恒興黃金
HENGXING GOLD

HENGXING GOLD Holding Company Limited

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

ANNUAL REPORT 2017

Contents

Corporate Information

Directors

Executive directors

Mr. Ke Xiping (柯希平) *(Chairman)*
Mr. Chen, David Yu (陳宇)
(Vice Chairman and President)
Mr. Albert Fook Lau Ho (何福留)

Independent non-executive directors

Ms. Wong, Yan Ki Angel (黄欣琪)
Mr. Xiao Wei (肖偉)
Dr. Tim Sun (孫鐵民)

Audit Committee

Ms. Wong, Yan Ki Angel (黄欣琪) *(Chairlady)*
Mr. Xiao Wei (肖偉)
Dr. Tim Sun (孫鐵民)

Remuneration Committee

Mr. Xiao Wei (肖偉) *(Chairman)*
Mr. Ke Xiping (柯希平)
Ms. Wong, Yan Ki Angel (黄欣琪)

Nomination Committee

Dr. Tim Sun (孫鐵民) *(Chairman)*
Mr. Chen, David Yu (陳宇)
Ms. Wong, Yan Ki Angel (黄欣琪)

Company Secretary

Ms. Wong Wai Ling (黃慧玲) *(ACIS, ACS)*

Authorised Representatives

Mr. Chen, David Yu (陳宇)
Mr. Albert Fook Lau Ho (何福留)

Principal Share Registrar

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

Hong Kong Branch Share Registrar

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Registered Office

Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman, KY1-1108
Cayman Islands

Principal Place of Business and Operating Head Office in China

No. 36 Yiji Road
Yining County
Xinjiang

Principal Place of Business in Hong Kong

18/F Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Company's Website

www.hxgoldholding.com

Place of Listing and Stock Code

The Stock Exchange of Hong Kong Limited
2303

Auditor

PricewaterhouseCoopers
Certified Public Accountants

Legal Advisers

As to Cayman Islands law:

Estera Trust (Cayman) Ltd.

Principal Bank

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

Corporate Profile

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

The Company is an emerging gold mining company in China, aiming to operate multiple gold mines efficiently and growing its resources by value added acquisitions. The Company is operating the Gold Mountain Mine (as defined in the prospectus dated 19 May 2014 of the Company), the largest gold mine in Xinjiang, China in terms of designed annual ore processing capacity and estimated gold production volume at full production level.

According to the Independent Technical Report as at 31 December 2013, the estimated mine life of the Gold Mountain Mine is appropriately 22 years and the designed ore processing capacity is 5.0 million tonnes per annum (or 15,000 tonnes per day assuming 330 days in operations per annum). The Gold Mountain Mine is estimated to produce an average of approximately 78,000 troy ounces of gold per annum, or about 1.7 million troy ounces of gold in total, over the estimated mine life.

The Gold Mountain Mine commenced trial production in December 2013. For the year ended 31 December 2017 (the "**Year Under Review**"), the Gold Mountain Mine produced 84,849 ounces of gold and processed approximately 5.4 million tonnes of ore.

Xinjiang is widely recognized as a region rich in mineral resources yet under-developed in terms of gold production. The Company is well-positioned to expand the resources and operations through selective acquisitions especially in Xinjiang. Meanwhile, the Company is also actively seeking merger and acquisition opportunities worldwide and focusing on the areas with a stable jurisdiction and excellent infrastructure.

Chairman Statement

Dear shareholders,

On behalf of the Board of Directors of Hengxing Gold Holding Company Limited, I am pleased to present the annual report of the Group for the year ended 31 December 2017 and express my gratitude for our shareholders' continuous support and trust.

Hengxing Gold delivered outstanding results in 2017. The Company achieved the revenue of approximately RMB961 million and the net profit after tax of approximately RMB240 million, representing an increase of 31% and 18% respectively compared with 2016. And the Company ended the year with approximately RMB162 million in cash and cash equivalents and a debt ratio of 27%. The strong financial results reflected the success of our continuous initiatives to drive productivity and efficiency higher.

As at 31 December 2017, the Company's Gold Mountain Mine achieved the ore processing capacity of about 5.45 million tons and the gold production of 84,849 ounces, increased by 14% and 27% respectively compared with 2016. In 2017, we also delivered a number of significant operational goals that have set the stage for future growth: (1) in addition to mining activities at both the Yelmand prospect and the Mayituobi prospect, mining has started at the Jingxi-Balake prospect since July 2017; (2) a high-pressure grinding roller has been put into commercial operation since April 2017 and has greatly improved the processing capabilities; (3) gold recovery rate for Gold Mountain Mine in 2017 is up 14% to approximately 65%; (4) the Company managed to maintain the all-in gold production cost at a competitive low level of RMB145.9 per gram (equivalent to US$694.5 per oz based on the exchange rate of RMB6.5342 to USD as of 31 December 2017).

Chairman Statement

As the largest individual gold producing mine in Xinjiang, our operations generate significant incomes and community benefits to the region's economy. We have strong devotion to serving the development of the local communities, protecting local mining environment, building of a "green" mine and providing safe and reliable working environment for employees.

Finally, on behalf of the Board of Directors, I would like to express my sincere gratitude to all our employees for their continuous efforts and huge contributions. We appreciate the support of other stakeholders, including the regional government, the local business partners and the communities in which we operated in. We look forward to sharing our future successes with all of you in the years ahead.

Ke Xiping
Chairman

Respectfully yours

20 March 2018

Management Discussion and Analysis

Business Review

The Group's Gold Mountain Mine (as defined in the prospectus dated 19 May 2014 of the Company) increases its gold production and profit markedly in 2017. For the Year Under Review, it produced 84,849 ounces ("**ounce**" or "**oz**", referring to a unit of weight for precious metals, and one ounce equals 31.1035 grams) or 2,728 kg of gold, representing an increase of 27% compared to that of the same time last year. The Company achieved a net profit of RMB240.3 million, up approximately 18.3% from the same period of 2016.

On the production front, approximately 5.45 million tonnes of ore were crushed and processed for the year ended 31 December 2017, more than 14% greater than the 4.8 million tonnes ore processed during the corresponding period of 2016. As gold price soared from US$1,147/oz to US$1,362/oz during 2017, the average realized gold price for 2017 rose to RMB277.1/gram, 3.5% higher than RMB267.6/gram for 2016. Meantime, the Company managed to maintain the all-in gold production cost (cash operating costs plus amortization and depreciation) at a competitive low level of RMB145.9 per gram (equivalent to US$694.5 per oz based on the exchange rate of RMB6.5342 to USD as of 31 December 2017).

As at 31 December 2017, Gold Mountain Mine has three prospects commencing mining activities, namely the Yelmand prospect, the Mayituobi prospect and the Jingxi-Balake prospect. The Kuangou prospect is expected to commence mining activities in 2018. The table below illustrated the production details of each prospect in the year of 2017. Owing to the increased initial stripping volumes at Jingxi-Balake and Kuangou, the average overall strip ratio for Gold Mountain Mine of 2017 is 4.09 as at 31 December 2017.

Prospect	**Stripping volume (tonnes)**	**Ore mined (tonnes)**
Yelmand	4,358,899	4,560,795
Mayituobi	690,957	707,284
Jingxi-Balake	12,102,615	104,094
Kuangou	4,819,931	–
Total	**21,972,402**	**5,372,173**

As part of overall technical upgrade, a high-pressure grinding roller was adopted for trial run in March 2017 and put into commercial operation since April 2017. The newly installed high-pressure grinding roller has effectively produced finer particle size. In addition, the Company is developing cyanide-free solution and leaching agent which can further increase the recovery rate. The recovery rate for Gold Mountain Mine in 2017 is up to approximately 65%. Meanwhile the Company optimised dumping technology to reduce future dumping cost.

As for exploration progress, the initial results from the 2017 drilling campaign have been encouraging, especially with drilling in the south-eastern part of the Jingxi-Balake prospect. As at 31 December 2017, 7 holes totalling 2,021 meters in depth have been drilled. Combining with results from 2016 drill holes, they provide a strong possibility of finding high-grade resources. Key recent drilling highlights include:

DD17JX187: 35m@5.15g/t, including 7m@19.67g/t;

DD17JX184: 29m@2.11g/t, including 6m@7.84g/t.

Management Discussion and Analysis

Prospects

The mission of the Group is to become a leading gold mining company in China through the following strategies:

Ramp up processing capacity and enhance gold recovery rate

The Group is committed to ramp up the ongoing operations with a view to achieve the designed ore processing capacity. In addition, the Group put continuous efforts to optimise operational design and adopt cost-effective technologies to enhance gold recovery rate.

Further expand resources and upgrade reserves

The Group will continue the exploration works at and in the surrounding areas of the Gold Mountain Mine, where the Group hold licenses for identifying new mining resources. In addition, the Group seeks cooperation with independent strategic parties for joint explorations.

Seek sustainable development by acquiring quality gold mines

The Group has the options and rights of first refusal to acquire the equity interests held by Mr. Ke Xiping in two companies that hold gold exploration licenses for certain mines in Shandong and Sichuan provinces. The Group may exercise the options to acquire such equity interests in due course and once reaching such economically viable situation.

In addition the Company makes continual efforts for sourcing high-quality gold mines both from home and aboard for acquisitions.

Further strengthen work safety and environmental protection

Work safety and environmental protection are crucial to the sustainable development of our industry. The Group has established internal training teams for cultivating managers into trainers and organising training programs, with focus on explosive and combustible places, dangerous chemicals and risk factors in workplaces. The Group also mobilised employees to plant trees around the workplace to fulfil our commitment to occupational health and social responsibility.

Management Discussion and Analysis

Use of Proceeds from the Initial Public Offering

The net proceeds from the Company'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 Company relating to the IPO and further disclosed in the clarification announcement made by the Company 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 2016, the Company has used approximately HK$198.8 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 utilised up to 31 December 2017 (HK$ million)	Balance of unutilised IPO proceeds as at 31 December 2017 (HK$ million)
Financing the Company'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 Company's potential acquisitions of gold resources, including expenses for due diligence, environmental and exploratory studies	15.1	77.6	0.6	77.0
Financing further exploration works at the Gold Mountain Mine and its surrounding areas where the Company holds exploration licenses	15.1	15.1	3.7	11.4
Working capital use and other general corporate purposes	11.3	–	11.3	–
Total	330.4	180.3	242.0	88.4

Management Discussion and Analysis

Financial Review

During the Year Under Review, the Group recorded revenue of RMB960,516,000, while the revenue recorded for the corresponding period of 2016 was RMB733,034,000, representing approximately an increase of 31%, which is contributed by the substantial growth in gold production and sales and the international trading.

The Group recorded a consolidated profit after tax of RMB240,303,000 for the year ended 31 December 2017, while the consolidated profit after tax for the corresponding period of 2016 was RMB203,159,000. The significant increase of consolidated profit is mainly due to substantial growth in gold production and sales as compared to the corresponding period in 2016.

Revenue

During the Year Under Review, the Group's revenue was approximately RMB960,516,000, as compared with RMB733,034,000 in the corresponding period of 2016, because of the increase of the gold production, sales volume and sales price respectively, and the involvement of palm oil trading and iron ore trading.

Cost of sales

During the Year Under Review, the Group's cost of sales amounted to approximately RMB569,236,000 compared with RMB371,845,000 in the corresponding period of 2016, which primarily included mining costs, processing costs, labor costs related to mining and processing activities as well as depreciation costs of property, plant and equipment and amortisation costs of intangible assets and the purchase cost of palm oil and iron ore. The increase in cost of sales (COGS) was due to the growth of production volume and the involvement of palm oil trading and iron ore trading.

Gross profit

During the Year Under Review, the Group's gross profit amounted to approximately RMB391,280,000, as compared with RMB361,189,000 in the corresponding period of 2016.

Selling and distribution expenses

During the Year Under Review, the Group's selling and distribution expenses amounted to approximately RMB713,000 as compared with RMB428,000 in the corresponding period of 2016.

Administration expenses

During the Year Under Review, the Group's administration expenses were approximately RMB32,362,000 as compared with RMB25,433,000 in the corresponding period of 2016.

EBITDA

During the Year Under Review, the Group's earnings before interest, tax, depreciation and amortization ("**EBITDA**") was approximately RMB411,108,000 while it was RMB317,632,000 in the corresponding period of 2016.

Finance costs

During the Year Under Review, the Group's finance costs was approximately RMB12,911,000 (for the year ended 31 December 2016: RMB21,069,000), representing a decrease by 38.7%, as compared with the corresponding period of 2016. The decrease was mainly due to the repayment of loans, details are set out in Note 10 to the 2017 consolidated financial statements.

Profit before taxation

As a result of the foregoing, the profit before taxation was approximately RMB324,314,000 for the year ended 31 December 2017, as compared with the profit before taxation of RMB237,259,000 in the corresponding period of 2016.

Management Discussion and Analysis

Profit and total comprehensive income

As a result of the foregoing, the total comprehensive income was approximately RMB238,620,000 for the year ended 31 December 2017, compared with the total comprehensive income of RMB204,858,000 in the corresponding period of 2016.

Liquidity and financial resources

The Group was in possession of reasonable operation cash flow and working capital due to the substantial growth of production. As at 31 December 2017, the Group's cash and cash equivalents were approximately RMB161,697,000 (as of 31 December 2016, it was RMB137,822,000). Net assets were approximately RMB791,201,000 (as of 31 December 2016, it was approximately RMB632,862,000).

The Group recorded net current assets were RMB168,090,000 as of 31 December 2017, compared with RMB143,608,000 as of 31 December 2016, which was primarily due to (a) the increase of bank balance amounted RMB23,875,000 and trade receivables amounted RMB7,265,000; the decrease of other receivables and prepayments and financial assets at fair value through profit or loss amounted RMB43,000,000; (b) net increase of inventories amounted RMB10,203,000; (c) net decrease of bank borrowings amounted RMB17,943,000; (d) the decrease of the current income tax liabilities amounted RMB6,718,000 and the increase of trade and other payables amounted RMB27,342,000; and (e) the increase of available-for-sale financial assets amounted RMB29,000,000.

Current ratio and gearing ratio

As at 31 December 2017, the Group's current ratio (current assets divided by current liabilities) was 1.82 (31 December 2016: 1.70).

As at 31 December 2017, the Group's gearing ratio (total borrowings divided by total equity) was 0.19 (31 December 2016: 0.39).

Cash flows

The following table sets out selected cash flow data from the Group's consolidated cash flow statements for the year ended 31 December 2017 and 31 December 2016.

