恒興黃金
HENGXING GOLD

Hengxing Gold Holding Company Limited
恒興黃金控股有限公司

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

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

HIGHLIGHTS

The operating and financial results of the Group for the year ended 31 December 2019 is highlighted as follows:

- Gold production decreased by 13% to 85,654 ounces from the corresponding period of last year;
- Revenue of the gold mining segment increased by 2% to RMB845 million from the corresponding period of last year;
- Net profit after tax decreased by 18% to RMB215 million from the corresponding period of last year;
- Total liabilities were RMB165 million, compared with RMB190 million as of 31 December 2018 and debt ratio was 13%, compared with 17% as of 31 December 2018;
- All-in sustaining cost increased by 31% to RMB198/gram (equivalent to US$883/oz with exchange rate of RMB6.9762/USD as at 31 December 2019) from the corresponding period of last year;
- The Board proposed a final dividend of HK$0.1 per share for the year ended 31 December 2019 (2018: HK$0.1 per share).

The board of directors (the "**Board**") of Hengxing Gold Holding Company Limited (the "**Company**") is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2019 (the "**Period Under Review**"), together with comparative figures for the year ended 31 December 2018, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

		Year ended 31 December	
	Note	**2019**	2018
		RMB'000	*RMB'000*
Revenue	*5*	**845,396**	830,006
Cost of sales	*8*	**(519,943)**	(464,838)
Gross profit		**325,453**	365,168
Other income	*6*	**5,937**	1,006
Other gains — net	*7*	**971**	4,113
Selling and marketing expenses	*8*	**(378)**	(479)
General and administrative expenses	*8*	**(57,360)**	(37,266)
Operating profit		**274,623**	332,542
Finance income	*10*	**542**	461
Finance costs	*10*	**(3,819)**	(9,236)
Finance costs — net		**(3,277)**	(8,775)
Profit before income tax		**271,346**	323,767
Income tax expense	*11*	**(56,802)**	(62,870)
Profit for the year, all attributable to owners of the Company		**214,544**	260,897
Earnings per share for the year			
— Basic and diluted (expressed in RMB)	*12*	**0.23**	0.28

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Note	**As at 31 December** **2019** ***RMB'000***	2018 *RMB'000*
Assets			
Non-current assets			
Prepaid lease payments	*13*	**–**	15,151
Property, plant and equipment		**358,159**	351,075
Right-of-use assets		**16,576**	–
Intangible assets	*15*	**266,394**	282,489
Prepayments for purchase of property, plant and equipment		**3,530**	3,422
Deferred income tax assets	*27*	**–**	5,822
Restricted bank balance	*20*	**10**	10
Total non-current assets		**644,669**	657,969
Current assets			
Prepaid lease payments	*13*	**–**	357
Trade receivables	*17*	**70,607**	–
Other receivables and prepayments	*18*	**25,920**	21,240
Inventories	*19*	**140,226**	106,180
Cash and cash equivalents	*20*	**323,845**	301,477
Financial assets at fair value through profit or loss	*22*	**19,883**	30,489
Total current assets		**580,481**	459,743
Total assets		**1,225,150**	1,117,712
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	*23*	**7,362**	7,362
Reserves	*24*	**285,138**	366,544
Retained earnings	*25*	**767,986**	553,442
Total equity		**1,060,486**	927,348

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 31 DECEMBER 2019

	Note	**As at 31 December** **2019** ***RMB'000***	2018 *RMB'000*
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	*27*	**2,286**	–
Deferred income	*28*	**6,995**	7,419
Provision for close down, restoration and environmental costs	*29*	**23,721**	30,087
Lease liabilities	*13*	**484**	–
Total non-current liabilities		**33,486**	37,506
Current liabilities			
Trade and other payables	*26*	**91,113**	66,809
Current tax liabilities		**38,146**	26,049
Financial liabilities at fair value through profit or loss	*22*	**978**	–
Lease liabilities	*13*	**941**	–
Current portion of long-term borrowings		**–**	60,000
Total current liabilities		**131,178**	152,858
Total liabilities		**164,664**	190,364
Total equity and liabilities		**1,225,150**	1,117,712

NOTES TO THE CONSOLIDATED ANNUAL RESULTS

FOR THE YEAR ENDED 31 DECEMBER 2019

1 GENERAL INFORMATION

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

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

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

The consolidated financial statements are presented in Renminbi ("**RMB**"), unless otherwise stated, which is also the functional currency of the Company. This consolidated financial statements have been approved for issue by Board of Directors on 31 March 2020.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

(i) Compliance with HKFRS and HKCO

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

(ii) Historical cost convention

The financial statements have been prepared on a historical cost basis, except for certain financial assets and liabilities (including derivative instruments) which are carried at fair value.

(iii) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

- HKFRS 16 Leases
- HK(IFRIC) — Interpretation 23 Uncertainty over Income Tax Treatments
- Prepayment Features with Negative Compensation — Amendments to HKFRS 9
- Long-term Interests in Associates and Joint Ventures — Amendments to HKAS 28
- Plan Amendment, Curtailment or Settlement — Amendments to HKAS 19
- Annual improvements to HKFRS Standards 2015–2017 Cycle

The impact of the adoption of the leasing standard and the new accounting policies are disclosed in Note 2.2 below. The other standards did not have any significant impact on the Group's accounting policies and did not require retrospective adjustments.

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

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Standards	**Effective for annual periods beginning on or after**
Amendments to HKAS 1 and HKAS 8 Definition of Material	1 January 2020
Amendments to HKFRS 3 Definition of a Business	1 January 2020
Revised Conceptual Framework for Financial Reporting	1 January 2020
HKFRS 17 Insurance contracts	1 January 2022

2.2 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's financial statements.

As indicated in Note 2.1 above, the Group has adopted HKFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in Note 2.21.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 6.24%.

(i) ***Measurement of lease liabilities***

	RMB'000
Operating lease commitments disclosed as at 31 December 2018	2,756
Less: Short-term leases recognised on a straight-line basis as expense	(199)
	2,557
Discounted using the lessee's incremental borrowing rate at the date of initial application, lease liabilities and right-of-use assets recognised as at 1 January 2019	**2,375**
Of which are:	
Current lease liabilities	914
Non-current lease liabilities	1,461
	2,375
Add: Reclassification of land use rights to right-of-use assets	15,508
Total right-of-use assets recognised as at 1 January 2019	17,883

(ii) ***Measurement of right-of-use assets***

The right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid rental expenses relating to that lease recognised in the balance sheet as at 1 January 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at date of initial application.

(iii) ***Adjustments recognised in the balance sheet on 1 January 2019***

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Right-of-use assets — increased by RMB17,883,000
- Prepaid lease payments — decreased by RMB15,508,000
- Lease liabilities (current portion) — increased by RMB914,000
- Lease liabilities (non-current portion) — increased by RMB1,461,000

There was no impact on retained earnings on 1 January 2019.

