All other repairs and maintenance are recognized in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

| | |
|---|---|
| Buildings | 5%–12.5% |
| Plant and machinery | 10% |
| Furniture, fixtures and equipment | 20% |
| Motor vehicles | 20% |

Depreciation of mining structures is calculated using the Units of Production ("UOP") method to write off the cost of the assets proportionately to the extraction of the proved and probable mineral reserves.

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

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognized in profit or loss.

Construction in progress represents mining structures in the course of construction, and is stated at cost less any impairment losses. Depreciation begins when the relevant assets are available for use.

### Stripping costs

Stripping costs incurred in the development of a mine before production commences are capitalized as part of the cost of constructing the mine and subsequently amortized over the life of the mine on a UOP basis.

Stripping costs incurred subsequently during the production phase of its operation are deferred for those operations where this is the most appropriate basis for matching the cost against the related economic benefits and the effect is material. This is generally the case where there are fluctuations in stripping costs over the life of the mine. The amount of stripping costs deferred is based on the strip ratio obtained by dividing the tonnage of waste mined by the quantity of minerals contained in the ore. Stripping costs incurred in the period are deferred to the extent that the current period ratio exceeds the life of the mine strip ratio. Such deferred costs are then charged to profit or loss to the extent that, in subsequent periods, the current period ratio falls short of the life of mine ratio. The life of mine ratio is based on economically recoverable reserves of the mine. Changes are accounted for prospectively, from the date of the change.

Deferred stripping costs are included as part of "Mining structures". These form part of the total investment in the relevant cash generating units, which are reviewed for impairment if events or changes of circumstances indicate that the carrying value may not be recoverable.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Mining rights

Mining rights are stated at cost less accumulated amortization and any impairment losses. Mining rights include the cost of acquiring mining licenses, exploration and evaluation costs transferred from exploration rights and assets upon determination that an exploration property is capable of commercial production, and the cost of acquiring interests in the mining reserves of existing mining properties. The mining rights are amortized over the estimated useful lives of the mines, in accordance with the production plans of the entities concerned and the proved and probable reserves of the mines using the UOP method. Mining rights are written off to profit or loss if the mining property is abandoned.

### Exploration and evaluation assets

Exploration and evaluation assets are recognized at cost on initial recognition. Subsequent to initial recognition, exploration and evaluation assets are stated at cost less any identified impairment loss.

Exploration and evaluation assets include the cost of exploration rights and the expenditures incurred in the search for mineral resources as well as the determination of the technical feasibility and commercial viability of extracting those resources. Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. An impairment loss is recognized in profit and loss.

When the technical feasibility and commercial viability of extracting a mineral resource become demonstrable and the mining rights is obtained, the carrying amounts of the recognized exploration and evaluation assets are reclassified as mining rights.

### Leases

***Operating leases***

*The Group as lessee*

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognized as an expense on a straight-line basis over the lease term.

*The Group as lessor*

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

### Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognized when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Recognition and derecognition of financial instruments (Continued)

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid is recognized in profit or loss.

### Financial assets

Financial assets are recognized and derecognized on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned, and are initially recognized at fair value, plus directly attributable transaction costs except in the case of investments at fair value through profit or loss. Transaction costs directly attributable to the acquisition of investments at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets of the Group are classified as financial assets at amortized cost.

Financial assets (including other receivables) are classified under this category if they satisfy both of the following conditions:

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

- the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

They are subsequently measured at amortized cost using the effective interest method less loss allowance for expected credit losses.

### Loss allowances for expected credit losses

The Group recognizes loss allowances for expected credit losses on financial assets at amortized cost. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights.

At the end of each reporting period, the Group measures the loss allowance for a financial instrument at an amount equal to the expected credit losses that result from all possible default events over the expected life of that financial instrument ("lifetime expected credit losses") for trade receivables, or if the credit risk on that financial instrument has increased significantly since initial recognition.

If, at the end of the Reporting Period, the credit risk on a financial instrument (other than trade receivables) has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to the portion of lifetime expected credit losses that represents the expected credit losses that result from default events on that financial instrument that are possible within 12 months after the Reporting Period.

The amount of expected credit losses or reversal to adjust the loss allowance at the end of the Reporting Period to the required amount is recognized in profit or loss as an impairment gain or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

### Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

### Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred, and subsequently measured at amortized cost using the effective interest method.

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.

### Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortized cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

### Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

### Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer with reference to the customary business practices and excludes amounts collected on behalf of third parties. For a contract where the period between the payment by the customer and the transfer of the promised product or service exceeds one year, the consideration is adjusted for the effect of a significant financing component.

The Group recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. Depending on the terms of a contract and the laws that apply to that contract, a performance obligation can be satisfied over time or at a point in time. A performance obligation is satisfied over time if:

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue from contracts with customers (Continued)

If a performance obligation is satisfied over time, revenue is recognized by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains control of the product or service.

### Interest revenue

Interest revenue is recognized using the effective interest method.

### Employee benefits

***(a) Employee leave entitlements***

Employee entitlements to annual leave and long service leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the Reporting Period.

Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

***(b) Pension obligations***

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme ("MPF Scheme") in Hong Kong under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The Group also participates in a defined contribution retirement scheme organized by the government in the PRC. The Group is required to contribute a specific percentage of the payroll of its employees to the retirement scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the retirement scheme. No forfeited contributions may be used by the employers to reduce the existing level of contributions.

***(c) Termination benefits***

Termination benefits are recognized at the earlier of the dates when the Group can no longer withdraw the offer of those benefits and when the Group recognizes restructuring costs and involves the payment of termination benefits.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Borrowing costs (Continued)

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization is determined by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

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

### Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognized in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the Reporting Period.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognized in profit or loss, except when it relates to items recognized in other comprehensive income or directly in equity, in which case the deferred tax is also recognized in other comprehensive income or directly in equity.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Related parties

A related party is a person or entity that is related to the Group.

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Company or of a parent of the Company.

(b) An entity is related to the Group (reporting entity) if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to a parent of the Company.

### Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purpose of allocating resources to, and assessing the performance of the Group's various lines of business in different geographical locations.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Segment reporting (Continued)

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of productions processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

### Impairment of assets

At the end of each Reporting Period, the Group reviews the carrying amounts of its tangible and intangible assets except receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset or cash generating unit in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### Provisions and contingent liabilities

Provisions are recognized for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Provision for restoration cost

The Group is required to incur costs for restoration of the land after the underground sites have been mined. Provision for restoration cost is recognized 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. Provision is measured in accordance with the relevant rules and regulations applicable in the different provinces of the PRC at the end of the reporting period, and is discounted to their present value where the effect is material.

Restoration cost is provided in the period in which the obligation is identified and is capitalized to the costs of mining structures. This cost is charged to profit or loss through depreciation of the assets, which are depreciated using the UOP method based on the actual production volume over the estimated total proved and probable reserves of the ore mines.

### Events after the Reporting Period

Events after the Reporting Period that provide additional information about the Group's position at the end of the Reporting Period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the Reporting Period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

## 5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

### Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognized in the consolidated financial statements.

### Going concern basis

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the financial support of the shareholder at a level sufficient to finance the working capital requirements of the Group. Details are explained in Note 2 to consolidated financial statements.

### Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the Reporting Period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

***(a) Property, plant and equipment and depreciation***

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

## 5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (Continued)

### Key sources of estimation uncertainty (Continued)

***(b) Income taxes***

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

***(c) Impairment of receivables, deposits and prepayments***

Impairment of receivables, deposits, and prepayments is made based on an assessment of the recoverability of receivables, deposits and prepayments. The assessment of impairment of receivables, deposits and prepayments involves the use of estimates and judgments. An estimate for doubtful debts is made when collection of the full amount is no longer probable, as supported by objective evidence using available contemporary and historical information to evaluate the exposure. Bad debts are written off as incurred. Where the actual outcome or expectation in the future is different from the original estimates, such differences will affect the carrying amount of receivables, deposits and prepayments and thus the impairment loss in the period in which such estimate is changed.

***(d) Mine reserves***

Mining rights and mining structures are amortized or depreciated over the estimated useful lives of the mines in accordance with the production plans of the entities concerned and the mineral resources and reserves of the mines using the UOP method.

The process of estimating the quantities of the Group's gold reserve and resources is inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information based on available geological, geophysical, engineering and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting mineral prices and costs change. Changes in reported reserves and resources estimated can impact the carrying value of intangible asset.

***(e) Exploration and evaluation assets***

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest the carrying amount may exceed its recoverable amount. The directors of the Company exercise their judgment in estimating recoverable amount which requires the Group to estimate the total reserves of the ore mines. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available. If the quantities of reserves are different from current estimates, it will result in significant changes of the recoverable amount. Where the recoverable amount is less than expected, a material impairment loss may arise.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

## 6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

### (a) Foreign currency risk

The Group has foreign currency transactions which expose the Group to market risk arising from changes in foreign exchange rates. During the year ended 31 December 2018, the Group had bank and cash balances that are denominated in foreign currencies which exposed the Group to foreign currency risks.

The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

At 31 December 2018, if the RMB had weakened 5% against HKD with all other variables held constant, consolidated loss after tax for the year would have been approximately RMB27,309,000 (2017: RMB27,470,000) lower, arising mainly as a result of the foreign exchange gain on bank and cash balances denominated in HKD. If the RMB had strengthened 5% against the HKD with all other variables held constant, consolidated loss after tax for the year would have been approximately RMB27,309,000 (2017: RMB27,470,000) higher, arising mainly as a result of the foreign exchange loss on bank and cash balances denominated in HKD.

### (b) Credit risk

The carrying amount of the bank and cash balances and trade and other receivables included in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The Group has no significant concentrations of credit risk.

For cash and cash equivalents, management manages the credit risk by placing most bank deposits in the state-controlled and other listed banks in Mainland China and other high quality foreign banks without significant credit risk.

The Group considers whether there has been a significant increase in credit risk of financial assets on an ongoing basis throughout each reporting period by comparing the risk of a default occurring 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. Especially the following information is used:

- internal credit rating;
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower;
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

## 6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (b) Credit risk (Continued)

A significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment. A default on a financial asset is when the counterparty fails to make contractual payments within 60 days of when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group normally categorises a receivable for write off when a debtor fails to make contractual payments greater than 365 days past due. Where receivables have been written off, the Group, if practicable and economical, continues to engage in enforcement activity to attempt to recover the receivable due.

### (c) Liquidity risk

The Group monitors its exposure to a shortage of funds by considering the maturity of both its financial liabilities and financial assets and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of its own funding sources.

All of the Group's financial liabilities are due within one year.

### (d) Interest rate risk

As the Group has no significant interest-bearing assets and liabilities, the Group's operating cash flows are substantially independent of changes in market interest rates.

### (e) Categories of financial instruments

| | **2018** | 2017 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| **Financial assets:** | | |
| Financial assets at amortized cost | | |
| Other receivables | **4,998** | 955 |
| Bank and cash balances | **544,810** | 571,163 |
| | **549,808** | 572,118 |
| **Financial liabilities:** | | |
| Financial liabilities at amortized cost | | |
| Other payable | **70,663** | 43,469 |
| Short-term borrowings | **20,710** | 23,240 |
| | **91,373** | 66,709 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

## 7. SEGMENT INFORMATION

The Group has 3 mines in Nantaizi, Shirengou and Luotuochang in Inner Mongolia, the PRC. The Group is organized based on the locations of its ore processing plants. The ore processing plant located at Nantaizi processes ore from the mines in Nantaizi and Shirengou. The ore processing plant located at Luotuochang only processes ore from the mine in Luotuochang. For management reporting purpose, the Group's executive directors, who are the chief operating decision maker ("CODM") reviewed the financial information of each ore processing plant for the purpose of resources allocation and performance evaluation. Hence, the processing activities at each of the ore processing plants in Nantaizi and Luotuochang represented as an operating segment.