	The year ended	
	31 December 2017 RMB'000	31 December 2016 RMB'000
Net cash inflow from operating activities	**376,875**	301,260
Net cash (outflow) from investing activities	**(155,699)**	(13,136)
Net cash (outflow) from financing activities	**(191,841)**	(183,022)
Net increase in cash and cash equivalents	**29,335**	105,102
Effect of foreign exchange rate changes	**(5,460)**	6,381
Cash and cash equivalents at 1 January	**137,822**	26,339
Cash and cash equivalents at 31 December	**161,697**	137,822

For the Year Under Review, the net cash inflow from operating activities was RMB376,875,000, which was mainly attributable to (a) Profit plus non cash items of to depreciation and amortisation and minus financing cost and investment gains, amounted RMB438,554,000; (b) increase in inventories of RMB10,023,000; (c) decrease in trade receivables, repayment deposits and other receivables of RMB15,361,000; (d) increase in trade payables, accruals and other payables of RMB14,560,000; (e) income tax paid RMB80,248,000; and (f) environmental restoration expenses paid RMB1,329,000.

Management Discussion and Analysis

For the Year Under Review, the net cash outflow from investing activities was RMB155,699,000, which was mainly attributable to (a) purchase of property, plant and equipment of RMB70,759,000; (b) payments of intangible assets of RMB78,599,000; (c) cash flow out offset by the placement and redemption of structured deposits and fixed deposits of RMB2,076,000; (d) interests received of RMB74,000; (e) purchases of an held-for-trading investment of RMB7,383,000 and the disposal of held-for-trading investment of RMB25,181,000; (f) payments for available-for-sale financial assets of RMB29,000,000 and disposal of available-for-sale financial assets of RMB2,525,000; and (g) other in-flows of RMB186,000.

For the Year Under Review, the net cash outflow from financing activities was RMB191,841,000, which was primarily attributable to (a) payment of a final dividend of RMB80,281,000; (b) interest paid for bank and other borrowings of RMB13,617,000; and (c) repayment of bank and other borrowings of RMB97,943,000.

Capital structure

As at 31 December 2017, the total number of issued ordinary shares of the Company was 925,000,000 shares (as of 31 December 2016: 925,000,000 shares), each at HK$0.01.

Indebtedness and charge on assets

As at 31 December 2017, the Group had the bank borrowings of approximately RMB148,291,000 which was secured by certain buildings, mining structures and equipment with an aggregate carrying amount of RMB125,830,000 (31 December 2016: RMB135,866,000) and intangible assets with an aggregate carrying amount of RMB113,517,000 (31 December 2016: RMB122,349,000).

Save as stated above, as of 31 December 2017, the Group did not have other outstanding loan extended and outstanding, bank overdrafts, other similar indebtedness, liabilities under acceptance or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees and other material contingent liabilities.

Contingent liabilities

As at 31 December 2017, the Group did not have any material contingent liabilities or guarantees (as of 31 December 2016: 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 , certain other payables and certain amount due to a shareholder 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 2017, the Group employed approximately 350 employees in the PRC and Hong Kong. All employees are remunerated according to their performance, experience and prevailing trade practices. Both on-the-job and professional training are provided as well. The Group provides retirement benefits, either in the form of the Mandatory Provident Fund Exempted ORSO or Mandatory Provident Fund entitlement, to employees in Hong Kong. A similar scheme is also maintained for employees in the PRC.

Management Discussion and Analysis

The Exploration, Development and Mining Production Expenditures

Mining Production

Gold Mountain Mine includes five prospects, namely the Yelmand prospect, the Mayituobi prospect, the Jinxi-Balake prospect, the Kuangou prospect and the Lion prospect. For the Year Under Review, the total amount of ore mined and processed was approximately 5,456 million tones. As of 31 December 2017, Gold Mountain Mine has conducted mining activities in the Yelmand prospect and the Mayituobi prospect.

		The year ended 31 December	
	Unit	**2017**	2016
Ore mined	Kt	**5,372**	4,824
Yelmand prospect	Kt	**4,561**	4,285
Mayituobi prospect	Kt	**707**	539
Jingxi-Balake prospect	Kt	**104**	–
Overburden mined	Kt	**21,972**	5,894
Yelmand prospect	Kt	**4,359**	5,354
Mayituobi prospect	Kt	**691**	541
Kuangou prospect	Kt	**4,820**	–
Jingxi-Balake prospect	Kt	**12,102**	–
Strip ratio	:	**4.09**	1.22
Feed-in grade of ore	g/t	**0.85**	0.95
Ore processed	Kt	**5,456**	4,790
Recovery rate	%	**64.8**	57.0
Gold produced	Oz	**84,849**	66,604

During the Year Under Review, the aggregate capital expenditure on the ore mining operation and construction of stripping activities of the Group was approximately RMB164.9 million, as compared to approximately RMB77.85 million for the year ended 31 December 2016.

Exploration

For the Year Under Review, the expenditure directly relating to exploration was approximately RMB2.6 million, as compared to approximately RMB0.95 million for the year ended 31 December 2016. The Company has completed drillings in the south-eastern part of the Jingxi-Balake prospect. As at 31 December 2017, 7 holes totalling 2,021 meters in depth have been drilled.

The following tables set forth the gold resources and reserves at the Gold Mountain Mine as at 31 December 2017:

JORC Mineral Resources Category	Tonnage	Grade	Contained Gold	Contained Gold
	kt	g/t	Au kg	Au koz
Measured	20,519	0.76	15,509	499
Indicated	69,843	0.73	50,979	1,639
Inferred	27,850	0.68	19,057	613
Total	**118,212**	**0.72**	**85,546**	**2,750**

Management Discussion and Analysis

JORC Mineral Reserves Category	Tonnage kt	Grade g/t	Contained Gold Au kg	Contained Gold Au koz
Proved	8,546	0.72	6,137	197
Probable	65,817	0.73	47,822	1,538
Total	**74,363**	**0.73**	**53,960**	**1,735**

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 stated in the Independent Technical Report as disclosed in the prospectus dated 19 May 2014.

2. The infill drilling at the boundary of the Jingxi-Balake prospect has increased the measured resource and proved reserve.

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

   (a) 8% dilution factor and 65% comprehensive dressing and smelting recovery were applied to the mining method;

   (b) slope angle was 45 degree of fresh rock and 30 degree of loess;

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

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

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

Mine development

For the year of 2017, the Company continued its construction and development activities in Gold Mountain Mine, including the construction of a new heap leach pad, the improvement of high pressure grind roller and the river diversion project.

For the Year Under Review, the aggregate capital expenditure on the mine development and construction amounted to approximately RMB70.8 million, as compared to approximately RMB36.6 million for the year ended 31 December 2016.

Significant Investments, Acquisitions and Disposals

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

Final Dividend

The Directors recommend the payment of a final dividend of HK$0.155 per share in cash, totalling approximately HK$143,375,000 (for the year ended 31 December 2016: HK$92,500,000) for the year ended 31 December 2017. The proposed dividend is subject to approval by the Company's shareholders in the forthcoming annual general meeting to be held on 28 June 2018. It is intended that the dividend will be paid on 27 August 2018 to the Company's shareholders registered on 10 July 2018. Further information relating to the payment of the dividend will be made by the Company in due course.

Management Discussion and Analysis

Closure of the Register of Members

The register of members of the Company will be closed from Monday, 25 June 2018 to Thursday, 28 June 2018, 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 Thursday, 28 June 2018. All transfers documents accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Friday, 22 June 2018.

For determining the entitlement to the proposed final dividend, the transfer books and register of members of the Company will be closed from Monday, 9 July 2018 to Tuesday, 10 July 2018, both days inclusive. During the above period, no transfer of Share will be registered. In order to qualify for the entitlement to the proposed final dividend, subject to the approval of the Shareholders at the AGM, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Friday, 6 July 2018.

Corporate Governance Report

Corporate Governance Practices

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

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

Directors' Securities Transactions

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

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

The Board

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

Composition

As at 31 December 2017 the Board consists of 6 Directors, with 3 executive Directors, namely Mr. Ke Xiping (chairman), Mr. Chen, David Yu (vice chairman & president) and Mr. Albert Fook Lau Ho, and 3 independent non-executive Directors, namely Dr. Tim Sun, Ms. Wong, Yan Ki Angel, and Mr. Xiao Wei.

To the best knowledge of the Company, none of the Directors of the Company are related. Relationships include financial, business, family or other material relationships. The Company's Directors are free to exercise their independent judgment.

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

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

Corporate Governance Report

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

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

During the Year Under Review, the Company held four Board meetings and one general meeting where all Directors attended that general meeting. The attendance of individual Directors at Board meetings during the year is as follows:

Attendance record for the Board meetings during the year ended 31 December 2017	Number of Board Meetings attended/held
Executive Directors	
Ke Xiping	4/4
Chen, David Yu	4/4
Albert Fook Lau Ho	4/4
Independent Non-Executive Directors	
Tim Sun	4/4
Wong, Yan Ki Angel	4/4
Xiao Wei	4/4

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

Directors' Continuous Professional Development

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

	Training on corporate governance, regulatory development and other relevant topics
Executive Directors	
Ke Xiping	✓
Chen, David Yu	✓
Albert Fook Lau Ho	✓
Independent Non-Executive Directors	
Tim Sun	✓
Wong, Yan Ki Angel	✓
Xiao Wei	✓

Corporate Governance Report

Board Committees

Audit Committee

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

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

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

During the Year Under Review, the Company held two Audit Committee meetings to review the 2016 annual and 2017 interim financial results and reports, financial reporting and compliance procedures. All members of the Audit Committee have attended all Audit Committee meetings during the year.

Remuneration Committee

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

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

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

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

Nomination Committee

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

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

Corporate Governance Report

During the Year Under Review, there was one Nomination Committee meeting held to review and discuss the Company's nomination policy, board diversity policy and independence of the independent non-executive directors. All members of the Nomination Committee attended the Nomination Committee meeting.

Board Diversity

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

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

Remuneration of the Members of the Senior Management by Band

Save as disclosed in note 42 to the consolidated financial statements of this annual report regarding the emoluments of Directors, there are other 4 individuals of senior management. Pursuant to code provision B.1.5 of the CG Code, their remuneration by band for the year ended 31 December 2017 is set out below:

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

Corporate Governance Function

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

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

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

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

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

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

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

Corporate Governance Report

Directors' Responsibility for the Financial Statements

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

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

The statement of the external auditor of the Company, PricewaterhouseCoopers, with regard to their reporting responsibilities on the Company's consolidated financial statements is set out in the Auditor's Report on page 52.

Auditors' Remuneration

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

Nature of Services Rendered	For the year ended 31 December 2017 Fees paid/payable (RMB'000)
Audit services	
Annual audit	770
Interim review	410
Total	1,180

Risk Management and Internal Control

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

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

The Company is aware of its disclosure obligations under the Listing Rules and the Inside Information provisions under the Securities and Futures Ordinance and has put in place the proper procedure to ensure that any perceived inside information would be announced to the investing public on a timely basis.

Corporate Governance Report

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

The "Environmental, Social and Governance Report" of the Group is set out on pages 21 to 36 of this annual report.

Company Secretary

The Company's company secretary, Ms. Wong Wai Ling, is responsible for facilitating the Board process, as well as communications among Board members, with shareholders and management. Ms. Wong's principal corporate contact person at the Company is Mr. Chen, David Yu, the executive Director. Ms. Wong Wai Ling's biography is set out in the "Board of Directors and Senior Management" section on page 40. During the Year Under Review, Ms. Wong Wai Ling took not less than 15 hours of relevant professional training to update her skills and knowledge.

Communication with Shareholders and Shareholders' Rights

The Company recognizes the importance of good communications with all shareholders and investors. The Company's annual general meeting is a valuable forum for the Board to communicate directly with the shareholders. The Company provides information relating to the Company and its business in its annual and interim reports and also disseminates such information electronically through its website www.hxgoldholding.com and the website of the Stock Exchange. All shareholders of the Company are given a minimum of 21 days' notice of the date and venue of such annual general meeting. The Company supports the Code's principle to encourage shareholders' participation.

Pursuant to the Company's Articles, any one or more shareholders holding at the date of deposit of the requisition not less than one tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition, and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Constitutional Documents

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

Environmental, Social and Governance Report

About This Report

This report is prepared in accordance with Appendix 27 "Environmental, Social and Governance Reporting Guide" of the Listing Rules in order to give a description of the performance of corporate social responsibilities by Hengxing Gold Holding Company Limited (the "**Company**") during 2017. This report covers the gold ore business of the Group.

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

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

Stakeholders' Involvement

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

1. Shareholders and Investors

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

During 2017, one batch of investors conducted site visit to our mines.

2. Customers

The top customer of the Company accounted for 77.89% of the sales of the Company. The Company maintains close relationship with the customer, and communicates and shares opinions with it by ways of telephone, meetings and visits.

3. Government

During 2017, Gold Mountain Mine received six site visits, checks or investigations concerning or in the forms of work site safety, environment protection or seminars, by various local government authorities of Xinjiang. Subsequent to these checks or investigations, the Company always proactively took actions per the government authorities' opinions, and gave them timely feedbacks.

4. Community and Public

Please see the paragraph entitled “Community Relationship” in the report for details.

5. Banks/Financial Institutions

3 banks/financial institutions conducted site visits to the mines of the Company during 2017. The Company proactively responded to the post-loan tracking by the banks and financial institutions by means of phone interviews, visits, information providing, site visits to mines and enquiries, and addressed the concerns raised and provided files and informations required by them on a timely basis.

6. Industry Peers

During 2017, the Company attended mining industry meetings to strengthen its communication and experience sharing, keep update to industry development and trends, and to promote the Company by, among other things, inviting industry peers to give a site visit to its mines. During the year, five industry peers in total headed for the site of Gold Mountain Mine for an exchange visit.

Environment Protection

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

I. Emission

1. Pollutant emissions of the Company

The main emissions in the gold production process of the Company include: dead rock, dust, noise, sulfur dioxide, nitrogen oxide, smoke and slag, in which the sulfur dioxide and nitrogen oxide are emissions generated from boiler heating for winter heating. In 2017, Gold Mountain Mine has commissioned Environmental Monitoring Station of Ili Prefecture to monitor the environmental performance of the mine on a regular basis, and according to the relevant environmental monitoring report, exhaust gas emission and noises from Jinchuan Mining are effectively managed and always meet the relevant standards.

Environmental, Social and Governance Report

Emission of Major Waste Gas Pollutants in 2017

Type of pollutant	Unit	Emission in 2017	Emission in 2016
Smoke	Kg	**47,029**	40,370
Sulfur dioxide	Kg	**46,485**	67,038
Nitrogen oxide	Kg	**40,224**	53,358
Dust	Kg	**155,874**	295,134

Treatment and Disposal of General Industrial Waste and Hazardous Waste in 2017

Nature of waste	Type of waste	Unit	Production	Rate of disposal	Remark
General solid waste	Waste mineral oil	Ton	1.5	100%	Internal utilization rate of 25%
Hazardous waste	Activated carbon powder	Ton	1.4	100%	Commission external entities to dispose of the waste in a professional manner
Hazardous waste	Sludge produced by acid cleaning wastewater	Ton	1.3	100%	Commission external entities to dispose of the waste in a professional manner
Hazardous waste	Heap leaching slag	10,000 tons	500	100%	Heaped centrally
Hazardous waste	Packing bags made of sodium cyanide	Ton	1.3	100%	Placed at the bottom of the leach pad for penetration proof after cyanide destruction
General industrial waste	Waste rock	10,000 cubic meters	533.6	100%	Heaped centrally

2. *Emission of greenhouse gas*

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

The main sources of greenhouse gas emissions of the Group in 2017 included the direct emissions from the burning boilers as well as the gasoline and diesel oil consumed by construction vehicles and self-owned vehicles, and the indirect energy emissions from the electricity purchased.