2.3 Principles of consolidation and equity accounting

Subsidiaries

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

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 2.4).

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

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

2.4 Business combinations

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

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

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

Acquisition-related costs are expensed as incurred.

The excess of the

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

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

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

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

2.5 Separate financial statements

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

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

2.6 Segment reporting

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

2.7 Property, plant and equipment

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

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

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

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

2.8 Exploration and evaluation assets

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

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

2.9 Intangible assets

(i) Mining rights

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

(ii) Meadow compensation costs

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

(iii) Restoration costs

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

(iv) Stripping costs

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

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

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

Assets that are subject to amortisation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.11 Investments and other financial assets

(i) Classification

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

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

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

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

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

(ii) Recognition and derecognition

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

(iii) Measurement

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

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

Debt instruments

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

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

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

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

Equity instruments

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

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

(iv) Impairment

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

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

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

2.12 Inventories

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

2.13 Trade and other receivables

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. See Note 2.11 for further information about the Group's accounting for trade receivables.

2.14 Cash and cash equivalents

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

2.15 Share capital

Ordinary shares are classified as equity (Note 23).

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

2.16 Trade and other payables

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

2.17 Current and deferred income tax

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

(i) Current income tax

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

(ii) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

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

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2.18 Safety production fund

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

2.19 Revenue recognition

Sale of gold products

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

2.20 Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing:

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

2.21 Leases

As explained in Note 2.2 above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in Note 2.2.

Until 31 December 2018, leases of property, plant and equipment where the Group, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term payables. Each lease payment was allocated between the liability and finance cost. The finance cost was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases was depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

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

From 1 January 2019, leases are recognised as right-of-use assets and corresponding liabilities at the date at which the leased assets are available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments).

To determine the incremental borrowing rate, the Group uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability and any lease payments made at or before the commencement date less any lease incentives received.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of offices is recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

2.22 Dividend distribution

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

The profits of the PRC subsidiaries of the Group are subject to withholding tax at a rate of 5% upon the distribution of such profits to foreign investor in Hong Kong.

2.23 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Note 6 and 28 provides further information on how the Group accounts for government grants.

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

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

3 FINANCIAL RISK MANAGEMENT

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Provision for restoration cost

The provision for restoration cost as set out in Note 29 has been estimated by the management based on current regulatory requirements and is discounted to the present value where the effect is material. However, significant changes in the regulation in relation to the restoration requirement will result in changes to provision from period to period.

(b) Amortisation and impairment of mining rights

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

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

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

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

(c) Useful lives of property, plant and equipment

The Group estimates useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of items of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and actions of the Group's competitors. The depreciation charge will increase where useful lives are less than previously estimated.

5 SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("**CODM**"), being the executive directors of the Company, in order to allocate resources to segments and to assess their performance. During each of the year ended 31 December 2019 and 2018, the CODM assesses the operating performance and allocates the resources of the Group as a whole as the Group is primarily engaged in gold exploration in the PRC. Therefore, the management considers that the Group only has one operating segment, and no segment information is presented.

	2019	2018
	RMB'000	*RMB'000*
Sales of processed gold	**845,396**	830,006

The Group operates in mainland China and Hong Kong, and revenue for the year ended 31 December 2019 is generated from mainland China. The Group's non-current assets are located in mainland China and Hong Kong.

For year ended 31 December 2019, the Group's income of sales of processed gold from Shanghai Gold Exchange was RMB845,396,000 (2018: RMB830,006,000), which was derived from gold mining segment.

6 OTHER INCOME

	2019	2018
	RMB'000	*RMB'000*
Scrap sales *(Note (i))*	**5,400**	–
Government grants related to assets *(Note 28)*	**424**	424
Others	**113**	582
	5,937	1,006

Note:

(i) For the year ended 31 December 2019, scrap sales represented sales of scrap produced during the gold production process.

7 OTHER GAINS — NET

	2019 *RMB'000*	2018 *RMB'000*
Investment gains on trust investments *(Note 21)*	**4,915**	–
Investment gains of debt investments *(Note 22 (b))*	**2,964**	2,777
Investment gains of equity investments *(Note 22 (a))*	**2,143**	279
Net foreign exchange gains	**113**	2,384
Investment (losses)/gains on future contracts *(Note 22 (c))*	**(213)**	4,356
Net fair value losses on financial liabilities at fair value through profit or loss *(Note 22 (c))*	**(978)**	–
Net fair value losses on financial assets at fair value through profit or loss *(Note 22 (a))*	**(1,034)**	(5,197)
Net losses on disposal of property, plant and equipment	**(1,383)**	(486)
Other losses *(Note (i))*	**(5,556)**	–
	971	4,113

Note:

(i) For the year ended 31 December 2019, other losses represented overdue tax surcharge for the arable land occupation.

8 EXPENSES BY NATURE

	2019 *RMB'000*	2018 *RMB'000*
Changes in inventories of finished goods and work in progress *(Note 19)*	**(33,063)**	3,529
Depreciation and amortisation	**103,305**	86,862
Employee benefit expenses *(Note 9)*	**58,097**	55,929
Raw materials and consumables used	**319,934**	243,656
Miscellaneous tax charges other than income tax	**47,579**	48,927
Transportation expenses	**24,571**	18,232
Fuel charges	**23,700**	19,394
Advisory expenses	**12,402**	3,392
Utilities and office expenses	**5,536**	4,816
Repair and maintenance expenses	**4,557**	7,277
Auditors' remuneration	**1,080**	1,240
Others	**9,983**	9,329
Total cost of sales, selling and marketing expenses and general and administrative expenses	**577,681**	502,583

9 EMPLOYEE BENEFIT EXPENSES

	2019	2018
	RMB'000	*RMB'000*
Wages and salaries	**48,774**	47,073
Social security costs	**1,503**	1,448
Pension costs — defined contribution plans *(Note (a))*	**2,622**	2,632
Housing benefits *(Note (b))*	**1,809**	1,337
Others	**3,389**	3,439
Total employee benefit expenses	**58,097**	55,929

Note:

(a) Pensions — defined contribution plans

Employees in the Group's PRC subsidiaries are required to participate in a defined contribution pension plans organized by the relevant municipal and provincial governments at a rate of 16% (2018:18%) of the basic salary of permanent employees in Xinjiang Uygur Autonomous region, the PRC.

The Group also participates in a pension scheme under the rules and regulations of the Mandatory Provident Fund ("MPF Scheme") for all employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income.