The Group acquired certain subsidiaries engaged in exploration activities in Inner Mongolia and Guangxi, the PRC. The CODM also reviewed financial information of each subsidiary separately. Because all these subsidiaries carry out exploration activities, they are aggregated as one reportable segment of exploration of gold mines.

The Group's reportable segments are set out as follows:

(i) Ore processing plant in Nantaizi — the mining and ore processing activities in respect of the mines in Nantaizi and Shirengou;

(ii) Ore processing plant in Luotuochang — the mining and ore processing activities in respect of the mine in Luotuochang;

(iii) Exploration of gold mines — the exploration activities in various places.

Information about reportable segment revenue, profit or loss, assets and liabilities:

| | Ore processing plant in Nantaizi RMB'000 | Ore processing plant in Luotuochang RMB'000 | Exploration of gold mines RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **For the year ended 31 December 2018** | | | | |
| Segment loss before tax | (11,957) | (1,107) | (18,263) | (31,327) |
| Addition to non-current assets | 8,031 | — | 243 | 8,274 |
| Impairment losses on property, plant and equipment | 8,031 | — | 243 | 8,274 |
| **As at 31 December 2018** | | | | |
| Segment assets | 145 | 114 | 64 | 323 |
| Segment liabilities | 61,694 | 25,187 | 14,237 | 101,118 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

## 7. SEGMENT INFORMATION (Continued)

| | Ore processing plant in Nantaizi RMB'000 | Ore processing plant in Luotuochang RMB'000 | Exploration of gold mines RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **For the year ended 31 December 2017** | | | | |
| Segment loss before tax | (10,952) | (1,413) | (3,755) | (16,120) |
| Addition to non-current assets | 1,670 | — | — | 1,670 |
| Impairment losses on property, plant and equipment | 1,670 | — | — | 1,670 |
| **As at 31 December 2017** | | | | |
| Segment assets | 2,913 | 47 | 3,907 | 6,867 |
| Segment liabilities | 53,166 | 24,716 | 10,296 | 88,178 |

Reconciliations of reportable segment revenue, profit or loss, assets and liabilities:

| | **2018 RMB'000** | 2017 RMB'000 |
|---|---|---|
| **Profit or loss** | | |
| Total loss of reportable segments | **(31,327)** | (16,120) |
| Unallocated other income and interest revenue | **23,030** | 1,027 |
| Unallocated corporate expenses | **(41,146)** | (89,414) |
| Consolidated loss before tax | **(49,443)** | (104,507) |
| **Assets** | | |
| Total assets of reportable segments | **323** | 6,867 |
| Unallocated bank and cash balance | **544,639** | 567,197 |
| Unallocated corporate assets | **7,218** | 2,826 |
| Consolidated total assets | **552,180** | 576,890 |
| **Liabilities** | | |
| Total liabilities of reportable segments | **101,118** | 88,178 |
| Unallocated corporate liabilities | **81,040** | 69,247 |
| Consolidated total liabilities | **182,158** | 157,425 |

Apart from the above, the totals of other material items disclosed in the segment information are the same as the consolidated totals.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

## 7. SEGMENT INFORMATION (Continued)

### Geographical information:

*(a)* ***Revenue from external customers***

For both years, no transactions were concluded to generate any trading income.

*(b)* ***Non-current assets***

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Hong Kong | 506 | 153 |
| PRC | 6 | 6 |
| | 512 | 159 |

## 8. REVENUE

No transactions were concluded to generate any trading income during the year.

## 9. OTHER INCOME

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Exchange gain | 23,015 | — |

## 10. OTHER EXPENSES

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Exchange loss | — | 41,811 |
| Impairment losses on property, plant and equipment | 8,274 | 1,670 |
| Written off of property, plant and equipment | 2 | — |
| | 8,276 | 43,481 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

## 11. FINANCE COSTS

| | **2018** **RMB'000** | 2017 RMB'000 |
|---|---|---|
| Interest expenses | **7,032** | 3,452 |

## 12. INCOME TAX EXPENSE

| | **2018** **RMB'000** | 2017 RMB'000 |
|---|---|---|
| Deferred tax expense | **—** | — |

No provision for Hong Kong Profits Tax is required since the Group's income is derived from overseas sources which is not liable to Hong Kong Profits Tax.

The applicable income tax rate for the subsidiaries of the Group in the PRC in the current year is 25% (2017: 25%).

The reconciliation between the income tax expense and the product of loss before tax multiplied by the PRC Enterprise Income Tax ("EIT") rate is as follows:

| | **2018** **RMB'000** | 2017 RMB'000 |
|---|---|---|
| Loss before tax | **(49,443)** | (104,507) |
| Tax at applicable PRC EIT rate of 25% (2017: 25%) | **(12,361)** | (26,127) |
| Tax effect of income that is not taxable | **(15,329)** | (11,522) |
| Tax effect of expenses that are not deductible | **25,268** | 31,416 |
| Tax effect of temporary differences not recognized | **3** | 5,815 |
| Tax effect of tax losses not recognized | **2,419** | 4,18 |
| Income tax expense | **—** | — |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

## 13. LOSS AND TOTAL COMPREHENSIVE LOSS FOR THE YEAR

The Group's loss and total comprehensive loss for the year is stated after charging the following:

| | **2018 RMB'000** | 2017 RMB'000 |
|---|---|---|
| Auditor's remuneration | **844** | 866 |
| Depreciation of property, plant and equipment | **184** | 109 |
| Operating lease payments for rented premises | **3,727** | 2,853 |
| Staff costs including directors' emoluments | | |
| Salaries, bonus and allowances | **18,469** | 24,438 |
| Retirement benefits scheme contributions | **1,221** | 1,963 |
| | **19,690** | 26,401 |