Scope	Source	Emission in 2017 (Tons)
Direct emission	Coal consumed by boilers	**10,574**
Direct emission	Gasoline and diesel oil	**14,656**
Indirect emission	Electricity purchased	**25,741**
Total		**50,971**

3. *Management methods for emissions*

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

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

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

(4) Waste gas control: Two SZL10-1.25-AII horizontal coal-fired steam boilers are placed in the boiler room, where two sets of SF-10 composite water film desulfurizing dust separators are installed, thus enabling the flue gas from the boilers to be finally discharged into the atmosphere through the 40-meter chimney after de-dusting and desulfurization. A JLMP6C-550 gas-box pulse bag dust collector with an exhaust funnel 15 meters high has been installed outside the coarse crushing workshop. A JLCM340-6 long-bag low-pressure pulse-jet dust collector with an exhaust funnel 15 meters high has been installed outside the moderate and fine crushing workshop. A JLCM340-6 long-bag low-pressure pulse-jet dust collector with an exhaust funnel 15 meters high has been installed outside the screening workshop.

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

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

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

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

II. Consumption of Resources

1. Consumption of mineral resources

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

In 2017, the Gold Mountain Mine mined 5.372 million tons ore and processed 5.456 million tons ore. The Company strengthens field operation management, strictly controls technical indicators of mining and beneficiation, through optimizing the mining method and beneficiation technology, in order to minimize the mining loss rate and dilution rate, and improve the concentration recovery rate. The recovery rate for 2017 was 64.8%, an increase of 14% from 2016.

2. *Consumption of natural resources*

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

Types of Resource	Consumption in 2017	Density (resources consumed per ton of ore processed)
Water	310,000 tons	0.062 ton/ton
Power	39.06 million kwh	7.8 kwh/ton
Coal	5871.16 tons	0.0012 ton/ton
Diesel	5,395,226 L	1.08 L/ton
Gasoline	31,495 L	0.006 L/ton

Note: The diesel consumption included the amount of diesel consumed by the mining fleet of the contractors.

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

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

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

III. Environmental Management

1. Environmental management mechanism

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

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

2. Development of circular economy

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

(1) Developed the plan for the re-recovery of heap-leaching tailings, which can lower the grade of tailings to 0.2 g/t and raise the overall recovery rate to 75% to 80%, thus maximizing the ore recovery.

(2) Uplifted the recovery rate of heap leaching to lower the cutoff grade of minable ores to 0.2 g/t and increase the volume of available ores by at least 10.00 million tons, thus enhancing the profitability.

(3) Took various measures, such as removing the impurities from leaching solution and using carbon-powder filter box to filter the leaching solution, to recycle other than discharging to outside the leaching solution for a long period of time, thus realizing zero emission and recovering the carbon powder that contains gold therein.

(4) Independently researched and developed a completely closed automatic mercury steamer, which enabled the workshops to meet the mercury-related standards and recover mercury as the by-product.

(5) Leveraged on precipitation, filtering and reduction process to enable the desorption-electrolysis workshop to recycle the wastewater and recover the precipitate that contains gold.

3. *Management of hazardous chemicals*

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

4. *Response to climate change*

The Company pays close attention to the impact of the climate change caused by greenhouse effect on the Earth. The Company proactively and thoroughly followed the carbon emission guidelines and policies promulgated by the relevant state authorities, incorporated the idea of low carbon emission into the Company's production and operation, and carried out technological innovation on energy conservation, disposed of obsolete equipment, introduced large-scale energy conservation equipment and optimized mining, processing and refining techniques. Examples of the steps taken include conversion of the frequency of electricity, management and compensation of the harmonics of electricity, installation of new Y-series electric generators and S7 transformers, generating electricity with surplus energy and heat, installation of LED lamps, etc. Vegetation was also recovered at the mines, and the use of afforestation as carbon sink contributed to the reduction of CO2e emission across the Company by approximately 15,000 tons per year (Mainly focuses on the reduction of CO2).

5. *Conservation of biodiversity*

Throughout its production and operation, the Company attaches great importance to the conservation of wildlife near its production sites, relentlessly carries out publicity and educational activities on wildlife protection, and prohibits its staff from trading, killing and eating wild animals. Additionally, the Company strives to optimize the design in the course of mine development to avoid the occupation and destruction of meadows, wetland and forests, conducts re-vegetation for the areas with soil damage, and carries out afforestation, greening and reclamation, etc. by adhering to the principle of "carrying out development and environmental remediation synchronously", in order to improve the environment in the mining area. In 2017, the Company invested a total of RMB651,500 for ecological recovery and remediation with 46,000 square meters of vegetation recovered. Up to the present, RMB7,286,400 was invested for ecological recovery and remediation, with approximately 260,000 square meters of vegetation recovered, and 6,000 trees of various kinds and 2,069.1 kg of grass seeds planted accumulatively.

Workplace and Labour

I. Employment and Labour Practices

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

1. Equal opportunity

The company provides equal opportunities in all respects to the staff members and creates a fair and nondiscriminatory atmosphere among them. female staff, with equal working opportunity of male, will not lose their jobs, be demoted or suffer a pay drop because of pregnancy. No person will be discriminated in respect recruitment and career development by reasons of their religious faith or race. A fair playground is established where any of his or her family members shall restrain from decision making in respect of a business a person is interested in.

2. Diversity

With the diversified development of the business of the Company, the employee structure shows a diversified distribution, and the chart below shows the geographical distribution of the employees of the Company:

Ethnic group or place of the employees	Number of employees	As a percentage of the total number of employees	Turnover	Turnover rate
Xinjiang Locals	204	58.29%	36	10.29%
Outside Xinjiang	146	41.7%	25	7.14%
Ethnic minority	119	34%	15	4.28%

3. Recruitment

The Group recruited talent on the principle of openness, equality, competition and merits. As at 31 December 2017, the Company has a total of 350 employees, the employees of all functions of the Company are professional and have good expertise. The analysis of the employees of the Company by function for 2017 is as follows:

Function	Number of employees at the end of the year	As a percentage of the total number of employees at the end of the year	Turnover	Turnover rate
Mining	31	8.86%	1	0.29%
Ore processing	104	29.71%	19	5.43%
Cyanide smelting	68	19.43%	4	1.14%
Supporting services	55	15.71%	5	1.43%
Logistic function	92	26.29%	7	2.00%
Total	350	100%		

Environmental, Social and Governance Report

The chart below shows an analysis of the employees of the Company by gender and age for 2017

Gender and age	Number of employees at the end of the year	As a percentage of the total number of employees at the end of the year	Turnover	Turnover rate
Male				
18–20	3	0.86%	1	0.29%
21–30	111	31.71%	31	8.86%
31–40	86	24.57%	10	2.86%
41–50	70	20.00%	8	2.29%
over 50	31	8.86%	3	0.86%
Subtotal	301	86%	53	15.14%
Female				
under 20	0	0.00%	0	0.00%
20–30	22	6.29%	7	2.00%
31–40	16	4.57%	1	0.29%
41–50	10	2.86%	0	0.00%
over 50	1	0.29%	0	0.00%
Subtotal	49	14%	8	2.28%

4. *Remuneration & benefits*

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

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

5. *Promotion*

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

6. Working hours and rest periods

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

II. Health and Safety

Jinchuan company adheres to the workplace safety guide of “Safety First, Prevention as a Key Approach, and Comprehensive Management”, and has set up a dedicated department and delegated personnels who are responsible for the professional health and workplace safety; it also has relevant systems and operating procedure in place, whereby employee’s safety awareness is enhanced and their health and workplace safety are ensured through, among other things, financial resources, technical upgrade, performance monitoring and assessment.

1. Workplace safety responsibility clearly defined

The Company has clearly defined workplace safety responsibilities to achieve “Five Responsibilities Defined and Five Responsibilities Performed”; under the guide that “those responsible for production operations are responsible for safety, and those responsible for sales are responsible for safety”, workplace safety responsibilities are distributed across all levels, and workplace safety objective is set, checked and assessed along with other works of the Company; sufficient special financial resources are set aside for workplace safety and workplace safety related liabilities are covered by insurance; at the beginning of each year, overall workplace safety objective and indicator for rewards and penalties are set, and Workplace Safety Guarantee is signed between Li Shanren (director of Safety Committee of Gold Mountain), the relevant departments of the Company and external contractors. The assessments include monthly assessments and year-end assessments. Monthly assessment of each department is performed at the end of each month, the result of which is the basis on which the monthly bonus for each employee is determined, and the monthly bonus is paid in the same month; Collective assessment is performed at the end of each year, and Best Safety Officer, Best Safety Department and Best Safety Employee awards are granted.

2. Potential risk sources identification and control

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

During 2017, 12 targeted check were taken by the Company, mainly including checks before recommencement of operation, flood season checks, power use checks, lightning protection and static electricity protection checks, inflammable and explosive material checks, hazard chemical checks, high and steep side slope checks, winter production checks, dust control checks, vehicle checks and holiday checks.

We conduct regular safety inspections and convent the safety committee meeting on 23th every month, so as to review the safety work of the previous month and deploy safety production work for the next month. In 2017, we conducted 12 comprehensive inspections, a total of 463 hidden dangers were identified, of which 434 were rectified. The rectification rate was 93.7%. Ten copies of letter of work contact were issued and a total of more than RMB150,000 was fined against failing to rectify on time and “three violations”. Timely rectified to eliminate fire hazards, strengthen fire troop construction and management, implemented a 24-hour duty system, regularly organized fire prevention inspections and firefighting education, established and implemented vehicle and driver safety management systems, and enhanced road safety management and safety education, as well as strengthen the special equipment safety management.

3. *Strengthen safety education and reinforce safety foundation*

The annual plan for safety training and education was formulated at the beginning of the year. Safety trainings at all levels and in various forms were carried out on a monthly basis, mainly involving hazardous chemicals, identification and assessment of hazards source, safety regulations for non-coal mines, prevention of geological disasters, occupational health and other safety knowledge. We organized 17 safety education and training on company level, and carried out and promoted safe production and education activities in various forms of subjects for the year, including "Safety Production Month", "119" Fire Day, and "Ankang Cup", etc.. Strictly implement safety training for new posts, transfer of posts, and revalidation personnel, 100% pass rate for "three-level" safety education and training, strengthening construction of safety education room, and provision of necessary educational facilities and equipment.

4. *Strengthen occupational disease prevention*

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

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

(3) Engaged occupational health technical service organizations with corresponding qualifications to conduct one occupational hazards testing; in October this year, the Company conducted assessment for occupational health status and prepare the relevant reports;

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

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

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

(7) In June 2017, we invited the occupational disease hospital of the autonomous region to conduct occupational health checkups at mine. 239 employees participated in this event and no occupational diseases or suspected occupational diseases were detected. The checkup results of every employee were recorded in the occupational health management file;

(8) We invested approximately RMB250,000 to increase ventilation and air exchange facilities in the gold recycling workshop. The aforesaid work was completed at the end of November and such improvement achieved good effects;

(9) According to eight guidelines of dust control, namely, “reform”, “water”, “closed”, “wind”, “pipe”, “education”, “protection”, “inspection”, we invested more than RMB200,000 in open pit and crushing workshop of mineral processing plant on the basis of previous governance to comprehensively controlled the dust and achieved good effects.

5. Improve emergency rescue capabilities

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

In 2017, the company organized five emergency drills in aggregate, including one comprehensive emergency rescue drill, focusing on the leakage of dangerous chemicals and highly toxic substances; also, one organizing drills about firefighting, one for anti-terrorism and anti-riot accidents, and one for vehicle injury accident respectively, one drill about arrangement against rollover of dangerous chemicals transportation vehicles. We summarized after drills and amend the emergency response program against the existing problems and defects to further improve the capabilities of various departments to respond to emergencies, meanwhile ensure the pertinence and timeliness of the response program.

6. Related work about “Month of Publicity of Safety Production”

In June 2017, we conscientiously implemented the arrangements for activities of “Month of Publicity of Safety Production” conducted in national, autonomous regions, autonomous prefectures, and Yining County, and developed the “Month of Publicity of Safety Production” activities in depth at the Gold Mountain Mine in 2017. From the 1 June to 30 June 2017, such activity was carried out by all departments of the Company and outsourcing units simultaneously. The content of such activities were mainly about safety training and education, viewing safety warning education films, outdoor activities of safety themes, and production of promotional materials, publicity and consultation in the Company, organize safety knowledge competitions, emergency drills for hazardous chemicals, and carry out investigation and management activities about hidden dangers of “crack down on illegal production and operation”.

III. Development and Training

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

1. Training for directors and management

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

2. Internal trainers

The Company has initiated the construction of an "Internal Trainer team" in order to support the implementation of the Company's strategies and human resources development plan, develop and utilize the in-house intellectual resources, pass on management and technical experience, create an atmosphere of knowledge sharing, further improve the training system, as well as provide staff with a platform to practice and develop. The Company has developed Internal Trainers system and built a team of Internal Trainers. With 5 formal Internal Trainers and 2 candidates for Internal Trainers, the team can provide courses regarding management, technical skills, finance and production at present. All Internal Trainers are selected from the Company's key employees and divided into junior, intermediate, senior and honorary Internal Trainers based on their training capabilities. The Company conducts assessment, training and evaluation on the Internal Trainers to grant promotion and incentives, and encourages them to improve their capabilities and provide training.

IV. Labor Practices

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

V. Supply Chain Management

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

During 2017, the Company entered into 138 purchase and sale agreements with suppliers mainly of liner, sodium cyanide, belt conveying equipment,activated carbon and hardware, including 9 suppliers from Xinjiang.

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

VI. Product Responsibility

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

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

VII. Anti-corruption

The Company and employees strictly abide by the relevant laws and regulations and ethical standards. In 2017, there were no corruption, bribery, extortion, fraud and money laundering cases against the Group or employees. The supervision and auditing department did not receive relevant reports.

The Company has developed and implemented an auditing and reporting system, and hired the independent auditor to conduct external audits of the Company through internal and external audits to prevent and control the company's fraud or unethical behavior.

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

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

Community Relationship

With the Company tenet of "depending on mining industry to serve our country and our people", we attach great importance to the development of a harmonious relationship between the company and the community in which we operate. We get to know the demands of the community from taking part in the activities of the community, and with actual actions, we try hard to make sure that the interests of community could be considered into the business activities of the Company.