(b) Housing benefits

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

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2018: two) directors. The emoluments payable to the remaining three (2018: three) individuals during the year are as follows:

	2019	2018
	RMB'000	*RMB'000*
Salaries and other allowances	**3,669**	3,057
Contribution to pension scheme	**61**	23
	2,730	3,080

The emoluments fell within the following bands:

	Number of the individuals	
	2019	2018
Emolument bands		
Within HKD1,000,000 (equivalent to RMB895,780)	3	1
HKD1,000,001–HKD1,500,000 (equivalent to RMB895,781–RMB1,343,670)	–	2

10 FINANCE INCOME AND COSTS

	2019	2018
	RMB'000	*RMB'000*
Finance income:		
— Interest income on bank deposits	**(542)**	(461)
Finance income	**(542)**	(461)
Finance costs:		
— Bank borrowings	**1,230**	6,794
— Accretion on environmental restoration costs *(Note 29)*	**2,338**	2,442
— Lease liabilities *(Note 13)*	**251**	–
Finance costs	**3,819**	9,236
Net finance costs	**3,277**	8,775

11 INCOME TAX EXPENSE

	2019	2018
	RMB'000	*RMB'000*
Current tax:		
Current tax on profit for the year	**48,694**	59,127
Total current tax expense	**48,694**	59,127
Deferred income tax:		
Decrease in deferred tax assets *(Note 27)*	**808**	2,533
Increase in deferred tax liabilities *(Note 27)*	**7,300**	1,210
Total deferred tax expense	**8,108**	3,743
Income tax expense	**56,802**	62,870
Income tax expense is attributable to:		
Profit from continuing operations	**56,802**	62,870

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

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

Pursuant to the enactment of two-tiered profit tax rates by the Inland Revenue Department from the year of assessment 2018/19 onwards, the first HKD 2 million of assessable profits of Tianshan Gold Securities (Hong Kong) Limited under Hong Kong profits tax during the year ended 31 December 2019 and 2018 is subject to a tax rate of 8.25%. The Group's remaining assessable profits above HKD2 million will continue to be subject to a tax rate of 16.5%.

The applicable tax rate of Goldfield (Xinjiang) Investment Advisory Limited for each of the years ended 31 December 2018 and 2019 was 25%.

The applicable tax rate of Jinchuan Mining for each of the years ended 31 December 2018 and 2019 was 15%. Jinchuan Mining obtained the qualification of certified high and new technology enterprises in 2018 and registered in the local tax bureau to apply the preferential tax rate of 15% from 2018 to 2020.

The profits of subsidiaries of the Group in Mainland China derived are subject to withholding tax at a rate of 5% upon the distribution of such profits to foreign investors in Hong Kong. Deferred income tax liabilities have been provided for in this regard based on the expected dividends to be distributed from the Group's subsidiaries in Mainland China in the foreseeable future.

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

	2019	2018
	RMB'000	*RMB'000*
Profit before income tax expense	**271,346**	323,767
Tax calculated at domestic tax rates applicable to profits in the respective countries	**43,346**	48,687
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
— Withholding income tax on distributed profit and unremitted earnings	**10,718**	8,889
— Re-measurement of deferred tax due to the change in tax rate	**–**	3,826
— Expenses not deductible	**2,834**	1,520
— Tax losses for which no deferred income tax assets was recognised	**22**	124
— Utilisation of previously unrecognised tax losses	**(12)**	(61)
— Income not taxable for tax purpose	**(106)**	(115)
Income tax expense	**56,802**	62,870

12 EARNINGS PER SHARE

(a) Basic earnings per share

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

	2019	2018
	RMB'000	*RMB'000*
Profit attributable to owners of the Company for the purpose of basic earnings per share	**214,544**	260,897
Weighted average number of ordinary shares in issue for the purpose of basic earnings per share *(in thousands)*	**925,000**	925,000
Basic and diluted earnings per share *(RMB)*	**0.23**	0.28

(b) Diluted earnings per share

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

13 LEASES

The Group's interests in prepaid lease payments represent prepaid operating lease payments and was reclassified as right-of-use assets at 1 January 2019. Their net book value are analysed as follows:

	Prepaid lease payments	**Right-of-use assets**
Year ended 31 December 2018		
Opening net book amount	15,865	–
Amortisation of land use rights	(357)	–
Closing net book amount	15,508	–
Year ended 31 December 2019		
Opening net book amount	15,508	–
Adjustment for change in accounting policy *(Note 2.2)*	(15,508)	17,883
Adjusted opening net book amount	–	17,883
Depreciation of right-of-use assets	–	(1,307)
Closing net book amount	–	16,576

As at 31 December 2019 and 1 January 2019, the consolidated balance sheet shows the following amounts relating to leases:

	As at	
	31 December 2019	1 January 2019
	RMB'000	*RMB'000*
Right-of-use assets		
Land use rights	**15,151**	15,508
Offices	**1,425**	2,375
Total right-of-use assets	**16,576**	17,883
Lease liabilities		
— Current	**941**	914
— Non-current	**484**	1,461
Total lease liabilities	**1,425**	2,375

The consolidated statement of profit or loss and other comprehensive income shows the following amounts relating to leases:

	2019	2018
	RMB'000	*RMB'000*
Depreciation of right-of-use assets *(Note 8)*		
— Land use rights	**357**	–
— Offices	**950**	–
Amortisation of prepaid lease payment *(Note 8)*	**–**	357
	1,307	357
Interest expenses *(Note 10)*	**251**	–
Expenses relating to short-term leases	**613**	–

The total cash payment for leases in 2019 was RMB1,815,000.

14 EXPLORATION AND EVALUATION ASSETS

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

Non-current assets	*RMB'000*
At 31 December 2019 and 2018	
Cost	18,935
Provision for impairment losses	(18,935)
Net book amount	–

Note:

(i) As at 31 December 2019, provision for impairment losses of RMB18,935,000 related to the Gold Mountain Periphery area of which the exploration license was expired in September 2016. Management intends to write off the exploration license and decides to make tax special declaration in 2021, so the deferred income tax assets attributable to these impairment losses have not been recovered.

15 INTANGIBLE ASSETS

Non-current assets	Mining rights	Restoration costs	Stripping costs	Meadow compensation costs and others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2018					
Cost	141,380	26,516	192,947	37,613	398,456
Accumulated amortisation	(27,863)	(11,009)	(63,925)	(6,472)	(109,269)
Net book amount	113,517	15,507	129,022	31,141	289,187
Year ended 31 December 2018					
Opening net book amount	113,517	15,507	129,022	31,141	289,187
Additions *(Note 29)*	–	11,278	22,812	977	35,067
Amortisation charge	(10,272)	(6,854)	(22,850)	(1,789)	(41,765)
Closing net book amount	103,245	19,931	128,984	30,329	282,489
At 31 December 2018					
Cost	141,380	37,794	215,759	38,590	433,523
Accumulated amortisation	(38,135)	(17,863)	(86,775)	(8,261)	(151,034)
Net book amount	103,245	19,931	128,984	30,329	282,489
Year ended 31 December 2019					
Opening net book amount	103,245	19,931	128,984	30,329	282,489
Additions *(Note 29)*	–	19,312	–	16,561	35,873
Amortisation charge	(14,542)	(7,833)	(25,585)	(4,008)	(51,968)
Closing net book amount	88,703	31,410	103,399	42,882	266,394
At 31 December 2019					
Cost	141,380	57,106	215,759	55,151	469,396
Accumulated amortisation	(52,677)	(25,696)	(112,360)	(12,269)	(203,002)
Net book amount	88,703	31,410	103,399	42,882	266,394

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

At 31 December 2018, mining rights of RMB103,245,000 was pledged to Agricultural Bank of China to secure the bank borrowings of RMB60,000,000.