## 14. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' REMUNERATION

### (a) Directors' remuneration

The emoluments paid or payable to each director were as follows:

| | | For the year ended 31 December 2018 | | | | |
|---|---|---|---|---|---|---|
| | | **Fees RMB'000** | **Salaries, bonus and allowances RMB'000** | **Discretionary bonus RMB'000** | **Retirement benefit scheme contributions RMB'000** | **Total RMB'000** |
| **Executive Directors:** | | | | | | |
| Mr. Lu Chunxiang | | **608** | **346** | — | — | **954** |
| Mr. Li Feng | | **608** | **304** | — | — | **912** |
| Mr. Kirk Vincent Wiedemer | | **760** | — | — | — | **760** |
| Mr. Sean Zhang | (Note vii) | **760** | — | — | — | **760** |
| Mr. Wang Chunqi | (Note vii) | **760** | — | — | — | **760** |
| Mr. Shao Jiulin | (Note vii) | **760** | — | — | — | **760** |
| Mr. Zhang Yanchun | (Notes ii & vi) | **265** | **373** | — | — | **638** |
| Mr. Ren Yancheng | (Note v) | **355** | **304** | — | — | **659** |
| **Independent Non-executive Directors:** | | | | | | |
| Mr. Liu Aiguo | | **304** | — | — | — | **304** |
| Ms. Zhang Hui | | **304** | — | — | — | **304** |
| Mr. Guo Honggang | (Note vii) | **304** | — | — | — | **304** |
| Ms. Wang Xu | | **304** | — | — | — | **304** |
| | | **6,092** | **1,327** | — | — | **7,419** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

## 14. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' REMUNERATION (Continued)

### (a) Directors' remuneration (Continued)

| | | For the year ended 31 December 2017 | | | | |
|---|---|---|---|---|---|---|
| | | Fees RMB'000 | Salaries, bonus and allowances RMB'000 | Discretionary bonus RMB'000 | Retirement Benefit scheme contributions RMB'000 | Total RMB'000 |
| **Executive Directors:** | | | | | | |
| Mr. Lu Chunxiang | | 911 | 456 | — | — | 1,367 |
| Mr. Li Feng | | 911 | 456 | — | — | 1,367 |
| Mr. Kirk Vincent Wiedemer | | 1,139 | — | — | — | 1,139 |
| Mr. Sean Zhang | (Note vii) | 975 | 326 | — | — | 1,301 |
| Mr. Wang Chunqi | (Note vii) | 1,139 | — | — | — | 1,139 |
| Mr. Shao Jiulin | (Note vii) | 1,139 | — | — | — | 1,139 |
| Mr. Li Zenghu | (Note i) | 275 | 154 | — | — | 429 |
| Mr. Zhang Yanchun | (Notes ii & vi) | 331 | 456 | — | — | 787 |
| **Independent Non-executive Directors:** | | | | | | |
| Mr. Liu Aiguo | | 456 | — | — | — | 456 |
| Ms. Zhang Hui | | 456 | — | — | — | 456 |
| Mr. Guo Honggang | (Note vii) | 456 | — | — | — | 456 |
| Ms. Ge Huiyun | (Note iv) | 430 | 9 | — | — | 439 |
| Ms. Wang Xu | (Note iii) | 32 | — | — | — | 32 |
| | | 8,650 | 1,857 | — | — | 10,507 |

During the two years ended 31 December 2018 and 2017, no director waived or agreed to waive any emoluments.

Notes:

(i) Mr. Li Zenghu resigned as an executive director with effective from 20 June 2017.

(ii) Mr. Zhang Yanchun was appointed as an executive director with effective from 20 June 2017.

(iii) Ms. Wang Xu was appointed as an independent non-executive director with effective from 24 November 2017.

(iv) Mr. Ge Huiyun resigned as an independent non-executive director with effective from 11 December 2017.

(v) Mr. Ren Yancheng was appointed as an executive director with effective from 1 June 2018.

(vi) Mr. Zhang Yanchun resigned as an executive director with effective from 8 June 2018.

(vii) Mr. Wang Chunqi, Mr. Sean Zhang and Mr. Shao Jiulin resigned as executive directors with effective from 18 April 2019. Mr. Guo Honggang was re-designated as an executive director with effective from 18 April 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

## 14. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' REMUNERATION (Continued)

### (b) Five highest paid employees' emoluments

Of the five individuals with the highest emoluments in the Group, four (2017: five) were directors of the Company whose emoluments are included in the disclosures in Note 14(a) above. The emoluments of the remaining one (2017: nil) highest paid individuals were as follows:

| | **2018 RMB'000** | 2017 RMB'000 |
|---|---|---|
| Salaries, bonus and allowances | **1,192** | — |
| Retirement benefit scheme contributions | **15** | — |
| | **1,207** | — |

The emoluments fell within the following band:

| | **Number of individuals** | |
|---|---|---|
| | **2018** | 2017 |
| HKD1,000,001 to HKD1,500,000 | **1** | — |

During each of the years ended 31 December 2018 and 2017, no emoluments were paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group, or a compensation for loss of office.

## 15. LOSS PER SHARE

### Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of approximately RMB48,215,000 (2017: RMB103,559,000) and the weighted average number of ordinary shares of 908,786,000 (2017: 908,786,000) in issue during the year.

### Diluted earnings per share

No diluted loss per share is presented as the Company did not have any dilutive potential ordinary sharing during the years ended 31 December 2018 and 2017.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