1. The communication with the community is strengthened

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

2. Community environment

We believe that "Well Nurtured Natural Environment is a Gold Mine", and put this proposition into action by investing RMB650,000 in tree and grass planting in 14 office, residential and production facilities. 3,891 saplings (which worth RMB85,000) were planted and 860.1kg of grass seeds were sowed during the year, covering a gross ground area of approximately 46,000 m^2.

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

3. Community care

The Company cares about and offers help to the people in need from the communities in which it operates. The Company offers daily necessities including rice, flour and edible oil to distressed employees and their families from the communities in which it operates before each Hari Raya, Eid al-Adha and Spring Festival.

In line with the spirit of "56 Ethnic Group a Family", and to contribute to the harmony among different ethnic groups and a stable social development, the Company initiated "Give Aid and Care to the Impoverished" programme, whereby it provided a total of RMB13,000 worth of cash and gifts to 13 very impoverished employees and peasants and herdsmen in late December 2017.

4. Education

In 2017, we participated the activity of "Study-Aid in Golden Fall" organized by Yining County Party Committee and Yining County Government, and donated RMB700,000 to the impoverished students. We also participated the "Chinese Dream on Campus" charitable activity organised by Yining Disabled Persons' Federation, and donated RMB29,800 worth of safety packages.

5. Labour demands

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

6. Culture

We attach great importance to the cultural activities implemented in the community, so we usually organize different forms of cultural communication activities there. The Company organize various forms of cultural activities each month, and "Season 2 of Good Voice Competition of Jinchuan" was held in April, and "Dragon Boat Festival Game of Tug of War" in May, Electricians' Working Skill Competition of Ore Processing Plant" and "Safety Speech Contest" in June, "Welding Skill Competition" in August, and "Safety Knowledge Competition" in November.

The Company organises celebrations during major holidays to enrich employees' cultural life, including galas where shows are planned, directed and performed by employees of the Company. "Once a Soldier, Always a Soldier" gala was held on 1 August 2017 to celebrate the 90th anniversary of People's Liberation Army, and the "National Day & Mid-Autumn Festival" gala was held on 4 October 2017.

In June 2017, the National Workplace Safety Month Theme Speech Contest organized by State Administration of Work Safety was held in Qinghua Hotel, in which the Lv Wenbao and Zhao Hongchen, both were employees from Gold Mountain Mine, won the Third Class Award and Encouragement Award respectively. And in the National Workplace Safety Month Theme Knowledge Competition organized by State Administration of Work Safety, the team from Jinchuan Company won the Third Class Award.

7. Sports

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

Board of Directors and Senior Management

Board of Directors

Executive Directors

Mr. Ke Xiping (柯希平), aged 57, is the founder of the Group. Mr. Ke has been an executive Director and the chairman of the Board since the incorporation of the Company in April 2012, responsible for overall strategies and operations of the Group. He has also been the founder of Xiamen Hengxing and its chairman of the board since September 1994. Mr. Ke has been overseeing the Group's overall business strategies since November 2009 when Xiamen Hengxing purchased the entire equity interest in Tianshan Gold HK, which then held 90% equity interest in Jinchuan Mining. From May 1999 to May 2007, Mr. Ke was the general manager of Fujian Xinhuadu Engineering Co., Ltd (福建新華都建設工程有限責任公司) for eight years. Xinhuadu Engineering is a professional engineering company and its principal business activities include mining engineering design, mining plan, mine drilling and blasting and ore extraction, loading and transportation. Mr. Ke also served as a non-executive director of Zijing Mining from August 2002 to June 2008. Since 2005, Mr. Ke has also been managing and overseeing the exploration and mining activities of various mining companies that are controlled by Xiamen Hengxing. Mr. Ke has 16 years of relevant experience in mining industry.

Mr. Ke was accredited as an economist by Xiamen Bureau of Personnel (廈門市人事局) in November 2007 and a representative of the Twelfth Session of Fujian Provincial People's Congress (福建省第十二屆人大代表). He is also a member of the Thirteenth Session of the National Committee of the Chinese People's Political Consultative Conference (第十三屆全國人民政治協商會議委員會), and a member of the Standing Committee of the Thirteenth Session of Xiamen Municipal Committee of the Chinese People's Political Consultative Conference (廈門市第十三屆政治協商會議常務委員會). He is the chairman of the Thirteenth Session of Xiamen Federation of Industry and Commerce (the General Chamber of Commerce and Industry) (第十三屆廈門市工商聯(總商會)), the vice chairman of Fujian Federation of Industry and Commerce (福建省工商聯) and a member of the Standing Committee of National Association of Industry and Commerce (全國工商聯常務委員會).

Mr. Chen, David Yu (陳宇), aged 49, is an executive Director and the vice chairman of the Board since March 2013 and the president of the Company since September 2013. He is responsible for the Group's strategic planning, investment, and corporate development and operations. Mr. Chen has been a director of Jinchuan Mining since September 2012.

Mr. Chen began his career in sales marketing positions with international media companies. He has 20 years of experience in venture investment and capital raising. Mr. Chen was an independent director of Zhonglu Co., Ltd. (中路股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 600818) from May 2009 to November 2014 and the non-executive Chairman of Range Resources Ltd., (dual listed ASX: RRS; AIM: RRL) from December 2014 to November 2016. He has been an independent non-executive director of Sinco Pharmaceuticals Holdings Limited, a company listed on the Stock Exchange (Stock Code: 6833) since January 2018.

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

Mr. Albert Fook Lau Ho (何福留), aged 72, is an executive Director responsible for supervising the Group's exploration, extraction and operational management, mine construction, production and internal control. He was a director of Jinchuan Mining since November 2009 to November 2015 and was the chairman of the board of Jinchuan Mining from November 2009 to September 2012. Mr. Ho has 20 years of relevant experience in exploration and/or extraction activities, all of which related to gold mines. From January 1981 to August 1988, Mr. Ho worked as a project engineer for Kilborn Engineering B.C. Ltd. Between August 1988 and May 1994, Mr. Ho acted as a partner of CSFM Engineering Ltd. From 1994 to 1997, he was appointed as the managing director of Guangxi Baise Bowland Gold Mining Company Limited (廣西百色寶侖黃金礦務有限公司) in charge of exploration work in Baise Guangxi, including the Gaolong Gold Mine (廣西百色高龍金礦). From 1997 to November 2009, Mr. Ho advised various clients in Hong Kong and China on preliminary assessment, project planning, project development and construction budget estimation, financing arrangement and internal control for mining projects.

Board of Directors and Senior Management

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

Independent non-executive Directors

Dr. Tim Sun (孫鐵民), aged 56, is an independent non-executive Director since April 2014. Mr. Sun obtained a Bachelor in Mineral Processing Engineering degree from Northeast University (東北大學) in June 1982. He obtained a Master in Mineral Processing Engineering degree from Beijing General Research Institute of Mining and Metallurgy (北京礦冶研究總院) in 1985 and a Ph.D. degree from Queen's University, Canada, in October 1993.

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

Ms. Wong, Yan Ki Angel (黃欣琪), aged 46, is an independent non-executive Director since March 2013. Ms. Wong obtained a Bachelor of Arts degree, majoring in international accounting, from Xiamen University in July 1994, a post-graduate certificate in professional accounting from the City University of Hong Kong in November 2000 and a master degree of business administration from Cheung Kong Graduate School of Business (長江商學院) in PRC in October 2009. Ms. Wong has been admitted as fellow member of the Institute of Financial Accountants in the United Kingdom since October 2003, full member of the Society of Registered Financial Planners in Hong Kong since November 2003, full member of the Singapore Institute of Directors since October 2009, member of the Hong Kong Institute of Directors since November 2014, fellow member (FIPA, Australia) of the Institute of Public Accountants since April 2015, founding member of the Hong Kong Independent Non-Executive Director Association since October 2015 and fellow member of CPA Australia since May 2017. Ms. Wong has been the president and executive director of Advanced Capital Limited (匯財資本有限公司), where she provides consultancy services for both listed companies and companies preparing for listing.

Ms. Wong was an independent non-executive Director of China Best Group Holding Limited, a company listed on the Stock Exchange (Stock Code: 370) since June 2011 to September 2014. She was also an independent non-executive Director of China Shengda Packaging Group Inc. (NASDAQ: CPGI) since August 2014 to September 2015. Since November 2015, Ms. Wong has been an independent non-executive director of 500.com Limited (NYSE: WBAI). She is an independent non-executive director of China Public Procurement Limited (Stock Code: 1094), Yuhua Energy Holdings Limited (Stock Code: 2728) and Miko International Holdings Limited (Stock Code: 1247), whose shares are listed on the Stock Exchange.

Mr. Xiao Wei (肖偉), aged 52, is an independent non-executive Director since March 2013. Mr. Xiao graduated from Xiamen University and obtained a Bachelor of Law degree in July 1988, a Master of Law degree in July 1991 and a Doctor of Law degree in July 2000. He was admitted as a lawyer in PRC in May 1991. Mr. Xiao has also been a council member of China Institution of Securities Law (中國證券法研究會) since December 2008, an arbitrator of Xiamen Arbitration Commission (廈門仲裁委員會) since October 1999 and a mediator of the cross-strait arbitration center (海峽兩岸仲裁中心). He has been a lawyer at Fujian Yinghe Law Firm (福建英合律師事務所) since 1991.

Board of Directors and Senior Management

Mr. Xiao is the general legal counsel and director of Xiamen ITG Group Co., Ltd. (廈門國貿集團股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 600755). Mr. Xiao has also been an independent non-executive director of Fujian Longking Co., Ltd. (福建龍淨環保股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 600388) since November 2014; an independent non-executive director of R&T Plumbing Technology Co., Ltd (廈門瑞爾特衛浴科技股份有限公司), a company listed on the Shenzhen Stock Exchange (Stock Code: 002790) since 2015; and an independent non-executive director of Fujian Longma Environmental Sanitation Equipment Co., Ltd (福建龍馬環衛裝備股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 603686) since October 2016.

Senior Management

Mr. Ke Xizheng (柯希正), aged 55, has been the chairman of the board of Jinchuan Mining since October 2015. Mr. Ke has around 30 years' experience in government affairs. Prior to joining the Group, he served in Xiamen, Huli District as vice minister of United Front Work Department (福建省廈門市湖里區委統戰部副部長) from February 2012 to September 2014. His substantial experience in government is expected to benefit the governance and community relations of Gold Mountain Mine.

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

Mr. Li Shanren (李善仁), aged 56, has been the General Manager of Jinchuan Mining since October 2015. Mr. Li has 23 years' experience in gold mining industry. Prior to joining the Group, he previously served as general manager of Yunnan Guoyi Mining Group (雲南國一礦業投資有限公司) from February 2014 to July 2015. Mr. Li was the Chief Engineer of Shandong Zhaojin Group from November 2010 to February 2014 and Vice President of Zhaojin Mining Industry Company Limited (招金礦業股份有限公司) (HKSE: 1818) from December 2009 to November 2010. Before that Mr. Li has served as the deputy section chief, section chief, deputy mine operation manager, deputy mine production manager of Zhaoyuan Xiadian Gold Mine (招遠市夏甸金礦), deputy mine infrastructure manager of Zhaoyuan Dayingezhuang Gold Mine (招遠市大尹格莊金礦), the deputy mine manager of Zhaoyuan Canzhuang Gold Mine (招遠市蠶莊金礦), the general manager of Zhaojin Beijiang Mining Company Ltd. and the chairman of Kunhe Zhaojin Mining Company Limited in Aleitai, Xinjiang (阿勒泰市招金昆合礦業有限公司).

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

Ms. Lin Yanjuan (林艷娟), aged 34, has been the finance director of the Group since July 2015. Prior to joining the Group, Ms. Lin previously served as the auditor of PricewaterhouseCoopers Zhong Tian LLP from August 2006 to July 2015.

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

Mr. Zhang Jinghe (張景河), aged 48, joined Jinchuan Mining as the deputy chief metallurgy engineer on June 2014 and has been the chief metallurgy engineer since January 2016. Mr. Zhang has over 20-year working experience in gold mines. He previously served as the deputy chief engineer in Sichuan Chuncan Mining Company Limited (四川純燦礦業有限公司) and in senior management positions in Xi'an Tianzhou Mining Technology Development Company Limited (西安天宙礦業科技開發有限責任公司). He started his mining career from 1992 to 2002 served as deputy section chief of metallurgy department and various positions in Lingbao Andi Gold Mine (靈寶市安底金礦) then as the deputy plant manager of Lingbao Gold Refinery Plant (靈寶市黃金精煉廠). From 2003 to 2011, he served in various management positions in Lingbao Huabao Industry Company Limited (靈寶市華寶產業有限責任公司).

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

Board of Directors and Senior Management

Company Secretary

Ms. Wong Wai Ling (黃慧玲) (ACIS, ACS), aged 38, was appointed as the company secretary in August 22, 2013. She has over 10 years of experience in providing company secretarial services in Hong Kong.

Ms. Wong has been the assistant vice president of SW Corporate Services Group Limited (信永方圓企業服務集團有限公司) ("**SWCS**") since February 2013 and has been responsible for assisting listed companies in professional company secretarial work since she joined SWCS in May 2011.

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

Report of Directors

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

Global Offering

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

Principal Activities

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

Results

The results of the Group for the Year Under Review are set out in the consolidated income statement of profit or loss and other comprehensive income on page 54 of this annual report.

Final Dividend

The Directors recommend the payment of a final dividend of HK$0.155 (inclusive of tax) per share in cash, totaling approximately HK$143,375,000 for the year ended 31 December 2017, which is to be distributed out from the Company's share premium. The proposed dividend is subject to approval by the Company's shareholders in the forthcoming annual general meeting to be held on 28 June 2018. It is intended that the dividend will be paid on 27 August 2018 to the Company's shareholders registered on 10 July 2018.

Financial Summary

A summary of the Group's results, assets, liabilities for the last five financial years are set out on page 112 of this annual report. This summary does not form part of the audited consolidated financial statements.

Business Review

The business review the Group is set out in the section of "Business Review" on page 6 under the Management Discussion and Analysis.

Principal Risks and Uncertainties

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

Future Development

The future development of the Group is set out in the section of "Prospects" on page 7 under the Management Discussion and Analysis.

Environmental Policies and Performance

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

Report of Directors

Compliance with Laws and Regulations

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

Relationships with Stakeholders

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

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

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

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

Use of Net Proceeds from Listing

The net proceeds from the Listing (after deducting underwriting fees and related expenses) amounted to approximately HK$330.4 million, which are intended to be applied in the manner consistent with that in the Company's prospectus dated 19 May 2014. On 15 June 2015, the board has resolved to change the use of the unutilised IPO proceeds, amounting to approximately HK$180.3 million for new specific purposes, set out on page 8 of this annual report.