16 FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

Financial assets	*Notes*	**2019** **RMB'000**	2018 *RMB'000*
Financial assets at amortised cost			
Trade receivables	*17*	**70,607**	–
Other receivables	*18*	**16,470**	7,113
Cash and cash equivalents	*20*	**323,845**	301,477
Restricted bank balance	*20*	**10**	10
Financial assets at fair value through profit or loss	*22*	**19,883**	30,489
Total		**430,815**	339,089

Financial liabilities	*Notes*	**2019** **RMB'000**	2018 *RMB'000*
Liabilities at amortised cost			
Trade and other payables excluding non-financial liabilities	*26*	**67,151**	45,893
Lease liabilities	*13*	**1,425**	–
Borrowings		**–**	60,000
Financial liabilities at fair value through profit or loss	*22*	**978**	–
Total		**69,554**	105,893

The Group's exposure to various risks associated with the financial instruments is discussed in Note 3. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

17 TRADE RECEIVABLES

Current assets	**2019** **RMB'000**	2018 *RMB'000*
Trade receivables	**70,607**	–
Loss allowance	**–**	–
	70,607	–

(i) As at 31 December 2019, the ageing of the trade receivables were within 1 month and no trade receivables were either past due or impaired.

(ii) Fair values of trade receivables

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

(iii) As at 31 December 2019, all trade receivables were denominated in RMB.

18 OTHER RECEIVABLES AND PREPAYMENTS

Current assets	**2019** *RMB'000*	2018 *RMB'000*
Deposits held by a securities broker *(Note (i))*	**13,070**	3,236
Prepayments	**9,450**	9,921
Deposits held by an interactive broker *(Note (ii))*	**1,859**	394
Deposits held by China International Capital Corporation Limited ("CICC") *(Note (iii))*	**67**	1,566
Input VAT deductible	**–**	4,206
Other receivables	**1,474**	1,917
	25,920	21,240

Notes:

(i) The deposits as at 31 December 2019 and 2018 represented the outstanding balance of cash account held by a securities broker for gold futures contract transactions.

(ii) The deposits as at 31 December 2019 and 2018 represented the outstanding balance of cash account held by an interactive broker for equity securities transactions.

(iii) The deposits as 31 December 2019 and 2018 represented the outstanding balance of cash account held by CICC for equity securities transactions.

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

	2019 *RMB'000*	2018 *RMB'000*
RMB	**23,993**	19,209
HK dollars	**1,927**	2,031
	25,920	21,240

19 INVENTORIES

Current assets	**2019** *RMB'000*	2018 *RMB'000*
Raw materials	**3,157**	3,558
Gold in process	**116,102**	78,132
Gold dore bars	**1,396**	6,303
Consumables and spare parts	**19,571**	18,187
	140,226	106,180

Inventories recognised as expense and included in "cost of sales" during the year ended 31 December 2019 amounted to RMB534,491,000 (2018: RMB464,838,000).

20 CASH AND CASH EQUIVALENTS/RESTRICTED BANK BALANCE

	2019	2018
Current assets	***RMB'000***	*RMB'000*
Cash in hand	**72**	206
Cash at banks	**323,773**	271,271
Bank deposits	**–**	30,000
Cash and cash equivalents	**323,845**	301,477
Non-current assets		
Restricted bank balance	**10**	10
	323,855	301,487

Balances can be analysed as follows:

	2019	2018
	RMB'000	*RMB'000*
Denominated in:		
— RMB	**293,229**	284,811
— Hong Kong dollars	**29,405**	16,589
— US dollars	**1,221**	87
	323,855	301,487

Notes:

(i) The cash at banks and bank deposits were interest bearing at rates based on bank deposit rates as agreed with banks. The weighted average effective interest rate on cash at banks and bank deposits ranged from 0.25% to 3.5% per annum as at 31 December 2019 (31 December 2018: 0.125% to 3.5%).

21 FINANCIAL ASSETS AT AMORTISED COST

	2019	2018
	RMB'000	*RMB'000*
At 1 January	**–**	–
Additions	**250,000**	–
Disposals	**(250,000)**	–
Gains on disposal *(Note 7)*	**(4,915)**	–
Proceeds received	**4,915**	–
At 31 December	**–**	–

For the year ended 31 December 2019, trust investments classified as financial assets at amortised cost represented the Group's trust investments in trust products.

22 FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Current assets	**2019** **_RMB'000_**	2018 _RMB'000_
Financial assets at fair value through profit or loss		
Equity investments (a)	**19,883**	26,761
Debt investments (b)	**–**	3,700
Futures contracts (c)	**–**	28
	19,883	30,489
Current liabilities		
Financial liabilities at fair value through profit or loss		
Futures contracts (c)	**978**	–

(a) Equity investments

Movements in equity investments are analysed as follows:

	2019 **_RMB'000_**	2018 _RMB'000_
At 1 January (Restated at 1 January 2018)	**26,761**	54,362
Additions	**–**	10,360
Disposals	**(7,449)**	(32,540)
Dividend received	**(538)**	(503)
Gains on disposal *(Note 7)*	**2,143**	279
Fair value losses *(Note 7)*	**(1,034)**	(5,197)
At 31 December	**19,883**	26,761

As at 31 December 2019 and 31 December 2018, equity investment classified as financial assets at fair value through profit or loss represented the Group's equity investments in certain companies listed on The Stock Exchange of Hong Kong, which are quoted in an active market.

Changes in fair values of financial assets at fair value through profit or loss are recorded in "Other gains — net" in the consolidated statement of profit or loss and other comprehensive income.

The fair values of all equity securities are based on their quoted prices as of 31 December 2019 in the stock exchange.

(b) Debt investments

Movements in debt investments are analysed as follows:

	2019	2018
	RMB'000	*RMB'000*
At 1 January	**3,700**	–
Additions	**1,694,000**	858,700
Disposals	**(1,700,664)**	(857,777)
Gains on disposal *(Note 7)*	**2,964**	2,777
At 31 December	**–**	3,700

For the year ended 2019 and 2018, debt investments classified as financial assets at fair value through profit or loss represented the Group's debt investments in structured deposits.