## 16. PROPERTY, PLANT AND EQUIPMENT

| | Buildings RMB'000 | Mining structures RMB'000 | Plant and machinery RMB'000 | Furniture, fixtures and equipment RMB'000 | Motor vehicles RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2017 | 227,751 | 2,252,864 | 112,664 | 8,357 | 2,663 | 2,604,299 |
| Additions | 239 | — | 1,065 | 390 | 79 | 1,773 |
| Disposals | — | — | — | (58) | — | (58) |
| Written-off | — | — | — | (1,039) | — | (1,039) |
| At 31 December 2017 and 1 January 2018 | **227,990** | **2,252,864** | **113,729** | **7,650** | **2,742** | **2,604,975** |
| Additions | **—** | **7,784** | **490** | **539** | **—** | **8,813** |
| Written-off | **—** | **—** | **—** | **(87)** | **—** | **(87)** |
| At 31 December 2018 | **227,990** | **2,260,648** | **114,219** | **8,102** | **2,742** | **2,613,701** |
| **Accumulated depreciation and impairment** | | | | | | |
| At 1 January 2017 | 227,751 | 2,252,864 | 112,664 | 8,192 | 2,663 | 2,604,134 |
| Charge for the year | — | — | — | 109 | — | 109 |
| Disposals | — | — | — | (58) | — | (58) |
| Impairment losses recognized in profit or loss | 239 | — | 1,065 | 287 | 79 | 1,670 |
| Written-off | — | — | — | (1,039) | — | (1,039) |
| At 31 December 2017 and 1 January 2018 | **227,990** | **2,252,864** | **113,729** | **7,491** | **2,742** | **2,604,816** |
| Charge for the year | **—** | **—** | **—** | **184** | **—** | **184** |
| Impairment losses recognized in profit or loss | **—** | **7,784** | **490** | **—** | **—** | **8,274** |
| Written-off | **—** | **—** | **—** | **(85)** | **—** | **(85)** |
| At 31 December 2018 | **227,990** | **2,260,648** | **114,219** | **7,590** | **2,742** | **2,613,189** |
| **Carrying amount** | | | | | | |
| At 31 December 2018 | **—** | **—** | **—** | **512** | **—** | **512** |
| At 31 December 2017 | — | — | — | 159 | — | 159 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

## 17. MINING RIGHTS

| | RMB'000 |
|---|---|
| **Cost** | |
| At 1 January 2017, 31 December 2017 and 31 December 2018 | 195,500 |
| **Accumulated amortization and impairment** | |
| At 1 January 2017, 31 December 2017 and 31 December 2018 | 195,500 |
| **Carrying amount** | |
| At 31 December 2018 | — |
| At 31 December 2017 | — |

## 18. EXPLORATION AND EVALUATION ASSETS

| | **2018 RMB'000** | 2017 RMB'000 |
|---|---|---|
| At 31 December | — | — |

## 19. PREPAID LAND LEASE PAYMENTS

The prepaid land lease payments represent land use rights in the PRC held under medium-term lease.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

## 20. SUBSIDIARIES

Particulars of the Company's major subsidiaries are set out below:

| Name | Place of incorporation/ registration | Issued and paid up capital | Percentage of ownership interest/voting power/ profit sharing Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Lita Investment Limited (Note ii) | British Virgin Islands | USD55,942,117 | 100% | — | Investment holding |
| Rich Vision Holdings Limited (Note ii) | Hong Kong | HKD1 | — | 100% | Inactive |
| 富邦工業(惠州)有限公司 Fubon Industrial (Huizhou) Co., Ltd.* (Note i) | PRC | HKD437,000,000 | — | 100% | Investment holding |
| 赤峰富僑礦業有限公司 Chifeng Fuqiao Mining Co., Ltd.* (Note ii) | PRC | RMB5,000,000 | — | 100% | Investment holding |
| 赤峰石人溝金礦有限責任公司 Chifeng Shirengou Mining Co., Ltd.* (Note ii) | PRC | RMB600,000 | — | 100% | Exploration, mining and processing of gold ore and sale of concentrates in the PRC |
| 赤峰南台子金礦有限公司 Chifeng Nantaizi Mining Co., Ltd.* (Note ii) | PRC | RMB1,000,000 | — | 100% | Exploration, mining and processing of gold ore and sale of concentrates in the PRC |
| 巴林左旗國濤礦產品貿易有限責任公司 Balinzuo Banner Guotao Materials Products Trading Co., Ltd.* (Note ii) | PRC | RMB1,000,000 | — | 100% | Exploration, mining and processing of gold ore and sale of concentrates in the PRC |
| 內蒙古四子王旗高台礦業有限責任公司 Inner Mongolia Siziwangqi Gaotai Mining Company Limited* ("Gaotai Mining") (Note ii) | PRC | RMB59,500,000 | — | 70% | Exploration, mining and processing of gold ore and sale of concentrates in the PRC |
| 廣西金鼎礦業有限公司 Guangxi Jinding Mineral Resources Co., Ltd* ("Guangxi Jinding") (Note ii) | PRC | USD8,300,000 | — | 85% | Exploration of gold mine in the PRC |
| 柳州市元義礦業有限責任公司 Liuzhou City Yuanyi Mining Co., Ltd* (Note ii) | PRC | RMB3,000,000 | — | 100% | Exploration of gold mine in the PRC |
| Great Future Investments Limited (Note ii) | Cayman Islands | USD1,000 | — | 100% | Investment holding |

Notes:

(i) A Sino-foreign equity joint venture.

(ii) A limited liability company.

* English translated name is for identification only.

The above list contains the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

## 20. SUBSIDIARIES (Continued)

The following table shows information of non-wholly-owned subsidiaries of the Group that have material non-controlling interests ("NCI"). The summarized financial information represents amounts before inter-company eliminations.

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Gaotai Mining** | **Guangxi Jinding** | Gaotai Mining | Guangxi Jinding |
| Principal place of business/country of incorporation | **PRC/PRC** | **PRC/PRC** | PRC/PRC | PRC/PRC |
| % of ownership interests and voting rights held by NCI | **30%** | **15%** | 30% | 15% |
| | **RMB'000** | **RMB'000** | RMB'000 | RMB'000 |
| **At 31 December:** | | | | |
| Non-current assets | **—** | **—** | — | — |
| Current assets | **24** | **37** | 35 | 2 |
| Current liabilities | **(39,395)** | **(710,015)** | (36,959) | (706,687) |
| Net liabilities | **(39,371)** | **(709,978)** | (36,924) | (706,685) |
| Accumulated NCI | **(11,811)** | **(106,497)** | (11,077) | (106,003) |
| **Year ended 31 December:** | | | | |
| Revenue | **—** | **—** | — | — |
| Loss and total comprehensive loss for the year | **(2,447)** | **(3,293)** | (2,867) | (589) |
| Loss allocated to NCI | **(734)** | **(494)** | (860) | (88) |
| Net cash generated from/(used in) operating activities | **2** | **—** | (76) | (145) |
| Net increase/(decrease) in cash and cash equivalents | **2** | **—** | (76) | (145) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