Major Customers and Suppliers

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

Sales

— the largest customer 77.89% (2016: 83.68%)
— five largest customers 100% (2016:100%)

Purchases

— the largest supplier 23.33% (2016: 35.23%)
— five largest suppliers 76.06% (2016: 76.59%)

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

Report of Directors

Property, Plant and Equipment

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

Share Capital

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

Reserves

Details of movements in the reserves of the Company and the Group during the Year Under Review are set out in Note 27 to the consolidated financial statements and in the consolidated statement of changes in equity.

Distributable Reserves

Under section 34 of the Companies Law (Revised) of the Cayman Islands, the Company's share premium is available for distribution to shareholders subject to the provisions of the articles of association of the Company. The balance of the distributable reserve of the Company was RMB342,224,000 as at 31 December 2017 being the excess of the amount of share premium over the accumulated losses of the Company as at 31 December 2017.

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Group as at 31 December 2017 are set out in Note 30 to the consolidated financial statements.

Taxation

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

Directors

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

Executive Directors:

Mr. Ke Xiping
Mr. Chen, David Yu
Mr. Albert Fook Lau Ho

Independent Non-Executive Directors:

Ms. Wong, Yan Ki Angel
Mr. Xiao Wei
Mr. Tim Sun

Report of Directors

Board of Directors and Senior Management

Biographical details of the Directors and senior management of the Group are set out on pages 37 to 40 of this annual report.

Confirmation of Independence of Independent Non-Executive Directors

The Company has received annual confirmations of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") from each of the independent non-executive Directors and the Company considers such Directors to be independent during the year ended 31 December 2017.

Directors' Service Contracts and Letter of Appointments

Each of the executive Directors has entered into a service agreement with the Company for a term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either party on the other and is subject to termination provisions therein and provisions on retirement by rotation of Directors as set out in the Memorandum and Articles of Association of the Company.

The executive Director, Mr. Chen, David Yu has entered into a service agreement with the Company in May 2017 for a term of three years. The independent non-executive Director, Mr. Tim Sun has entered into a letter of appointment with the Company in May 2017 for a term of three years, subject to retirement by rotation and re-election at an AGM and until terminated by not less than three months' notice in writing served by either party on the other.

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

Directors' Interests in Transaction, Arrangement or Contracts of Significance

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

Management Contracts

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

Emolument Policy

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

Remuneration of Directors and Five Individuals with Highest Emoluments

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

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

As at 31 December 2017, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO), or (ii) which were required, pursuant to section 352 of the SFO, to be entered into the register maintained by the Company, or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(i) Interest in the Company

Name of Director	Nature of Interest	Number and class of Shares[1]	Approximate percentage of shareholding
Mr. Ke Xiping[2]	Interest of controlled corporation	555,000,000 (L)	60.0%

Notes:

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

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

(ii) Interest in associated corporation of the Company

Name of Director	Name of associated corporation	percentage of interest in associated corporation
Mr. Ke Xiping	Gold Virtue *(Note 1)*	100.0%

Note:

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

Save as disclosed above, as at 31 December 2017, none of the Directors and the chief executive of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register of the Company required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Rights to Acquire Shares or Debentures

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

Report of Directors

Permitted Indemnity Provision

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

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

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

As at 31 December 2017, to the best knowledge of the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name	Capacity/Nature of interest	Number of Shares[1]	Approximate percentage of shareholding
Gold Virtue[2]	Beneficial owner	555,000,000 (L)	60.0%
Mr. Ke Jia Qi[3]	Interest of controlled corporation	138,750,000 (L)	15.0%
Xi Wang Developments	Beneficial owner	138,750,000 (L)	15.0%

Notes:

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

(2) Mr. Ke Xiping holds the entire issued capital of Gold Virtue and therefore, is deemed to be interested in the 555,000,000 Shares held by Gold Virtue. Mr. Ke Xiping is the father of Mr. Ke Jia Qi.

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

Save as disclosed above, and as at 31 December 2017, the Directors were not aware of any persons (who were not directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

Purchase, Sale or Redemption of Listed Securities

During the year ended 31 December 2017 neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Pre-Emptive Rights

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

Report of Directors

Non-Competition Undertaking

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

The Controlling Shareholders have confirmed in writing to the Company of their compliance with the deed of non-competition for disclosure in this report during the year ended 31 December 2017.

The independent non-executive Directors ("**INEDs**") have reviewed the deed of non-competition whether the Controlling Shareholders have abided by the non-competition undertaking. The INEDs confirmed that they had determined that the Controlling Shareholders have not been in breach of the non-competition undertaking during the year ended 31 December 2017.

Review of the Deed of Options

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

Directors' Interest in Competing Business

Save as disclosed in this report, as at 31 December 2017, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete with the businesses of the Group.

Share Option Scheme

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

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

Report of Directors

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

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

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

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

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

(3) the nominal value of the Shares.

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

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

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

No share options under the Share Option Scheme were granted, exercised, lapsed or cancelled from the listing of the Shares of the Company on the Main Board of the Stock Exchange on 29 May 2014 to 31 December 2017 and up to the date hereof.

Save for the Share Option Scheme of the Company as set out in this annual report, no equity-linked agreements were entered into by the Group, or existed during the year ended 31 December 2017.

Connected Transaction

On 27 October 2016, a subsidiary of the Company, entered into bank borrowings of RMB50,000,000, which was guaranteed to Agricultural Bank of China by Xiamen Hengxing Group Company Limited and Mr. Ke Xiping. These bank borrowings was expired by 27 October 2017.

Report of Directors

Such financial assistance constituted a connected transaction. The Directors are of the view that such financial assistance was for our benefit on normal commercial terms, which is exempted from reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.90 of the Listing Rules.

The related party transactions mentioned in Note 39 to the consolidated financial statements are not the transaction falls under the definition of "connected transaction" nor "continuing connected transaction" in Chapter 14A of the Listing Rules, hence it was not required to be disclosed in accordance with Chapter 14A of the Listing Rules for such transactions.

Post Balance Sheet Events

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

Audit Committee

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

Code of Conduct Regarding Directors' Securities Transactions

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code contained in the Listing Rules. Specific enquiry has been made to all the Directors and the Directors have confirmed that they had complied with such code of conduct during the year ended 31 December 2017.

Corporate Governance

The Company is committed to maintaining the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 15 to 20 of this annual report.

Sufficiency of Public Float

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

Auditor

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

A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company will be proposed at the forthcoming annual general meeting to be held on 28 June 2018 (the "**AGM**").

On behalf of the Board
Ke Xiping
Chairman

Xiamen PRC, 20 March 2018

Independent Auditor's Report

羅兵咸永道

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

Opinion

What we have audited

The consolidated financial statements of Hengxing Gold Holding Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 54 to 111, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

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

Independence

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

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Independent Auditor's Report

Key Audit Matters

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

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Assessment of provision for restoration	
Refer to Note 4(b) "critical accounting estimates and judgements on provision for restoration cost" and Note 33 "provision for close down, restoration and environmental costs" of the consolidated financial statements. Pursuant to the relevant PRC laws and regulations, the Group is responsible for the restoration of the land damaged by mining activities. As and when the mining activities are carried out, the Group periodically performs restoration work around the areas where mining activities has been completed. As at 31 December 2017, the provision for restoration cost of the Group was RMB20,608,000. For the year ended at 31 December 2017, the Group accrued provision of RMB10,489,000. The management makes the provision for the restoration, based on the cash flow forecast for the provision of the restoration cost the rehabilitation plan prepared by third party and approved by the government. The following primary assumptions used in the cash flow forecast: • The future restoration expenditure, such as transportation and construction costs, useful lives of each mining site in the rehabilitation plan; • The discount rate applied to cash outflow for the purpose of deriving the amount of provision. Any material changes of these factors may cause the fluctuation of the provision for restoration cost. We focus on this area due to significant judgements were made by management to determine the assumptions and the complexity of calculations derived in the cash flow forecast assessment.	We performed the following procedures on the cash flow forecast assessment prepared by management: We assessed the methodology adopted by management when developing the cash flow forecast model. We checked the future restoration expenditure and useful life of each mining site in the cash outflow and compared to the data in the rehabilitation plan. To assess the reliability of the estimated data input, we compared previous estimated input to the historical actual cost incurred. We assessed the discount rate used by the management by reference to the industry report and open market data. We tested the mathematical accuracy of the calculations derived from the cash flow forecast. Based on our work, we found the provision for restoration cost was supported by the evidence obtained.

Other Information

The directors of the Company are responsible for the other information set out in the Company's 2017 annual report. The other information comprises the information included in the management discussion and analysis (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the corporate information, corporate profile, chairman statement, corporate governance report, environmental, social and governance report, board of directors and senior management, report of directors, five years summary and definitions which are expected to be made available to us after that date.

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

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

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

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

Responsibilities of Directors and Audit Committee for the Consolidated Financial Statements

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

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

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

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

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

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

(Continued)

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

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

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 March 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Revenue	5	**960,516**	733,034
Cost of sales	8	**(569,236)**	(371,845)
Gross profit		**391,280**	361,189
Other income	6	**711**	585
Other losses — net	7	**(7,795)**	(17,339)
Selling and marketing expenses	8	**(713)**	(428)
General and administrative expenses	8	**(32,362)**	(25,433)
Write off/impairment loss of exploration and evaluation assets	17	**(13,970)**	(61,256)
Operating profit		**337,151**	257,318
Finance income	10	**74**	1,010
Finance costs	10	**(12,911)**	(21,069)
Finance costs — net		**(12,837)**	(20,059)
Profit before income tax		**324,314**	237,259
Income tax expense	12	**(84,011)**	(34,100)
Profit for the year, all attributable to owners of the Company		**240,303**	203,159
Other comprehensive income:			
Items that may be reclassified to profit or loss			
— Fair value (losses)/gains on available-for-sale financial assets		**(1,683)**	1,699
Total comprehensive income for the year, all attributable to owners of the Company		**238,620**	204,858
Earnings per share for the year			
— Basic and diluted (expressed in RMB)	13	**0.26**	0.22

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

Consolidated Balance Sheet

As at 31 December 2017

	Note	As at 31 December 2017 RMB'000	2016 RMB'000
Assets			
Non-current assets			
Prepaid lease payments	*14*	**15,508**	15,865
Property, plant and equipment	*15*	**384,622**	334,110
Investment property	*16*	**8,405**	8,979
Exploration and evaluation assets	*17*	**–**	13,970
Intangible assets	*18*	**289,187**	239,238
Prepayments for purchase of property, plant and equipment		**4,265**	14,588
Deferred tax assets	*31*	**9,565**	20,046
Available-for-sale financial assets	*20*	**–**	2,163
Restricted bank balance	*24*	**10**	10
Total non-current assets		**711,562**	648,969
Current assets			
Prepaid lease payments	*14*	**357**	357
Inventories	*23*	**107,566**	97,543
Trade receivables	*21*	**24,687**	17,422
Other receivables and prepayments	*22*	**23,726**	46,352
Financial assets at fair value through profit or loss	*25*	**26,534**	46,908
Available-for-sale financial assets	*20*	**29,000**	–
Cash and cash equivalents	*24*	**161,697**	137,822
Total current assets		**373,567**	346,404
Total assets		**1,085,129**	995,373
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	*26*	**7,362**	7,362
Reserves	*27*	**491,294**	573,258
Retained earnings	*28*	**292,545**	52,242
Total equity		**791,201**	632,862

Consolidated Balance Sheet

As at 31 December 2017

	Note	As at 31 December 2017 RMB'000	2016 RMB'000
Liabilities			
Non-current liabilities			
Long-term borrowings	*30*	**60,000**	140,000
Deferred income	*32*	**7,843**	8,267
Provision for close down, restoration and environmental costs	*33*	**20,608**	11,448
Total non-current liabilities		**88,451**	159,715
Current liabilities			
Trade and other payables	*29*	**80,002**	52,660
Current tax liabilities		**37,184**	43,902
Short-term borrowings	*30*	**–**	50,000
Current portion of long-term borrowings	*30*	**88,291**	56,234
Total current liabilities		**205,477**	202,796
Total liabilities		**293,928**	362,511
Total equity and liabilities		**1,085,129**	995,373

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

The consolidated financial statements on page 54 to 111 were approved by the Board of Directors on 20 March 2018 and were signed on its behalf.

Mr. Ke Xiping **Mr. Chen, David Yu**

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

		Attributable to owners of the Company					
	Note	**Share capital** RMB'000	**Share premium** RMB'000	**Other reserves** RMB'000	**Investment revaluation reserves** RMB'000	**(Accumulated losses)/ Retained earnings** RMB'000	**Total equity** RMB'000
Balance at 1 January 2016		7,362	540,052	31,523	(16)	(150,917)	428,004
Comprehensive income							
Profit for the year		–	–	–	–	203,159	203,159
Other comprehensive income							
Fair value gains on available-for-sale financial assets		–	–	–	1,699	–	1,699
Total comprehensive income for the period		–	–	–	1,699	203,159	204,858
Balance at 31 December 2016		7,362	540,052	31,523	1,683	52,242	632,862
Comprehensive income							
Profit for the year		–	–	–	–	240,303	240,303
Other comprehensive income							
Disposal of available-for-sale financial assets		–	–	–	(1,683)	–	(1,683)
Total comprehensive income for the period		–	–	–	(1,683)	240,303	238,620
Transactions with owners in their capacity as owners:							
Dividend relating to 2016 paid in 2017	*34*	–	(80,281)	–	–	–	(80,281)
		–	(80,281)	–	–	–	(80,281)
Balance at 31 December 2017		7,362	459,771	31,523	–	292,545	791,201

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Cash flows from operating activities			
Cash generated from operations	*35(a)*	**457,123**	311,504
Income taxes paid		**(80,248)**	(10,244)
Net cash inflow from operating activities		**376,875**	301,260
Cash flows from investing activities			
Redemption of structured deposits		**909,076**	741,927
Proceeds from disposal of held-for-trading investments		**25,181**	3,376
Proceeds from disposal of available-for-sale financial assets		**2,525**	16
Proceeds from disposal of property, plant and equipment	*35(b)*	**186**	38
Interest received		**74**	1,010
Proceeds from release of fixed deposits		**–**	140,495
Payments for exploration and evaluation assets		**–**	(143)
Placement of fixed deposits		**–**	(46,496)
Payments for held-for-trading investments		**(7,383)**	(49,604)
Payments for available-for-sale financial assets	*20*	**(29,000)**	–
Payments for property, plant and equipment		**(70,759)**	(36,594)
Payments for intangible assets		**(78,599)**	(26,921)
Placement of structured deposits		**(907,000)**	(740,240)
Net cash (outflow) from investing activities		**(155,699)**	(13,136)
Cash flows from financing activities			
New bank and other borrowings raised		**–**	50,000
Gold loans raised		**–**	72,612
Interest paid for gold loans		**–**	(2,436)
Repayment of gold loans		**–**	(123,923)
Interest paid for bank and other borrowings		**(13,617)**	(17,043)
Dividends paid to Company's shareholders	*34*	**(80,281)**	–
Repayment of bank and other borrowings		**(97,943)**	(162,232)
Net cash (outflow) from financing activities		**(191,841)**	(183,022)
Net increase in cash and cash equivalents		**29,335**	105,102
Cash and cash equivalents at the beginning of the financial year	*24*	**137,822**	26,339
Effects of exchange rate changes on cash and cash equivalents		**(5,460)**	6,381
Cash and cash equivalents at end of year	*24*	**161,697**	137,822

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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, palm oil trading and iron ore trading 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 20 March 2018.