(c) Futures contracts

	2019	2018
	RMB'000	*RMB'000*
Derivatives not under hedging accounting:		
— Fair value of gold futures contracts-assets	**–**	28
— Fair value of gold futures contracts-liabilities *(Note 7)*	**978**	–

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

Changes in the fair values of gold futures contracts were losses of RMB213,380 (2018: gains of RMB4,356,000) and were recognised in the consolidated statement of profit or loss and other comprehensive income (Note 7).

As at 31 December 2019, notional amount of gold futures contract was RMB121,289,000 (31 December 2018: RMB14,527,500).

23 SHARE CAPITAL

	Number of shares	**Share capital**
		HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 31 December 2018 and 31 December 2019	2,000,000,000	20,000
Issued:		
At 31 December 2018 and 31 December 2019 (Equivalent of RMB7,362,000)	925,000,000	9,250

There was no movement of share capital of the Company in 2019 and 2018.

24 RESERVES

	Share premium *(Note a)* *RMB'000*	Other reserves *(Note b)* *RMB'000*	Total *RMB'000*
Balance at 1 January 2018	459,771	31,523	491,294
Dividends relating to 2017 paid in 2018	(124,750)	–	(124,750)
Balance at 31 December 2018	335,021	31,523	366,544
Dividends relating to 2018 paid in 2019	(81,406)	–	(81,406)
Balance at 31 December 2019	253,615	31,523	285,138

Note:

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

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

25 RETAINED EARNINGS

As at 31 December 2019, the consolidated retained earnings included the balance of its subsidiary's reserve fund of RMB89,425,000 (31 December 2018: RMB67,959,000) which would be specifically used to offset accumulated losses or to increase capital and cannot be appropriated according to relevant PRC regulations.

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

For the year ended 31 December 2019, the Group appropriated RMB32,134,000 (2018: RMB27,102,000) from retained earnings for the safety production fund and utilised RMB27,212,000 (2018: RMB12,729,000) for the safety production expenditure according to relevant PRC regulations.

As at 31 December 2019, the consolidated retained earnings included the balance of PRC safety production fund of RMB62,781,000 (31 December 2018: RMB57,859,000) which would be specifically used to safety related expenditure and cannot be appropriated according to relevant PRC regulations.

26 TRADE AND OTHER PAYABLES

Current liabilities	**2019** ***RMB'000***	2018 *RMB'000*
Trade payables	**46,736**	14,394
Payables for capital expenditure	**18,233**	28,712
Staff salaries payables	**13,608**	15,167
Other tax payables	**10,354**	5,749
Other payables	**2,152**	2,763
Accrued expenses	**30**	24
	91,113	66,809

At 31 December 2019, the ageing analysis of the trade payables (including amounts due to related parties of trading in nature) based on invoice date was as follows:

	2019 ***RMB'000***	2018 *RMB'000*
0–30 days	**19,208**	923
31–60 days	**18,340**	5,685
Over 60 days	**9,188**	7,786
	46,736	14,394

At 31 December 2019 and 2018, the ageing of payables for capital expenditure was all within 1 year.

27 DEFERRED INCOME TAX

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

	2019 ***RMB'000***	2018 *RMB'000*
Deferred tax assets:		
— Deferred tax assets to be recovered after more than 12 months	**5,861**	6,653
— Deferred tax assets to be recovered within 12 months	**684**	700
	6,545	7,353
Deferred tax liabilities:		
— Deferred tax liability to be recovered after more than 12 months	**(8,468)**	(1,346)
— Deferred tax liabilities to be recovered within 12 months	**(363)**	(185)
	(8,831)	(1,531)
Deferred tax (liabilities)/assets — net	**(2,286)**	5,822

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

Movements	2019 *RMB'000*	2018 *RMB'000*
At 1 January	**5,822**	9,565
Charged to the consolidated statement of profit or loss *(Note 11)*	**(8,108)**	(3,743)
At 31 December	**(2,286)**	5,822

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

Deferred tax assets	Impairment losses *RMB'000*	Provisions and accruals *RMB'000*	Total *RMB'000*
At 31 December 2018	2,841	4,512	7,353
Charged to the consolidated statement of profit or loss *(Note 11)*	–	(808)	(808)
At 31 December 2019	2,841	3,704	6,545

Deferred tax liabilities	Withholding income tax on unremitted earnings in a subsidiary in Mainland China *RMB'000*	Fair value gains *RMB'000*	Difference in the policies of fixed assets *RMB'000*	Total *RMB'000*
At 31 December 2018	–	(4)	(1,527)	(1,531)
(Charged)/Credited to the consolidated statement of profit or loss *(Note 11)*	(5,975)	4	(1,329)	(7,300)
At 31 December 2019	(5,975)	–	(2,856)	(8,831)

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. No deferred income tax assets were recognised for tax losses as at 31 December 2019 as there is uncertainty on whether the unused tax losses can be utilised in the future.

The unused tax losses of the Company and subsidiaries in Hong Kong and PRC can be carried forward infinitively in which the loss was originated to offset future taxable profits. At 31 December 2019, the Group had cumulative unutilised tax losses of RMB1,535,000 (2018: RMB1,591,000).

As at 31 December 2019, deferred income tax assets are attributable to impairment losses of RMB18,935,000 related to the Gold Mountain Periphery area (Note 14) and provision for close down, restoration and environmental costs of RMB23,721,000 (Note 29).

As at 31 December 2019, deferred income tax liabilities of RMB18,916,350 (2018: RMB19,261,150) have not been recognised for the withholding income tax and other taxes that would be payable on the unremitted earnings of Jinchuan Mining totaled RMB378,327,000 (2018: RMB385,223,000). Pursuant to the board resolution made by Jinchuan Mining on 2 March 2020, such unremitted earnings will be retained in Mainland China for investment purpose in the foreseeable future as at 31 December 2019.

28 DEFERRED INCOME

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

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

Non-current liabilities	**2019** ***RMB'000***	2018 *RMB'000*
At 1 January	**7,419**	7,843
Released to profit or loss *(Note 6)*	**(424)**	(424)
At 31 December	**6,995**	7,419

29 PROVISION FOR CLOSE DOWN, RESTORATION AND ENVIRONMENTAL COSTS

Non-current liabilities	**2019** ***RMB'000***	2018 *RMB'000*
At 1 January	**30,087**	20,608
Additions to site reclamation *(Note 15)*	**19,312**	11,278
Accretion incurred in the year *(Note 10)*	**2,338**	2,442
Payment of close down, restoration and environmental costs	**(28,016)**	(4,241)
At 31 December	**23,721**	30,087

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

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

30 DIVIDENDS

	2019	2018
	RMB'000	*RMB'000*
(i) Ordinary shares		
Final dividend paid in cash for the year ended 31 December 2018 of HK$0.1 (2017: HK$0.155) per fully paid share	**81,406**	124,750

Pursuant to the resolution of Annual General Meeting dated 28 June 2019, dividend of RMB81,406,000 (2018: 124,750,000) relating to the year ended 31 December 2018 was declared and distributed from the share premium of the Company to the shareholders.