## 20. SUBSIDIARIES (Continued)

The Board of the Company noted that Fubon Industrial (Huizhou) Co., Ltd ("Fubon"), a wholly-owned subsidiary of the Company, has been informed by the Huizhou Administration Bureau for Industry and Commerce on 4 August 2017 while attending to the change of legal representative of Fubon that all of the shares in Fubon were frozen by the Huizhou Public Security Bureau due to investigation by the Huizhou Public Security Bureau into financial fraud that might have been perpetrated by Mr. Wu Ruilin ("Mr. Wu"), the Company's former controlling shareholder who still retains 15.41% shareholding in the Company and Qiaoxing group of companies controlled by Mr. Wu. On 17 August 2017, the Company's representatives attended Huizhou Administration Bureau for Industry and Commerce and Huizhou Public Security Bureau to make further enquiries. The Company made a request to the Huizhou Public Security Bureau for the formal document directing a freezing of Fubon's shares and Huizhou Public Security Bureau requested the Company to provide certain information to assist with its investigation. The freezing of all of the shares of Fubon is likely to impact the progress of effecting changes of legal representative and directors of Fubon and its subsidiary, namely Chifeng Fuqiao Mining Co., Ltd ("Fuqiao").

Refer to the announcement of the Company on 29 April 2019, the Company continues to take steps to effect changes of the legal representatives of two subsidiaries, namely, Fubon and Fuqiao. The Company has been informed by the Huizhou Police that the Huizhou Police has passed all relevant materials relating to the investigation of Mr. Wu Ruilin, the Company's former controlling shareholder, to the Intermediary People's Court of Huizhou ("Huizhou Court") as requested by the Huizhou Court. Subsequently, the Company has submitted the written application to the Huizhou Court for the discharge of the frozen Fubon shares. According to the Huizhou Court, a trial of first instance with respect to Mr. Wu Ruilin's case was held but no judgement has been issued yet, and the Huizhou Court will only attend to the discharge after the issue of a judgement. The Company was also given to understand from the Huizhou Court that although the Fubon shares remain to be frozen and therefore are not transferrable, this would not prohibit the Group from registering changes in relation to, including the change of legal representative. The Group will apply to the Huizhou Administration Bureau for Industry and Commerce to register the change in legal representative of Fubon in due course.

## 21. BANK AND CASH BALANCES

As at 31 December 2018 and 2017, the bank and cash balances of the Group were denominated in the following currencies:

| | **2018** | 2017 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| RMB | **374** | 1,436 |
| USD | **8,575** | 7,725 |
| HKD | **535,861** | 562,002 |
| | **544,810** | 571,163 |

Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

Bank balances carry interest at market rates which range from 0.01% to 2.74% (2017: 0.01% to 2.74%) per annum.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

## 21. BANK AND CASH BALANCES (Continued)

On 23 May 2017, the board of directors ("Directors") of the Company announces that on or around 16 March 2017, the Company received bank statements from China Guangfa Bank (Huizhou Branch) ("Guangfa Bank") for the Company's bank accounts maintained at such bank for the month ended 30 November 2016 ("November Bank Statement") and for the month ended 31 December 2016 ("December Bank Statement"). Consistent with the Company's internal records, the November Bank Statement showed that the Company had, inter alia, fixed deposits of HKD200,000,000 ("Fixed Deposits") held with Guangfa Bank. However, such Fixed Deposit was not shown in the December Bank Statement. The Directors made internal enquiries and confirmed that the Company had not authorized or procured the drawing of the Fixed Deposit from its bank accounts during December 2016. Therefore, the Directors considered that it was possible that Guangfa Bank might have made an error in the December Bank Statement. The Company made enquiries with Guangfa Bank about the said error but to no avail. The Company therefore sought assistance from its legal advisors in the PRC who demanded Guangfa Bank to explain the status of the Fixed Deposit.

In addition, according to the Group's accounting records, one of the subsidiaries of the Group, Rich Vision Holdings Limited ("Rich Vision") has fixed deposits of HKD317,000,000 held with Guangfa Bank ("Rich Vision Fixed Deposits"). Through its PRC legal advisors, the Company also demanded Guangfa Bank to confirm the status of Rich Vision Fixed Deposits. Up to 23 May 2017, China Guangfa Bank (Huizhou Branch) has not provided the Company or its PRC legal advisors with any information about the Company's Fixed Deposit or the Rich Vision Fixed Deposits.

On 6 June 2017, the Company issued a letter of complaint to the China Banking Regulatory Commission ("CBRC") against Guangfa Bank in respect of the suspension of operations of bank accounts of the Company and Rich Vision, the Fixed Deposit of the Company and the Rich Vision Fixed Deposits. On 23 August 2017, the Company received a notice from the Huizhou branch of CBRC, which confirms that investigation is underway and provides the following updates: (1) The CBRC is extending the investigations for 30 more days beyond the 60 days as originally intended as a result of the complexity of the matters of complaint; and (2) the CBRC will provide the Company with a written report of its findings upon completion of the investigations.