2 Summary of significant accounting policies

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

2.1 Basis of preparation

(i) Compliance with HKFRS and HKCO

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

(ii) Historical cost convention

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

- available-for-sale financial assets, financial assets and liabilities (including derivative instruments), and
- assets held for sale — measured at fair value less cost of disposal

(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 2017:

- Recognition of Deferred Tax Assets for Unrealised Losses — amendments to HKAS 12, and
- Disclosure initiative — amendments to HKAS 7.

The adoption of these amendments did not have any impact on the amounts recognised in prior periods. Most of the amendments will also not affect the current or future periods.

The amendments to HKAS 7 require disclosure of changes in liabilities arising from financing activities, see Note 35(c).

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

(iv) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group:

Amendments	**Effective for annual periods beginning on or after**
HKFRS 9 "Financial instruments"	1 January 2018
HKFRS 15 "Revenue from contracts with customers"	1 January 2018
Amendments to HKFRS 2, "Classification and Measurement of Share-based Payment Transactions"	1 January 2018
Amendments to HKFRS 4, Insurance Contracts "Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts"	1 January 2018 or when the entity first applies HKFRS 9
Amendment to HKAS 28, "Investments in associates and joint ventures"	1 January 2018
Amendments to HKAS 40, "Transfers of investment property"	1 January 2018
HK (IFRIC) 22 "Foreign Currency Transactions and Advance Consideration"	1 January 2018
HKFRS 16 "Leases"	1 January 2019 or when the entity first applies HKFRS 15
HK (IFRIC) 23 "Uncertainty over Income Tax Treatments"	1 January 2019
Amendments to HKFRS 10 and HKAS 28, "Sale or contribution of assets between an investor and its associate or joint venture"	To be determined

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2.2 Principles of consolidation and equity accounting

(i) Subsidiaries

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

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 2.3).

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 Summary of significant accounting policies *(Continued)*

2.3 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.

2.4 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 Summary of significant accounting policies *(Continued)*

2.5 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.

2.6 Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

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

2.7 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.

2 Summary of significant accounting policies *(Continued)*

2.7 Property, plant and equipment *(Continued)*

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

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

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

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

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

2.8 Investment property

Investment property, principally comprising buildings, is held for long-term rental yields and is not occupied by the Group. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. Subsequently, investment property is stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment property over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

2.9 Operating leases

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

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

2.10 Exploration and evaluation assets

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

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

2 Summary of significant accounting policies *(Continued)*

2.11 Impairment of exploration and evaluation assets

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

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

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

2.12 Intangible assets

(i) Mining rights

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

(ii) Meadow compensation costs

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

(iii) Restoration costs

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

2 Summary of significant accounting policies *(Continued)*

2.12 Intangible assets *(Continued)*

(iv) Stripping costs

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

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

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

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

2.14 Investments and other financial assets

(i) Classification

The Group classifies its financial assets in the following categories:

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

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition. See Note 19 for details about each type of financial asset.

a. Financial assets at fair value through profit or loss

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

2 Summary of significant accounting policies *(Continued)*

2.14 Investments and other financial assets *(Continued)*

(i) Classification (Continued)

b. Loans and receivables

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

c. Held-to-maturity investments

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

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

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

d. Available-for-sale financial assets

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

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

(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.

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

2 Summary of significant accounting policies *(Continued)*

2.14 Investments and other financial assets *(Continued)*

(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, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

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

- for 'financial assets at fair value through profit or loss' — in profit or loss within "other gains/(losses) — net".

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

- for other monetary and non-monetary securities classified as available-for-sale — in other comprehensive income.

Dividends on financial assets at fair value through profit or loss and available-for-sale equity instruments are recognised in profit or loss as part of revenue from continuing operations when the Group's right to receive payments is established.

Interest income from financial assets at fair value through profit or loss is included in "other gains/(losses) — net". Interest on available-for-sale securities and loans and receivables calculated using the effective interest method is recognised in the statement of profit or loss as part of revenue from continuing operations.

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

2 Summary of significant accounting policies *(Continued)*

2.15 Impairment of financial assets

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

(i) Assets carried at amortised cost

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

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

(ii) Assets classified as available-for-sale

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

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

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

2.16 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 Summary of significant accounting policies *(Continued)*

2.17 Trade and other receivables

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. See Note 2.14 for further information about the Group's accounting for trade receivables and Note 2.15 for a description of the Group's impairment policies.

2.18 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.

2.19 Share capital

Ordinary shares are classified as equity (Note 26).

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

2.20 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.

2.21 Borrowings

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

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

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

2 Summary of significant accounting policies *(Continued)*

2.22 Borrowing costs

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

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

2.23 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 Summary of significant accounting policies *(Continued)*

2.24 Employee benefits

(i) Short-term obligations

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

(ii) Pension obligations

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

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

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

(iii) Housing benefits

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

2.25 Provision

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

2.26 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 Summary of significant accounting policies *(Continued)*

2.27 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Sale of goods

Timing of recognition: Sales of goods are recognised when a group entity has delivered products and transferred the significant risks and rewards of ownership of the product to the customer; the customer has accepted the products and collectability of the related receivables is reasonably assured.

Measurement of revenue: Revenue from sales is based on the price specified in the sales contracts.

2.28 Rental income

Rental income from investment property is recognised in the statement of profit or loss on a straight-line basis over the term of the lease.

2.29 Interest income

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

2.30 Dividend distribution

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

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

2.31 Government grants

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

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

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

3 Financial risk management

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

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

3.1 Financial risk factors

(a) Market risk

(i) Foreign exchange risk

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

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

	Impact on post tax profit	
	2017	2016
	RMB'000	RMB'000
HK$/RMB exchange rate — increase 5%	**2,085**	4,044
HK$/RMB exchange rate — decrease 5%	**(2,085)**	(4,044)
US$/RMB exchange rate — increase 5%	**2,014**	727
US$/RMB exchange rate — decrease 5%	**(2,014)**	(727)

(ii) Cash flow and fair value interest rate risk

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

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

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates of variable rate bank balances and loans at the end of the reporting period. The analysis is prepared assuming the amount outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis points increase or 50 basis points decrease (2016: 50 basis points increase or decrease) represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2016: 50 basis points) higher/lower and all other variables were held constant, the Group's profit before taxation for the year ended 31 December 2017 would have been RMB300,000 lower/higher (2016: RMB750,000).

3 Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(iii) Price risk

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

The Group is also engaged in the palm oil trading and iron ore trading since October 2016, therefore the Group is exposed to international trading price risk because of the volatility of market, which is influenced by global and regional supply and demand conditions.

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

(b) Credit risk

The carrying amounts of deposits and receivables included in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets. Management of the Group is of the opinion that adequate provision for uncollectible trade and other receivables has been made as at 31 December 2017 and 2016 after considering the Group's historical experience in collection of trade and other receivables.

(c) Liquidity risk

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

Liquidity tables

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

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

3 Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

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

	Less than 3 months RMB'000	Between 3 months and 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000
Group				
At 31 December 2017				
Borrowings	**11,715**	**82,609**	**61,261**	**–**
Trade and other payables (excluding staff salaries payable and other tax payable)	**10,129**	**50,230**	**–**	**–**
	21,844	**132,839**	**61,261**	**–**
At 31 December 2016				
Borrowings	2,450	118,162	85,084	61,261
Trade and other payables (excluding staff salaries payable and other tax payable)	40,709	4,638	–	–
	43,159	122,800	85,084	61,261

3.2 Capital management

The Group's objectives when managing capital are to

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

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

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

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

3 Financial risk management *(Continued)*

3.2 Capital management *(Continued)*

The gearing ratios at 31 December 2017 and 2016 were as follows:

	2017 RMB'000	2016 RMB'000 Restated
Net debt	(68,940)	61,504
Total equity	791,201	632,862
Net debt to equity ratio	**(8.71%)**	9.72%

The decrease in gearing ratio during 2017 was resulted primarily from the profit earned and decrease of borrowings during the year.

3.3 Fair value estimation

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

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

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

3 Financial risk management *(Continued)*

3.3 Fair value estimation *(Continued)*

The following table presents the Group's assets that were measured at fair value at 31 December 2016.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Financial assets at fair value through profit or loss				
— Equity investments *(Note 25)*	45,477	–	–	45,477
Financial assets at fair value through profit or loss				
— Future contracts *(Note 25)*	1,431	–	–	1,431
Available-for-sale financial assets				
— Equity investments *(Note 20)*	2,163	–	–	2,163
Total assets	49,071	–	–	49,071

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

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

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

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

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

4 Critical accounting estimates and judgements

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

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

(a) Impairment of exploration and evaluation assets

Exploration and evaluation assets are assessed for impairment when circumstances suggest that the carrying amount may exceed its recoverable amount. The assessment of the recoverable amount involves judgment as to

(i) the likely future commercial viability of the asset and when such commercial viability should be determined;

(ii) future revenues based on forecasted gold prices;

(iii) future development costs and production expenses;

(iv) the discount rate to be applied to such revenues and costs for the purpose of deriving a recoverable amount; and

(v) potential value to future exploration and evaluation activities of any geological and geographical data acquired. Any material adverse changes of these factors may cause impairment of the carrying value of the exploration and evaluation assets.

(b) Provision for restoration cost

The provision for restoration cost as set out in Note 33 has been estimated by the management based on current regulatory requirements and is discounted to the present value where the effect is material. However, significant changes in the regulation in relation to the restoration requirement will result in changes to provision from period to period.

(c) 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.

4 Critical accounting estimates and judgements *(Continued)*

(c) Amortisation and impairment of mining rights *(Continued)*

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.

(d) 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 CODM, being the executive directors of the Company, in order to allocate resources to segments and to assess their performance. For the years ended 31 December 2017, the Group is primarily engaged in gold exploration and trading in the PRC. Therefore, for the year ended 31 December 2017, the management considers that the Group had two (note a and b) reportable segments respectively:

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

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

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

For the year ended 31 December 2017

5 Segment information *(Continued)*

	2017 Gold mining segment RMB'000	2017 International trading segment RMB'000	2017 Total RMB'000	2016 Gold mining segment RMB'000	2016 International trading segment RMB'000	2016 Total RMB'000
Year ended 31 December						
Revenue						
Sales to customers	748,166	212,350	960,516	613,429	119,605	733,034
Cost of sales	(357,351)	(211,885)	(569,236)	(252,422)	(119,423)	(371,845)
Results of reportable segments	390,815	465	391,280	361,007	182	361,189

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

	2017 Gold mining segment RMB'000	2017 International trading segment RMB'000	2017 Total RMB'000	2016 Gold mining segment RMB'000	2016 International trading segment RMB'000	2016 Total RMB'000
Results of reportable segments			391,280			361,189
Selling and marketing expenses			(713)			(428)
General and administrative expenses			(32,362)			(25,433)
Write off/impairment loss of exploration and evaluation assets			(13,970)			(61,256)
Other income			711			585
Other losses — net			(7,795)			(17,339)
Finance income			74			1,010
Finance expenses			(12,911)			(21,069)
Profit before income tax expense			324,314			237,259
Income tax expense			(84,011)			(34,100)
Profit for the year			240,303			203,159
Amortisation	39,203	–	39,203	31,604	–	31,604
Depreciation	34,972	–	34,972	29,832	–	29,832
Write off/impairment loss of exploration and evaluation assets	13,970	–	13,970	61,256	–	61,256

The Group operates in mainland China and Hong Kong, and revenue is also generated from mainland China and Hong Kong. The Group's non-current assets are also located in mainland China and Hong Kong.

For year ended 31 December 2017, the Group's income of sales of processed gold from Shanghai Gold Exchange was RMB748,166,000 (2016: RMB613,429,000), which was derived from gold mining segment.

Revenue of approximately RMB212,350,000 (2016: RMB119,605,000) was derived from external customers, in relation to the international trading segment.

For the year ended 31 December 2017

6 Other income

	2017 RMB'000	2016 RMB'000
Government grants related to assets *(Note 32)*	**424**	424
Others	**287**	161
	711	585

7 Other losses — net

	2017 RMB'000	2016 RMB'000
Investment gains/(losses) on future contracts *(Note 25(b))*	**5,726**	(11,288)
Investment income of structured deposits	**2,076**	1,687
Investment income of available-for-sale financial assets	**2,045**	7
Fair value change on gold loans	**–**	(11,446)
Investment losses of held-for-trading investments	**(2,317)**	(751)
Net foreign exchange (losses)/gains	**(6,459)**	5,839
Net losses on disposal of property, plant and equipment *(Note 35(b))*	**(8,768)**	(1,311)
Other losses	**(98)**	(76)
	(7,795)	(17,339)

8 Expenses by nature

	2017 RMB'000	2016 RMB'000
Changes in inventories of finished goods and work in progress	**(9,007)**	(11,633)
Purchase of finished goods	**211,885**	119,423
Depreciation and amortisation *(Notes 14, 15 and 18)*	**73,601**	61,197
Employee benefit expense *(Note 9)*	**55,788**	45,842
Raw materials and consumables used	**179,842**	108,414
Miscellaneous tax charges other than income tax	**38,337**	29,955
Fuel charges	**16,275**	12,591
Transportation expenses	**13,332**	10,717
Repair and maintenance expenses	**7,944**	8,887
Utilities and office expenses	**3,103**	2,513
Auditors' remuneration	**1,180**	1,180
Other expenses	**10,031**	8,620
Total cost of sales, selling and marketing expenses and general and administrative expenses	**602,311**	397,706

9 Employee benefit expense

	2017 RMB'000	2016 RMB'000
Wages and salaries	**46,962**	40,366
Social security costs	**1,277**	1,365
Pension costs — defined contribution plans *(Note (a))*	**2,349**	1,927
Housing benefits *(Note (b))*	**1,275**	1,164
Others	**3,925**	1,020
Total employee benefit expense	**55,788**	45,842

(a) Pensions — defined contribution plans

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

(b) Housing benefits

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

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2016: one) director whose emoluments are reflected in the analysis shown in Note 42. The emoluments payable to the remaining four (2016: four) individuals during the year are as follows:

	2017 RMB'000	2016 RMB'000
Salaries and other allowances	**3,517**	2,279
Contribution to pension scheme	**36**	24
	3,553	2,303

The emoluments fell within the following bands:

	Number of the individuals	
	2017	2016
Emolument bands		
Within HKD1,000,000 (equivalent to RMB835,900)	**2**	4
HKD1,000,000 — HKD2,000,000 (equivalent to RMB835,900 — RMB1,671,800)	**2**	–

10 Finance income and costs

	2017 RMB'000	2016 RMB'000
Finance income:		
— Interest income on bank deposits	**(74)**	(1,010)
Finance income	**(74)**	(1,010)
Finance costs:		
— Bank borrowings	**12,618**	16,501
— Accretion on environmental restoration costs *(Note 33)*	**293**	2,132
— Gold loans	**–**	2,436
Finance costs	**12,911**	21,069
Net finance costs	**12,837**	20,059

11 Subsidiaries

The Group's principal subsidiaries at 31 December 2017 and 31 December 2016 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held by the Group, and the proportion of ownership interests held equals the voting rights held by the Group.