(ii) Dividends not recognised at the end of the reporting period		
In addition to the above dividend, a final dividend for the year ended 31 December 2019 of HK$0.1 per fully paid share (2018: HK$0.1) was proposed by the Board of Directors on 31 March 2020 (2019: on 29 March 2019) and this proposal is subject to the approval by the Company's shareholders in forthcoming Annual General Meeting. The aggregate amount of the proposed dividend expected to be paid in cash and out of the Company's share premium at 31 December 2019, but not recognised as a liability at year end, is	**82,945**	81,406

31 ASSETS PLEDGED AS SECURITY

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

	2019	2018
Non-current	***RMB'000***	*RMB'000*
Buildings, mining structures and equipment	**–**	116,145
Mining rights *(Note 15)*	**–**	103,245
Total non-current assets pledged as security	**–**	219,390

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the Period Under Review, benefited from the global gold price surge the Group's average realized gold price achieved RMB318.6/gram, 17% higher than the same period of 2018. Revenue from the gold mining segment for the year of 2019 increased 2% over the prior year's compared period to RMB845 million, while net profit after tax was RMB215 million, lower by 17.8% than that of the same period of 2018. The Group still has a healthy balance sheet with a debt ratio of 13% and had paid off all bank borrowings.

During the Period Under Review, the Gold Mountain Mine processed 6.4 million tonnes of newly mined ore with a feed-in grade of 0.73g/t and 1.95 million tonnes of ore in the existing pad with grade of 0.35g/t. It produced 85,654 ounces (equivalent to approximately 2,664.1 kg) of gold, decreased approximately 13% compared to the same period of 2018. The all-in sustaining cost was maintained at a competitive level of RMB198/gram (equivalent to US$883/oz with exchange rate of RMB6.9762/USD as at 31 December 2019), 31% higher than RMB150.6/gram from the same period last year due to the lower gold production and higher raw material price.

The decrease in gold production was mainly resulted from lower gold production in the first half of the year. Because ore processed in the first half of 2019 mainly comes from the lower grade ore body in the Jingxi-Balake pit and Yelmand pit, leading to a lower gold production. The Group remains committed to continuously improving recovery rate through technical optimization, such as biological pre-oxidation test.

During the Period Under Review, RMB28.02 million was invested for ecological recovery and remediation, including the reclaim work in the Mayituobe pit and other greening area approximately 132,400 square meters. The greening area added up to 573,400 square meters with more than 7,000 trees and 6,360 kilogram of grass seeds. The Group also recognizes that we have an important opportunity and business imperative to contribute to the positive social and economic development of our host communities.

The Group has made in-depth desktop reviews of multiple projects across the world in the year of 2019 and the reviews are ongoing while the Group has not reached any definitive agreements in relation to any project as at the date of this announcement.

Development Strategy

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

Operation stability

The Group plans to strengthen mine plan and production schedule in the Gold Mountain Mine in order to maintain the stability of the output. The management team of the mine continues to be focused on improving the efficiency of the operation including enhancing ore processing procedures and increasing recovery rate. We anticipate the improvement would optimize the economical outcome and the Gold Mountain Mine could at last to deliver an average annual production of approximately 80,000 ounces of gold in the next few years.

Seek sustainable growth by acquiring quality gold assets

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

Further strengthening work safety and environmental protection

The Group is committed to participate in the Green Mining initiative led by the state government. We vigorously promote cautious behavior throughout our workforce with safety control and acknowledgement of the precious ecological environment surround the mine area. It is our ultimate goal to eliminate workplace injuries and illnesses, in order to do so, relevant policies focused on behaviors, leadership and risk management are being implemented. In the past years Hengxing Gold has developed several green projects cooperated with local communities for growing trees, vegetables, flowers and protection of biodiversity. There is also an employee program to select and train young people from local minority villages to work in the Gold Mountain Mine.

Use of Proceeds from the Initial Public Offering

The net proceeds from the Group's issue of new shares in the initial public offering ("**IPO**") dated 29 May 2014, after deducting listing related expenses, amounted to approximately HK$330.4 million. The use of proceeds was disclosed in the prospectus (the "**Prospectus**") on 19 May 2014 issued by the Group relating to the IPO and further disclosed in the clarification announcement made by the Group on 28 May 2014. On 15 June 2015, the board has resolved to change the use of the unutilized IPO proceeds, amounting to approximately HK$180.3 million, and apply for new specific purposes, details of which are indicated in the table below. As at 31 December 2019, the Group has used approximately HK$254.2 million and intends to apply the remaining net proceeds in the manner consistent with that set out in the Prospectus and relevant announcements made thereafter.

	Planned amount per clarification announcement dated 28 May 2014 *(HK$ million)*	Revisions per announcement of proposed changes dated 16 June 2015 *(HK$ million)*	Amount utilized up to 31 December 2019 *(HK$ million)*	Balance of unutilized IPO proceeds as at 31 December 2019 *(HK$ million)*	Expected timeframe for utilizing the remaining unused net proceeds
Financing the Group's CIL Project, including:					
• Constructing and installing the carbon-in-leach production and ancillary facilities, purchases of relevant equipment	120.1	–	–	–	
• Acquiring land use right, hiring project design and supervisory experts, implementing work safety measures and applying for relevant licenses	30.0	–	–	–	
Upgrading the crushing system in order to improve the efficiency of current production process of Gold Mountain Mine	–	12.5	12.5	–	
Developing a new open pit at the Kuangou prospect and a new leach pad to accommodate ore mined from the Kuangou prospect for the purpose of increasing production	–	27.5	27.5	–	
Repaying outstanding loans with interests and advances from controlling shareholder Mr. Ke	138.8	–	138.8	–	
Repaying part of the outstanding gold lease facilities	–	47.6	47.6	–	
Financing the Group's potential acquisitions of gold resources, including expenses for due diligence, environmental and exploratory studies	15.1	77.6	11.2	66.4	Within next 2 years
Financing further exploration works at the Gold Mountain Mine and its surrounding areas where the Group holds exploration licenses	15.1	15.1	5.3	9.8	Within next 2 years
Working capital use and other general corporate purposes	11.3	–	11.3	–	
Total	330.4	180.3	254.2	76.2	

Financial Review

During the Period Under Review, the Group recorded revenue of the gold mining segment of RMB845,396,000, while the revenue recorded for the corresponding period of 2018 was RMB830,006,000, representing approximately increase of 2%, which is contributed by the growth of gold price.