Refer to the announcement of the Company on 6 December 2017, in response to the letter of complaint issued by the Company to the CBRC against Guangfa Bank in respect of the suspension of operations of bank accounts of the Company and Rich Vision, the CBRC has provided an update only in respect of the Fixed Deposits of the Company. The CBRC stated that it found no wrongdoing on the part of Guangfa Bank but there is an allegation that the Fixed Deposits had been pledged to Guangfa Bank to secure loans taken out by a group of companies controlled by Mr. Wu Ruilin (the Company's former controlling shareholder). No further details have been provided by the CBRC. The Company has not seen a copy of the alleged pledge agreement(s) and is not aware of its/their terms or the obligations the pledge(s) is/are alleged to secure but is of the view that they could not have been properly authorized by the Company or any other Group company. Further, the Company has not received any independent confirmation from Guangfa Bank that it claims to have a pledge over the Fixed Deposits. The Company has no knowledge of the existence of any such pledge arrangements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

## 21. BANK AND CASH BALANCES (Continued)

Refer to the announcement of the Company on 2 March 2018, after consulting its PRC legal advisers, the Company has decided to commence civil proceedings against Guangfa Bank for infringement of rights and reinstatement of accounts, and the Company is working with its PRC legal advisers to commence such proceedings. The Company has been advised by its PRC legal advisers that if criminal proceedings are commenced against the responsible personnel of Guangfa Bank, the Company may as a victim commence consequential civil proceedings against Guangfa Bank and its responsible personnel. The Company has also communicated with the Huizhou Police and was informed that the Huizhou Police was not responsible for freezing or sealing any fixed deposits from the accounts of the Company and Rich Vision.

Refer to the announcement of the Company on 29 March 2018, upon advice by its PRC legal advisers, the Group has submitted two civil writs of action against Guangfa Bank in respect of the Fixed Deposits and Rich Vision Fixed Deposits respectively at the People's Court of Yuexiu District in Guangzhou (the "Yuexiu Court"). The Yuexiu Court suggested the Group should commence civil proceedings against Guangfa Bank for reinstatement of accounts only. However, as the Group is unable to confirm the authenticity of any alleged pledge agreement(s) submitted by Guangfa Bank to the CBRC asserting the existence or validity of any pledge over the Fixed Deposits and Rich Vision Fixed Deposits with Guangfa Bank, the Group commenced civil proceedings against Guangfa Bank for infringement of rights as one of its causes of action. As at 29 March 2018, the Yuexiu Court has formally put on its records the Group's civil action in respect of the Fixed Deposits and Rich Vision Fixed Deposits.

Refer to the announcement of the Company on 12 June 2018, in relation to the two civil actions commenced by the Group against Guangfa Bank at the Yuexiu Court, Guangfa Bank filed an application to challenge jurisdiction, which was dismissed by the Yuexiu Court (the "Dismissal Ruling"). Guangfa Bank then indicated that it intends to appeal the Dismissal Ruling when the Dismissal Ruling was served on Guangfa Bank.

Refer to the announcement of the Company on 29 April 2019, the hearing was held by the Yuexiu Court in respect of each of the two civil actions commenced by the Group against Guangfa Bank, but no ruling was made by the court which required further evidence to be submitted. It is expected that another hearing for these two actions will be held by Yuexiu Court in due course.

As at 31 December 2018, the total bank balance in Guangfa Bank accounts was approximately RMB460,848,000.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

## 22. SHORT-TERM BORROWINGS

| | **2018** <br> **RMB'000** | 2017 <br> RMB'000 |
|---|---|---|
| Short-term borrowings repayable on demand | **20,710** | 23,240 |

The short-term borrowings were issued at interest rates at 24% per annum. The fair value of short-term borrowings approximate to their carrying amounts. The short-term borrowings granted to the Company were guaranteed by fellow subsidiary and repayable on demand.

## 23. PROVISION FOR RESTORATION COST

In accordance with relevant PRC rules and regulations, the Group is obliged to accrue the cost for land reclamation and mine closures for the Group's existing mines. The provision for restoration cost has been determined by the directors based on their best estimates in accordance with the PRC rules and regulations.

## 24. DEFERRED TAX LIABILITY

The followings are the deferred tax liability arising from withholding tax applied on the undistributed profits of the PRC subsidiaries and movement thereon during the current and prior years:

| | **RMB'000** |
|---|---|
| At 1 January 2017, 31 December 2017 and 31 December 2018 | **16,724** |

At the end of the Reporting Period the Group has unused tax losses of approximately RMB3,592,067,000 (2017: RMB3,502,664,000) available for offset against future profits. No deferred tax asset has been recognized in respect of all unused tax losses due to the unpredictability of future profit streams. The unrecognized tax losses of approximately RMB3,592,067,000 (2017: RMB3,502,664,000) can be carried forward for 5 years from the year they arise.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

## 25. SHARE CAPITAL

| | Number of shares '000 | Amount HKD'000 |
|---|---|---|
| **Authorized:** | | |
| Ordinary shares of HKD1.00 each | | |
| At 1 January 2017, 31 December 2017 and 31 December 2018 | 1,000,000 | 1,000,000 |
| **Issued and fully paid:** | | |
| Ordinary shares of HKD1.00 each | | |
| At 1 January 2017, 31 December 2017 and 31 December 2018 | 908,786 | 908,786 |

| | **2018 RMB'000** | 2017 RMB'000 |
|---|---|---|
| Shown in the consolidated statement of financial position as 31 December | **797,619** | 797,619 |

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of equity attributable to owners of the Company which comprises issued share capital and reserves.

Management reviews the capital structure regularly, taking into account of the cost and risk associated with the capital. The Group will then balance its capital structure through the payment of dividends, new shares issues as well as the issue of new debt.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

## 26. RESERVES

### (a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity.

### (b) Company

| | Share premium RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
|---|---|---|---|
| At 1 January 2017 | 2,428,631 | (2,586,146) | (157,515) |
| Total comprehensive loss for the year | — | (103,559) | (103,559) |
| At 31 December 2017 and 1 January 2018 | 2,428,631 | (2,689,705) | (261,074) |
| Total comprehensive loss for the year | — | **(48,215)** | **(48,215)** |
| At 31 December 2018 | **2,428,631** | **(2,737,920)** | **(309,289)** |

### (c) Nature and purpose of reserves

***(i) Share premium***

Under the Companies Law of the Cayman Islands, the funds in the share premium of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

***(ii) Statutory reserve***

Statutory reserve represents the appropriation of 10% of profit after taxation determined based on the accounting standards and regulations in the PRC as required by the Articles of Association of one of the Company's PRC subsidiaries. The appropriation may cease to apply if the balance of the statutory reserve has reached 50% of that PRC subsidiary's registered capital.