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

Notes:

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

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

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

12 Income tax expense

	2017 RMB'000	2016 RMB'000
Current tax:		
Current tax on profit for the year	**73,530**	54,146
Total current tax expense	**73,530**	54,146
Deferred income tax:		
Decrease/(increase) in deferred tax assets *(Note 31)*	**10,518**	(20,404)
(Increase)/decrease in deferred tax liabilities *(Note 31)*	**(37)**	358
Total deferred tax expense/(benefit)	**10,481**	(20,046)
Income tax expense	**84,011**	34,100
Income tax expense is attributable to:		
Profit from continuing operations	**84,011**	34,100

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 are exempted companies incorporated in the BVI and, as such, are not liable for taxation in the BVI on their non-BVI income.

Tianshan Gold Securities (Hong Kong) Limited were subject to Hong Kong profits tax at tax rate of 16.5% for each of the years ended 31 December 2016 and 2017.

The applicable tax rate of Tianshan Goldfield (Xinjiang) Investment Advisory Limited and Jinchuan Mining for each of the years ended 31 December 2016 and 2017 were 25%.

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:

	2017 RMB'000	2016 RMB'000
Profit before income tax expense	**324,314**	237,259
Tax calculated at domestic tax rates applicable to profits in the respective countries	**86,542**	56,717
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
— Income not taxable for tax purpose	**(3,300)**	(259)
— Expenses not deductible	**638**	2,872
— Utilisation of previously unrecognised tax losses	**(23)**	(21,395)
— Recognise previously unrecognised deferred tax assets	**–**	(3,963)
— Tax losses for which no deferred income tax assets was recognised	**154**	128
Income tax expense	**84,011**	34,100

13 Earnings per share

(a) Basic earnings per share

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

	2017 RMB'000	2016 RMB'000
Profit attributable to owners of the Company for the purpose of basic earnings per share	**240,303**	203,159
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)	**0.26**	0.22

(b) Diluted earnings per share

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

14 Prepaid lease payments

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

	2017 RMB'000	2016 RMB'000
At 1 January	**16,222**	16,579
Amortisation of prepaid operating lease payment *(Note 8)*	**(357)**	(357)
At 31 December	**15,865**	16,222
Current portion	**357**	357
Non-current portion	**15,508**	15,865
At 31 December	**15,865**	16,222

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

15 Property, plant and equipment

Non-current assets	Buildings and structures RMB'000	Mining structures and equipment RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Furniture & office equipment RMB'000	Electronic equipment RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2016								
Cost	83,220	273,811	22,393	4,844	835	8,753	7,183	401,039
Accumulated depreciation	(12,638)	(38,336)	(6,125)	(3,049)	(271)	(3,166)	–	(63,585)
Net book amount	70,582	235,475	16,268	1,795	564	5,587	7,183	337,454
Year ended 31 December 2016								
Opening net book amount	70,582	235,475	16,268	1,795	564	5,587	7,183	337,454
Additions	–	4,143	1,373	940	3	665	29,692	36,816
Transfers *(Note 16)*	(7,051)	7,140	1,821	–	–	2,346	(13,474)	(9,218)
Disposals	–	(158)	(1,106)	(27)	–	(58)	–	(1,349)
Depreciation charge *(Note 8)*	(3,565)	(21,839)	(2,302)	(710)	(199)	(978)	–	(29,593)
Closing net book amount	59,966	224,761	16,054	1,998	368	7,562	23,401	334,110
At 31 December 2016								
Cost	73,304	284,887	24,235	5,252	838	11,644	23,401	423,561
Accumulated depreciation	(13,338)	(60,126)	(8,181)	(3,254)	(470)	(4,082)	–	(89,451)
Net book amount	59,966	224,761	16,054	1,998	368	7,562	23,401	334,110
Year ended 31 December 2017								
Opening net book amount	59,966	224,761	16,054	1,998	368	7,562	23,401	334,110
Additions	–	–	5,547	1,218	1,178	2,945	82,976	93,864
Transfers	31,527	39,334	22,359	–	152	1,167	(94,539)	–
Disposals	(157)	(634)	(79)	(16)	–	(237)	(7,831)	(8,954)
Depreciation charge *(Note 8)*	(4,551)	(23,607)	(4,010)	(586)	(164)	(1,480)	–	(34,398)
Closing net book amount	86,785	239,854	39,871	2,614	1,534	9,957	4,007	384,622
At 31 December 2017								
Cost	104,674	323,587	52,062	6,454	2,168	15,519	4,007	508,471
Accumulated depreciation	(17,889)	(83,733)	(12,191)	(3,840)	(634)	(5,562)	–	(123,849)
Net book amount	86,785	239,854	39,871	2,614	1,534	9,957	4,007	384,622

15 Property, plant and equipment *(Continued)*

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

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

	2017 RMB'000	2016 RMB'000
Total depreciation	**34,398**	29,593
Administrative expenses	**3,458**	2,837
Cost of sales	**30,940**	26,756
	34,398	29,593

As at 31 December 2017, buildings, mining structures and equipment amounting to RMB125,830,000 (2016: RMB135,866,000) were secured to Agricultural Bank of China to secure the bank borrowings of RMB148,291,000 (2016: RMB196,234,000) (Note 30(d)(i)).

16 Investment property

Non-current assets	**2017 RMB'000**	2016 RMB'000
At 1 January		
Opening net book amount	**8,979**	–
Transfer from property, plant and equipment *(Note 15)*	**–**	9,218
Depreciation for the year	**(574)**	(239)
Closing net book amount	**8,405**	8,979
At 31 December		
Cost	**12,082**	12,082
Accumulated depreciation	**(3,677)**	(3,103)
Net book amount	**8,405**	8,979

The above investment property is located in Xinjiang Uygur Autonomous region, PRC and depreciated on a straight-line basis over 20 years.

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

16 Investment property *(Continued)*

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

	2017 RMB'000	2016 RMB'000
Other gains (rental income)	476	238
Other losses (depreciation)	(574)	(239)
Net loss	(98)	(1)

17 Exploration and evaluation assets

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

Non-current assets	2017 RMB'000	2016 RMB'000
At beginning of the year	13,970	75,145
Additions	–	81
Write off as expense (i)	(13,970)	–
Impairment losses recognised in profit or loss	–	(61,256)
At end of the year	–	13,970
At 31 December		
Cost	53,878	84,138
Impairment losses	(53,878)	(70,168)
Net book amount	–	13,970

Note:

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

(ii) Impairment losses of RMB16,290,000 related to the Urum-Tulasu area was written off during the year ended 31 December 2017 due to the exploration license has been cancelled in 2017.

(iii) As at 31 December 2017, the impairment losses of RMB53,878,000 for exploration and evaluation assets recognised comprise of following items:

— 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 2019, so the deferred income tax assets attributable to this impairment losses have not been recovered.

— Impairment losses of RMB34,943,000 related to the Talede and Nalensayi areas of which the exploration licenses were expired in June 2017. Management intends to write off the exploration licenses and decides to make tax special declaration before May 2018.

18 Intangible assets

Non-current assets	Mining rights RMB'000	Restoration costs RMB'000	Stripping costs RMB'000	Meadow compensation costs and others RMB'000	Total RMB'000
At 1 January 2016					
Cost	141,380	13,114	93,918	32,717	281,129
Accumulated amortisation	(9,155)	(764)	(26,101)	(3,156)	(39,176)
Net book amount	132,225	12,350	67,817	29,561	241,953
Year ended 31 December 2016					
Opening net book amount	132,225	12,350	67,817	29,561	241,953
Additions	–	3,206	21,223	4,103	28,532
Amortisation charge *(Note 8)*	(9,876)	(3,343)	(16,464)	(1,564)	(31,247)
Closing net book amount	122,349	12,213	72,576	32,100	239,238
At 31 December 2016					
Cost	141,380	16,320	115,141	36,820	309,661
Accumulated amortisation	(19,031)	(4,107)	(42,565)	(4,720)	(70,423)
Net book amount	122,349	12,213	72,576	32,100	239,238
Year ended 31 December 2017					
Opening net book amount	**122,349**	**12,213**	**72,576**	**32,100**	**239,238**
Additions	**–**	**10,196**	**77,806**	**793**	**88,795**
Amortisation charge *(Note 8)*	**(8,832)**	**(6,902)**	**(21,360)**	**(1,752)**	**(38,846)**
Closing net book amount	**113,517**	**15,507**	**129,022**	**31,141**	**289,187**
At 31 December 2017					
Cost	**141,380**	**26,516**	**192,947**	**37,613**	**398,456**
Accumulated amortisation	**(27,863)**	**(11,009)**	**(63,925)**	**(6,472)**	**(109,269)**
Net book amount	**113,517**	**15,507**	**129,022**	**31,141**	**289,187**

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 2017, mining rights of RMB113,517,000 (2016: RMB122,349,000) was pledged to Agricultural Bank of China to secure the bank borrowings of RMB148,291,000 (2016: RMB196,234,000) (Note 30(d)(i)).

19 Financial instruments by category

	Loans and receivables RMB'000	Assets at fair value through the profit & loss RMB'000	Available-for-sale RMB'000	Total RMB'000
31 December 2017				
Financial assets				
Available-for-sale financial assets *(Note 20)*	–	–	29,000	29,000
Trade and other receivables excluding prepayments and deductible value-added tax ("VAT") *(Note 21 and 22)*	39,661	–	–	39,661
Financial assets at fair value through profit or loss *(Note 25)*	–	26,534	–	26,534
Cash and cash equivalents *(Note 24)*	161,697	–	–	161,697
Restricted bank balance *(Note 24)*	10	–	–	10
Total	201,368	26,534	29,000	256,902

	Other financial liabilities at amortised cost RMB'000	Total RMB'000
Financial liabilities		
Borrowings *(Note 30)*	148,291	148,291
Trade and other payables excluding non-financial liabilities *(Note 29)*	60,359	60,359
Total	208,650	208,650

19 Financial instruments by category *(Continued)*

	Loans and receivables RMB'000	Assets at fair value through the profit & loss RMB'000	Available-for-sale RMB'000	Total RMB'000
31 December 2016				
Financial assets				
Available-for-sale financial assets *(Note 20)*	–	–	2,163	2,163
Trade and other receivables excluding prepayments and deductible value-added tax ("VAT") *(Note 21 and 22)*	25,703	–	–	25,703
Financial assets at fair value through profit or loss *(Note 25)*	–	46,908	–	46,908
Cash and cash equivalents *(Note 24)*	137,822	–	–	137,822
Restricted bank balance *(Note 24)*	10	–	–	10
Total	163,535	46,908	2,163	212,606

	Other financial liabilities at amortised cost RMB'000	Total RMB'000
Financial liabilities		
Borrowings *(Note 30)*	246,234	246,234
Trade and other payables excluding non-financial liabilities *(Note 29)*	45,347	45,347
Total	291,581	291,581

20 Available-for-sale financial assets

	2017 RMB'000	2016 RMB'000
At 1 January	**2,163**	473
Additions	**29,000**	–
Fair value gains	**–**	1,699
Disposals	**(2,163)**	(9)
At 31 December	**29,000**	2,163

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

	2017 RMB'000	2016 RMB'000
Non-current assets		
Listed securities:		
— Equity securities — listed outside Hong Kong, at market prices	**–**	2,163
Current assets		
Unlisted securities:		
— Equity securities — bank financial products with floating profit	**29,000**	–

As at 31 December 2017, all available-for-sale financial assets were denominated in RMB (31 December 2016: Canadian dollars).

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

21 Trade receivables

Current assets	2017 RMB'000	2016 RMB'000
Trade receivables	**24,687**	17,422
Provision for impairment	**–**	–
	24,687	17,422

As at 31 December 2017 and 31 December 2016, the aging of trade receivables was within 1 month and no trade receivables were either past due or impaired.

As at 31 December 2017, all trade receivables were denominated in RMB (2016: US dollars).

22 Other receivables and prepayments

Current assets	**2017 RMB'000**	2016 RMB'000
Prepayments	**4,840**	33,670
Input VAT deductible	**3,912**	4,401
Deposits held by a securities broker *(note (i))*	**12,467**	3,781
Deposits held by an interactive broker *(note (ii))*	**652**	26
Deposits held by China International Capital Corporation Limited ("CICC") *(note (iii))*	**994**	3,865
Other receivables	**861**	609
	23,726	46,352

Notes:

(i) The deposits as at 31 December 2017 and 2016 represented the outstanding balance of cash account held by a securities broker for gold futures contract transactions.

(ii) The deposits as at 31 December 2017 and 2016 represented the outstanding balance of cash account held by an interactive broker for equity securities transactions.

(iii) The deposits as 31 December 2017 and 2016 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:

	2017 RMB'000	2016 RMB'000
RMB	**22,080**	7,942
HK dollars	**1,646**	7,930
US dollars	**–**	30,480
	23,726	46,352

23 Inventories

Current assets	2017 RMB'000	2016 RMB'000
Raw materials	2,826	5,271
Gold in process	82,737	77,777
Gold dore bars	5,227	1,180
Consumables and spare parts	16,776	13,315
	107,566	97,543

Inventories recognised as expense and included in "cost of sales" during the year ended 31 December 2017 amounted to RMB569,236,000 (2016: RMB371,845,000).

24 Cash and cash equivalents/Restricted bank balance

Current assets	2017 RMB'000	2016 RMB'000
Cash in hand	178	175
Cash at banks	111,519	137,647
Bank deposits	50,000	–
Cash and cash equivalents	161,697	137,822
Restricted bank balance	10	10
	161,707	137,832

Balances can be analysed as follows:

	2017 RMB'000	2016 RMB'000
Denominated in:		
— RMB	90,171	43,279
— Hong Kong dollars	23,132	94,469
— US dollars	48,404	84
	161,707	137,832

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 0.01% to 5% per annum as at 31 December 2017 (31 December 2016: 0.001% to 0.38 %).