The Group recorded a consolidated profit of the Group of RMB214,544,000 for the year ended 31 December 2019, while the consolidated profit for the corresponding period of 2018 was RMB260,897,000. The significant decrease of consolidated profit is mainly due to decline in gold production and increase of cost in 2019.

Revenue

During the Period Under Review, the Group's revenue of the gold mining segment was approximately RMB845,396,000, compared with RMB830,006,000 in the corresponding period of 2018, because the sales volume decreased due to the decline in production, which was partially offset by the increase in gold price.

Cost of sales

During the Period Under Review, the Group's cost of sales of the gold mining segment amounted to approximately RMB519,943,000 compared with RMB464,838,000 in the corresponding period of 2018, which primarily included mining costs, processing costs, labor costs related to mining and processing activities as well as depreciation and amortisation costs including depreciation costs of property, plant and equipment and amortisation costs of intangible assets. The increase in COGS of the gold mining segment was due to the growth of striping volume and production volume.

Gross profit

During the Period Under Review, the Group's gross profit amounted to approximately RMB325,453,000, compared with RMB365,168,000 in the corresponding period in 2018.

Selling and distribution expenses

During the Period Under Review, the Group's selling and distribution expenses amounted to approximately RMB378,000 compared with RMB479,000 in the corresponding period of 2018.

Administration expenses

During the Period Under Review, the Group's administration expenses were approximately RMB57,360,000 compared with RMB37,266,000 in the corresponding period of 2018. The significant increase of administration expenses was due to the increase in staff costs, depreciation expenses and the expenses for acquisition projects.

EBITDA

During the Period Under Review, the Group's earnings before interest, tax, depreciation and amortisation ("**EBITDA**") was RMB378,470,000 gain while it was RMB417,423,000 in the corresponding period of 2018.

Finance costs

During the Period Under Review, the Group's finance costs was RMB3,819,000 (for the year ended 31 December 2018: RMB9,236,000), representing a decrease by 58.7%, compared with the corresponding period of 2018. The decrease was mainly due to the repayment of loans, details are set out in Note 19 and in consolidated financial statements.

Profit before taxation

As a result of the foregoing, the profit before taxation was RMB271,346,000 for the year ended 31 December 2019, compared with the profit before taxation of RMB323,767,000 in the corresponding period of 2018, which was mainly resulted from the increase of COGS and a lower gold production.

Profit and total comprehensive income

As a result of the foregoing, the profit and total comprehensive income was RMB214,544,000 for the year ended 31 December 2019, compared with the profit and total comprehensive income of RMB260,897,000 in the corresponding period of 2018.

Liquidity and financial resources

The Group was in possession of reasonable operation cash flow and working capital due to a stable gold production. As at 31 December 2019, the Group's cash and cash equivalents were RMB323,845,000 (as of 31 December 2018, it was RMB301,477,000). Net assets were RMB1,060,486,000 (as of 31 December 2018, it was approximately RMB927,348,000).

The Group recorded net current assets were RMB449,303,000 as of 31 December 2019, compared with RMB306,885,000 as of 31 December 2018, which was primarily due to (a) the increase of cash and cash equivalents amounted RMB22,368,000; (d) net decrease of the financial assets at fair value through profit or loss amounted RMB10,606,000 (c) the increase of trade receivables, other receivables and prepayments amounted RMB75,287,000; (d) net increase of inventories amounted RMB34,046,000; (e) net decrease of bank borrowings amounted RMB60,000,000; (f) the increase of the current income tax liabilities amounted RMB12,097,000 and the increase of trade and other payables amounted RMB24,304,000.

Current ratio and gearing ratio

As at 31 December 2019, the Group's current ratio (current assets divided by current liabilities) was 4.43 (31 December 2018: 3.01).

As at 31 December 2019, the Group's gearing ratio (total borrowings divided by total equity) was 0 (31 December 2018: 0.06).

Cash flows

The following table sets out selected cash flow data from the Group's condensed consolidated cash flow statements for the year ended 31 December 2019 and 31 December 2018:

	Year ended	
	31 December 2019	31 December 2018
	RMB'000	*RMB'000*
Net cash generated from operating activities	**217,669**	394,870
Net cash used in investing activities	**(51,577)**	(37,639)
Net cash used in financing activities	**(144,243)**	(219,611)
Net increase in cash and cash equivalents	**21,849**	137,620
Effect of foreign exchange rate changes	**519**	2,160
Cash and cash equivalents at 1 January	**301,477**	161,697
Cash and cash equivalents at 31 December	**323,845**	301,477

For the Period Under Review, the net cash generated from operating activities was RMB217,669,000, which was mainly attributable to (a) profit plus non cash cost as depreciation and amortisation and minus financing cost and investment gains, amounted RMB370,597,000, (b) increase in inventories of RMB34,046,000, (c) increase in trade receivables, repayment deposits and other receivables of RMB75,287,000, (d) increase in trade payables, accruals and other payables of RMB18,681,000, (e) Income tax paid RMB36,598,000, and (f) environmental restoration expenses paid RMB25,678,000.

For the Period Under Review, the net cash used in investing activities was RMB51,578,000, which was mainly attributable to (a) purchase of property, plant and equipment of RMB55,345,000, (b) payments of intangible assets of RMB14,226,000, (c) cash outflow offset by the placement and redemption of structured deposits and trust funds of RMB3,700,000, (d) interests and investment incomes received from structured deposits and trust funds of RMB8,421,000, (e) disposal of financial assets at FVPL of RMB7,987,000 and the recognition of the investment incomes of financial assets at FVPL of RMB2,143,000, and (f) disposal of property, plant and equipment of RMB28,000.

For the Period Under Review, the net cash used in financing activities was RMB144,243,000, which was primarily attributable to (a) payment of a final dividend of RMB81,406,000, (b) repayment of bank borrowings of RMB60,000,000, (c) interest paid for bank of RMB1,636,000, and (d) lease liabilities paid of RMB1,201,000.

Capital structure

As at 31 December 2019 the total number of issued ordinary shares of the Group was 925,000,000 shares (as of 31 December 2018: 925,000,000 shares), each at HK$0.01.

Contingent liabilities

As at 31 December 2019, the Group did not have any material contingent liabilities or guarantees (as of 31 December 2018: nil). The Group is not currently involved in any material legal proceedings, nor is the Group is aware of any pending or potential material legal proceedings, involving us. If the Group is involved in such material legal proceedings, the Group would record any loss or contingency when, based on information then available, it is likely that a loss has been incurred and the amount of the loss can be reasonably estimated.