***(iii) Capital reserve***

Capital reserve comprises an amount of approximately RMB34,521,000 (2017: RMB34,521,000) representing an appropriation to safety production fund from retained profits pursuant to regulations in the PRC. The fund is not available for distribution to shareholders.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

## 26. RESERVES (Continued)

### (c) Nature and purpose of reserves (Continued)

***(iv) Other reserve***

Other reserve comprises an amount of approximately RMB7,803,000 advanced and waived by Lead Honest Management Limited, the Company's immediate holding company during the year ended 31 December 2008 and an amount of approximately RMB178,894,000 representing the excess of the fair value of the consideration over the carrying amount of the net assets of additional interest in an existing subsidiary acquired during the year ended 31 December 2010 and 31 December 2014.

At 13 June 2014, the capital of a subsidiary Guangxi Jinding was increased by the Group's injection amounting to USD5,000,000. After the injection, the equity interest of the Group in a subsidiary Guangxi Jinding increased from 78.57% to 85.00%, and an amount of approximately RMB27,804,000 representing the equity interest of 6.43% of a subsidiary Guangxi Jinding was transferred from non-controlling interests to other reserves.

## 27. LEASE COMMITMENTS

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | **2018**<br>**RMB'000** | 2017<br>RMB'000 |
|---|---|---|
| Within one year | **2,428** | 2,493 |
| In the second to fifth years, inclusive | **1,677** | 280 |
| | **4,105** | 2,773 |

Operating lease payments represent rentals payable by the Group for certain of its rented premises. Lease terms are ranged from 2 to 3 years with fixed rentals.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

## 28. RELATED PARTY TRANSACTIONS

In addition to those related party transactions and balances disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with its related parties during the year:

| | **2018** **RMB'000** | 2017 RMB'000 |
|---|---|---|
| The remuneration of directors and other members of key management during the year is as follows: | | |
| Salaries, bonus and allowances | **7,052** | 10,036 |
| Retirement benefits scheme contributions | **—** | — |
| | **7,052** | 10,036 |

The related party transactions with directors of the Group companies constitute exempt continuing connected transactions under Chapter 14A of the Listing Rules and are fully exempted from the requirements there under.

## 29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### Changes in liabilities arising from financing activities

The following table shows the Group changes in liabilities arising from financing activities during the year:

| | **Short-term borrowings** RMB'000 |
|---|---|
| **At 1 January 2017** | 13,910 |
| Changes in cash flows | 5,878 |
| Non-cash changes | |
| Interest charged | 3,452 |
| **At 31 December 2017 and 1 January 2018** | **23,240** |
| Changes in cash flows | **(9,562)** |
| Non-cash changes | |
| Interest charged | **7,032** |
| **At 31 December 2018** | **20,710** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

## 30. STATEMENT OF FINANCIAL POSITION OF THE COMPANY AS AT 31 DECEMBER

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| **NON-CURRENT ASSETS** | | |
| Property, plant and equipment | 509 | 153 |
| Investments in subsidiaries | 126,413 | 126,413 |
| | 126,922 | 126,566 |
| **CURRENT ASSETS** | | |
| Other receivables | 4,808 | 2,785 |
| Amounts due from subsidiaries | 118,365 | 132,600 |
| Bank and cash balances | 260,530 | 294,970 |
| | 383,703 | 430,355 |
| **CURRENT LIABILITIES** | | |
| Other payables | 22,295 | 20,376 |
| **NET CURRENT ASSETS** | 361,408 | 409,979 |
| **NET ASSETS** | 488,330 | 536,545 |
| **EQUITY** | | |
| Share capital | 797,619 | 797,619 |
| Reserves | (309,289) | (261,074) |
| **TOTAL EQUITY** | 488,330 | 536,545 |

## 31. EVENT AFTER THE REPORTING PERIOD

柳州市元義礦業有限責任公司 (Liuzhou Yuanyi Mining Co., Ltd)*, holding an exploration permit, was deregistered on 18 January 2019.

* For identification purpose only

## 32. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements have been approved and authorized for issue by the Board on 2 August 2019.

# FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited consolidated financial statements and reclassified as appropriate, is set out below.

## RESULTS

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | 2015 | 2014 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Revenue | **—** | — | 232,782 | 384,607 | 186,537 |
| (Loss)/Profit before tax | **(49,443)** | (104,507) | (790,894) | 17,992 | (601,953) |
| Income tax (expense)/credit | **—** | — | (25,807) | 25,807 | — |
| (Loss)/Profit and total comprehensive (Loss)/ Income for the year | **(49,443)** | (104,507) | (816,701) | 43,799 | (601,953) |
| Non-controlling interests | **1,228** | 948 | 101,140 | 4,664 | 88 |
| (Loss)/Profit for the year | **(48,215)** | (103,559) | (715,561) | 48,463 | (601,865) |
| Attributable to: | | | | | |
| Owners of the Company | **(48,215)** | (103,559) | (715,561) | 48,463 | (601,865) |
| Non-controlling interests | **(1,228)** | (948) | (101,140) | (4,664) | (88) |
| | **(49,443)** | (104,507) | (816,701) | 43,799 | (601,953) |

## ASSETS AND LIABILITIES

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | 2015 | 2014 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Non-current assets | **512** | 159 | 165 | 762,500 | 590,674 |
| Current assets | **551,668** | 576,731 | 678,743 | 846,276 | 846,684 |
| Current liabilities | **(156,340)** | (131,607) | (129,118) | (239,059) | (140,639) |
| Non-current liabilities | **(25,818)** | (25,818) | (25,818) | (25,818) | (25,818) |
| Net assets | **370,022** | 419,465 | 523,972 | 1,343,899 | 1,270,901 |
| Attributable to: | | | | | |
| Owners of the Company | **488,330** | 536,545 | 640,104 | 1,360,617 | 1,308,455 |
| Non-controlling interests | **(118,308)** | (117,080) | (116,132) | (16,718) | (37,554) |
| Total equity | **370,022** | 419,465 | 523,972 | 1,343,899 | 1,270,901 |