Foreign currency risk

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

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

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

Employees

As at 31 December 2019, the Group employed approximately 392 employees in the PRC and Hong Kong. All employees are remunerated according to their performance, experience and prevailing trade practices. Both on-the-job and professional training are provided as well. The Group provides retirement benefits, either in the form of the Mandatory Provident Fund Exempted ORSO or Mandatory Provident Fund entitlement, to employees in Hong Kong. A similar scheme is also maintained for employees in the PRC.

The Exploration, Development and Mining Production Expenditures

Mining Production

For the Period Under Review, the total amount of ore processed was approximately 6,586 thousand tones. During the year of 2019, Gold Mountain Mine has conducted mining activities in three pits, including the Yelmand pit, the Jingxi-Balake pit and the Kuangou pit.

	Unit	Year ended 31 December **2019**	2018
Ore mined	Kt	**6,428**	5,420
Yelmand pit	Kt	**383**	3,498
Mayituobi pit	Kt	**–**	757
Kuangou pit	Kt	**2,763**	171
Jingxi-Balake pit	Kt	**3,282**	994
Overburden mined	Kt	**34,986**	8,973
Yelmand pit	Kt	**102**	1,270
Mayituobi pit	Kt	**–**	179
Kuangou pit	Kt	**16,224**	2,170
Jingxi-Balake pit	Kt	**18,660**	5,394
Strip ratio	:	**5.44**	4.03
Ore processed	Kt	**8,347**	6,586
newly mined ore	Kt	**6,398**	5,443
ore in the existing pad	Kt	**1,949**	1,143
Feed-in grade of ore	g/t	**0.64**	0.74
newly mined ore	g/t	**0.73**	0.82
ore in the existing pad	g/t	**0.35**	0.38
Recovery rate	%	**53.7**	66.5
Gold produced	Oz	**85,654**	98,228

During the Period Under Review, the aggregate capital expenditure on the ore mining operation and construction of stripping activities of the Group was approximately RMB242.3 million, as compared to approximately RMB208.2 million for the year ended 31 December 2018.

Exploration

For the Period Under Review, there is no expenditure directly relating to exploration as compared to approximately RMB1.2 million for the year ended 31 December 2018.

Resources and Reserves

The following tables set forth the gold resources and reserves at the Gold Mountain Mine as of 31 December 2019:

Hengxing Gold — Resources as at 31 December 2019

Category	**Tonnes** *(kt)*	**Gold Grade** *(g/t)*	**Contained Gold** *(kg)*
Measured	17,360	0.78	13,570
Indicated	76,280	0.67	51,160
Total Measured + Indicated	93,640	0.69	64,730
Inferred	20,310	0.73	14,810
Total Including Inferred	113,950	0.70	79,540

Hengxing Gold — Reserves as at 31 December 2019

Category	**Tonnes** *(kt)*	**Gold Grade** *(g/t)*	**Contained gold** *(kg)*
Proved	11,270	0.74	8,340
Probable	41,330	0.79	32,590
Total Proved + Probable	52,600	0.78	40,930

Notes:

1. The resources and reserves stated as above are adjusted by internal geological department based on the consumption deducted from the JORC resources and reserves estimation as at 31 December 2018.

2. Mineral reserves were estimated using the following mining and economic factors:

   (a) 8% dilution factor and 67% comprehensive dressing and smelting recovery were applied to the mining method;

   (b) Slope angle was 40 to 45 degree of fresh rock and 30 degree of loess;

   (c) A gold price of US$1,350/oz.

3. The cut-off grade for mineral reserves has been estimated at 0.3g/t.

4. The annual ore processing amount has been estimated as 5 million tonnes.

Mine Development

For the year of 2019, the Company continued its construction and development activities in Gold Mountain Mine, including the expansion project of heap leaching pad, the increase of new generator and the equipment update.

For the Period Under Review, the aggregate capital expenditure on the mine development and construction amounted to approximately RMB55.3 million, as compared to approximately RMB36.1 million for the year ended 31 December 2018.

Significant Investments, Acquisitions and Disposals

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

EVENTS AFTER THE REPORTING PERIOD

(a) Final Dividend

The Directors recommend the payment of a final dividend of HK$0.1 per share in cash, totalling approximately HK$92,500,000 (for the year ended 31 December 2018: HK$92,500,000) for the year ended 31 December 2019. The proposed dividend is subject to approval by the Company's shareholders in the forthcoming annual general meeting to be held on 2 June 2020. It is intended that the dividend will be paid on 26 June 2020 to the Company's shareholders registered on 6 June 2020.

(b) COVID-19

Since January 2020, the outbreak of Novel Coronavirus ("**COVID-19**") has impact on the global economic environment, the commodity prices and the Group's production operations in the period subsequent to the balance sheet date. The relevant precaution measures and control work has been carried out nationwide on an on-going basis. The Group will make reasonable arrangements for the production plan upon resumption of work, with an aim to mitigate the loss in production output arising from the prolonged period of closure. As such, the COVID-19 outbreak will not have material impact on the operations of the Group. Nonetheless, the epidemic will cause uncertainties in the demand of gold during a short period of time, which may lead to fluctuation of commodity prices and will have impact on our future results. The extent of this impact cannot be reliably quantified or estimated as at the date of this announcement. The Group will keep monitoring the development of the COVID-19 outbreak and endeavour to react promptly to its impact on the financial position and operating results of the Group.

Save as disclosed above, the Group has no other events after the balance sheet date which need to be disclosed or adjusted.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 28 May 2020 to Tuesday, 2 June 2020 , both days inclusive, in order to determine the identity of the shareholders who are entitled to attend the forthcoming annual general meeting to be held on Tuesday, 2 June 2020. All transfers documents accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Wednesday, 27 May 2020.

For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Monday, 8 June 2020 to Tuesday, 9 June 2020, both days inclusive. During the above period, no transfer of shares will be registered. In order to qualify for the entitlement to the proposed final dividend, subject to the approval of the shareholders at the annual general meeting, all transfers document accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Friday, 5 June 2020.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance in the interests of shareholders. The Company has adopted the Corporate Governance Code as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. The Company has complied with the Corporate Governance Code during the year ended 31 December 2019 and up to the date hereof.

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 forth in Appendix 10 to the Listing Rules as the code for securities transactions by the Directors. The Company has made specific enquiry with the Directors and all Directors have confirmed that they complied with the Model Code during the year ended 31 December 2019.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2019, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

REVIEW OF THE ANNUAL RESULTS

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

The Audit Committee has reviewed the Group's audited consolidated financial statements for the year ended 31 December 2019 and has also reviewed and confirmed the accounting principles and practices adopted by the Group and discussed the auditing, internal control and financial reporting matters.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in this announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

PUBLICATION OF THE AUDITED CONSOLIDATED ANNUAL RESULTS AND 2019 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

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

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

Hong Kong, 31 March 2020

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