For the year ended 31 December 2017

25 Financial assets at fair value through profit or loss

Current assets	**2017 RMB'000**	2016 RMB'000
Equity investments (a)	**25,362**	45,477
Futures contracts (b)	**1,172**	1,431
	26,534	46,908

(a) Equity investments

Movements in equity investments are analysed as follows:

	2017 RMB'000	2016 RMB'000
At 1 January	**45,477**	–
Additions	**7,309**	49,109
Disposals	**(24,347)**	(3,250)
Fair value losses	**(3,077)**	(382)
At 31 December	**25,362**	45,477

As at 31 December 2017 and 31 December 2016, 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 losses — net" in the consolidated statement of profit or loss.

The fair values of all equity securities are based on their quoted prices as of 31 December 2017 in the stock exchange.

(b) Futures contracts

	2017 RMB'000	2016 RMB'000
Derivatives not under hedging accounting:		
Fair value of gold futures contracts — assets	**1,172**	1,431

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

Changes in the fair values of gold futures contracts were gains of RMB5,726,000 (2016: losses of RMB11,288,000) and were recognised in the consolidated statement of profit or loss (Note 7).

As at 31 December 2017, notional amount of gold futures contract was RMB72,417,550 (31 December 2016: RMB19,465,200).

26 Share capital

	Number of shares	Share capital HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 31 December 2016 and 31 December 2017	2,000,000,000	20,000
Issued:		
At 31 December 2016 and 31 December 2017 (Equivalent of RMB7,362,000)	925,000,000	9,250

There was no movement of share capital of the Company in 2017 and 2016.

27 Reserves

	Share premium *(note a)* RMB'000	Other reserves *(note b)* RMB'000	Investment revaluation reserves RMB'000	Total RMB'000
Balance at 1 January 2016	540,052	31,523	(16)	571,559
Fair value gains on available-for-sale financial assets	–	–	1,699	1,699
Balance at 31 December 2016	540,052	31,523	1,683	573,258
Disposal of available-for-sale financial assets	–	–	(1,683)	(1,683)
Dividends relating to 2016 paid in 2017	(80,281)	–	–	(80,281)
Balance at 31 December 2017	459,771	31,523	–	491,294

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.

28 Retained earnings

As at 31 December 2017, the consolidated retained earnings included the balance of its subsidiary's reserve fund of RMB41,343,000 (31 December 2016: Nil) 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 2017, the Group appropriated RMB26,861,000 (2016: RMB24,119,000) from retained earnings for the safety production fund and utilised RMB6,062,000 (2016: RMB6,355,000) for the safety production expenditure according to relevant PRC regulations.

As at 31 December 2017, the consolidated retained earnings included the balance of PRC safety production fund of RMB43,486,000 (31 December 2016: RMB22,687,000) which would be specifically used to safety related expenditure and cannot be appropriated according to relevant PRC regulations.

29 Trade and other payables

Current liabilities	**2017 RMB'000**	2016 RMB'000
Trade payables	**14,243**	12,584
Payables for capital expenditure	**43,287**	30,504
Staff salaries payables	**14,220**	6,353
Other tax payables	**5,423**	960
Other payables	**2,497**	2,011
Accrued expenses	**332**	248
	80,002	52,660

At 31 December 2017, the aging analysis of the trade payables (including amounts due to related parties of trading in nature) based on invoice date was as follows:

	2017 RMB'000	2016 RMB'000
0–30 days	**2,375**	6,625
31–60 days	**3,325**	1,188
Over 60 days	**8,543**	4,771
	14,243	12,584

At 31 December 2017 and 2016, the aging of payables for capital expenditure was all within 1 year.

30 Borrowings

(a) Long-term bank borrowings

	2017 RMB'000	2016 RMB'000
Non-current	**60,000**	140,000
Current	**88,291**	56,234
	148,291	196,234

(b) Short-term bank borrowings

	2017 RMB'000	2016 RMB'000
Short-term borrowings	**–**	50,000

(c) At 31 December 2017, the Group's borrowings were repayable as follows:

Bank borrowings	2017 RMB'000	2016 RMB'000
Within 1 year	**88,291**	106,234
Between 1 and 2 years	**60,000**	80,000
Between 2 and 5 years	**–**	60,000
	148,291	246,234

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

Bank borrowings	2017 RMB'000	2016 RMB'000
6 months or less	**148,291**	196,234
6–12 months	**–**	50,000
	148,291	246,234

30 Borrowings *(Continued)*

(d) The borrowings can be analysed as follows:

	2017 RMB'000	2016 RMB'000
Representing:		
— secured *(Note (i))*	148,291	196,234
— guaranteed *(Note (ii))*	–	50,000
	148,291	246,234

(i) As at 31 December 2017, the secured bank borrowings were secured by the Group's intangible assets of mining rights with a net book value of approximately RMB113,517,000 (31 December 2016: approximately RMB122,349,000) (Note 18) and property, plant and equipment with a net book value of approximately RMB125,830,000 (31 December 2016: approximately RMB135,866,000) (Note 15).

(ii) As at 31 December 2016, bank borrowings of RMB50,000,000 were guaranteed by Xiamen Hengxing Group Company Limited and Mr. Ke Xiping.

(e) The outstanding borrowings of the Group carry interest at effective interest rates 4.9% (31 December 2016: ranging from 4.35% to 5.15%) per annum and are repayable in accordance with payment schedule.

(f) The carrying amounts of the Group's borrowings were all denominated in RMB at 31 December 2017 and 2016.

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

	Carrying amount		Fair value	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Bank borrowings	60,000	140,000	62,153	144,268

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

31 Deferred income tax

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

	2017 RMB'000	2016 RMB'000
Deferred tax assets:		
— Deferred tax assets to be recovered after more than 12 months	9,143	20,071
— Deferred tax assets to be recovered within 12 months	743	333
	9,886	20,404
Deferred tax liabilities:		
— Deferred tax liabilities to be recovered within 12 months	(321)	(358)
Deferred tax assets (net)	9,565	20,046

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

Movements	2017 RMB'000	2016 RMB'000
At 1 January	20,046	–
(Charged)/credited to the consolidated statement of profit and loss *(Note 12)*	(10,481)	20,046
At 31 December	9,565	20,046

31 Deferred income tax *(Continued)*

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

Deferred tax assets	**Impairment losses** RMB'000	**Provisions and accruals** RMB'000	**Total** RMB'000
At 1 January 2016 and 31 December 2016	17,542	2,862	20,404
(Charged)/credited to the consolidated statement of profit or loss	(12,808)	2,290	(10,518)
At 31 December 2017	4,734	5,152	9,886

Deferred tax liabilities	**Fair value gains** RMB'000	**Total** RMB'000
At 1 January 2016 and 31 December 2016	(358)	(358)
Charged to the consolidated statement of profit or loss	37	37
At 31 December 2017	(321)	(321)

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 2017 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 2017, the Group had cumulative unutilised tax losses of RMB1,870,000 (2016: RMB1,393,000).

As at 31 December 2017, deferred income tax assets are attributable to impairment losses of RMB18,935,000 related to the Gold Mountain Periphery area (Note 17) and provision for close down, restoration and environmental costs of RMB20,608,000 (Note 33).

As at 31 December 2017, deferred income tax liabilities have not been recognised for the withholding income tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries in the PRC. Such unremitted earnings will be permanently reinvested.

32 Deferred income

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

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

Non-current liabilities	2017 RMB'000	2016 RMB'000
At 1 January	**8,267**	8,691
Released to profit or loss *(Note 6)*	**(424)**	(424)
At 31 December	**7,843**	8,267

33 Provision for close down, restoration and environmental costs

Non-current liabilities	2017 RMB'000	2016 RMB'000
At 1 January	**11,448**	6,941
Additions to site reclamation	**10,196**	3,206
Accretion incurred in the year *(Note 10)*	**293**	2,132
Payment of close down, restoration and environmental costs	**(1,329)**	(831)
At 31 December	**20,608**	11,448

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 labor cost, escalated for inflation, and discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability to reflect the present value of the expenditures expected to be required to settle such obligation.

34 Dividends

		2017 RMB'000	2016 RMB'000
(i)	**Ordinary shares**		
	Final dividend paid in cash for the year ended 31 December 2016 of HK$0.1 (2015: Nil) per fully paid share	**80,281**	–

Pursuant to the resolution of Annual General Meeting dated 24 May 2017, dividend of RMB80,281,000 (2016: Nil) relating to the year ended 31 December 2016 was declared and distributed from the share premium of the Company to the shareholders.

		2017 RMB'000	2016 RMB'000
(ii)	**Dividends not recognised at the end of the reporting period**		
	In addition to the above dividend, a final dividend for the year ended 31 December 2017 of HK$0.155 per fully paid share (2016: HK$0.1) was proposed by the Board of Directors on 20 March 2018 (2016: on 27 March 2017) 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 2017, but not recognised as a liability at year end, is	**119,849**	80,281

35 Cash flow information

(a) Cash generated from operations

	2017 RMB'000	2016 RMB'000
Profit before income tax	**324,314**	237,259
Adjustments for:		
— Depreciation of property, plant and equipment *(Note 15)*	**34,398**	29,593
— Depreciation of investment property *(Note 16)*	**574**	239
— Release of prepaid lease payments *(Note 14)*	**357**	357
— Amortisation of intangible assets *(Note 18)*	**38,846**	31,247
— Impairment losses of exploration and evaluation assets *(Note 17)*	**–**	61,256
— Write off of exploration and evaluation assets *(Note 17)*	**13,970**	–
— Losses on disposal of property, plant and equipment *(Note 7)*	**8,768**	1,311
— Finance costs *(Note 10)*	**12,911**	21,069
— Fair value change on futures contracts *(Note 25 (b))*	**259**	(1,431)
— Fair value change on gold loans *(Note 7)*	**–**	11,446
— Investment (income)/losses of held-for-trading investments *(Note 7)*	**(760)**	369
— Fair value losses on held-for-trading investments *(Note 7)*	**3,077**	382
— Investment income of structured deposits *(Note 7)*	**(2,076)**	(1,687)
— Investment income of available-for-sale financial assets *(Note 7)*	**(2,045)**	(7)
— Interest income *(Note 10)*	**(74)**	(1,010)
— Release of deferred income *(Note 32)*	**(424)**	(424)
— Foreign exchange losses/(gains), net *(Note 7)*	**6,459**	(5,839)
— Environmental restoration expenses paid *(Note 33)*	**(1,329)**	(831)
Operating cash flows before movements in working capital	**437,225**	383,299
Changes in working capital:		
Increase in inventories *(Note 23)*	**(10,023)**	(12,543)
Decrease/(increase) in trade and other receivables and prepayments	**15,361**	(54,601)
Increase/(decrease) in trade and other payables	**14,560**	(4,651)
Cash generated from operations	**457,123**	311,504

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

Proceeds from disposal of property, plant and equipment comprise:

	2017 RMB'000	2016 RMB'000
Net book amount disposed *(Note 15)*	**8,954**	1,349
Losses on disposal *(Note 7)*	**(8,768)**	(1,311)
Proceeds from disposal of property, plant and equipment	**186**	38

35 Cash flow information *(Continued)*

(c) Net debt reconciliation

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

	2017 RMB'000	2016 RMB'000 Restated
Cash and cash equivalents *(Note 24)*	**161,697**	137,822
Liquid investments (i)	**55,534**	46,908
Borrowings *(Note 30)*	**(148,291)**	(246,234)
Net debt	**68,940**	(61,504)

	Other assets		**Liabilities from financing activities**	
	Cash and cash equivalents RMB'000	**Liquid investments** RMB'000	**Borrowings** RMB'000	**Total** RMB'000
Net debt as at 1 January 2016	26,339	–	(358,466)	(332,127)
Cash flows	113,850	45,859	112,232	271,941
Foreign exchange adjustments	(2,367)	–	–	(2,367)
Other non-cash movements	–	1,049	–	1,049
Net debt as at 31 December 2016	137,822	46,908	(246,234)	(61,504)
Cash flows	29,335	11,962	97,943	139,240
Foreign exchange adjustments	(5,460)	–	–	(5,460)
Other non-cash movements	–	(3,336)	–	(3,336)
Net debt as at 31 December 2017	161,697	55,534	(148,291)	68,940

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

36 Contingencies

As at 31 December 2017, the Group had no significant contingent liability (31 December 2016: Nil).

37 Commitments

(a) Capital commitments

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

	2017 RMB'000	2016 RMB'000
Property, plant and equipment	**8,409**	6,939

(b) Non-cancellable operating leases commitments

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

	2017 RMB'000	2016 RMB'000
No later than 1 year	**126**	37

38 Assets pledged as security

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

Non-current	**2017 RMB'000**	2016 RMB'000
Buildings, mining structures and equipment *(Note 15)*	**125,830**	135,866
Mining rights *(Note 18)*	**113,517**	122,349
Total non-current assets pledged as security	**239,347**	258,215

39 Related party transactions

(a) Parent entities

The Group is controlled by the following entities:

Name	Type	Place of incorporation	Ownership interest	
			2017	2016
Gold Virture Limited	Immediate parent entity	Hong Kong	**60%**	60%
Mr. Ke Xiping	Ultimate controlling party	–	**60%**	60%

(b) Key management compensation

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

	2017 RMB'000	2016 RMB'000
Salaries, fees and other short-term employee benefits	**5,917**	5,570
Retirement benefit scheme contributions	**49**	69
Total	**5,966**	5,639

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

(c) Transactions with related parties

No significant transactions with related parties occurred during the year ended 31 December 2017 and 31 December 2016.

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

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

(e) Provision of guarantees by a related party for bank borrowings of the Group

Guarantor	Guaranteed party	Amount of the guarantee	Inception date of guarantee	Expiry date of guarantee
Xiamen Hengxing Group Company Limited & Mr. Ke Xiping	Jinchuan Mining	RMB50,000,000	27/10/2016	27/10/2017

40 Events occurring after the reporting period

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

41 Balance sheet and reserve movements of the Company

Balance sheet of the Company

	Note	As at 31 December 2017 RMB'000	2016 RMB'000
Assets			
Non-current assets			
Investments in subsidiaries		**190,657**	190,657
Loans to subsidiaries		**155,811**	154,932
		346,468	345,589
Current assets			
Cash and cash equivalents		**3,609**	94,027
Total assets		**350,077**	439,616
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital		**7,362**	7,362
Share premium	*(Note (a))*	**459,771**	540,052
Accumulated losses	*(Note (a))*	**(117,547)**	(108,408)
Total equity		**349,586**	439,006
Liabilities			
Current liabilities			
Trade and other payables		**491**	610
Total liabilities		**491**	610
Total equity and liabilities		**350,077**	439,616

The balance sheet of the Company was approved by the Board of Directors on 20 March 2018 and was signed on its behalf:

Mr. Ke Xiping **Mr. Chen, David Yu**

41 Balance sheet and reserve movements of the Company (continued)

Note (a) Reserve movements of the Company

	Share premium RMB'000	Accumulated losses RMB'000
At 1 January 2016	540,052	(145,034)
Profit for the year	–	36,626
At 31 December 2016	540,052	(108,408)
At 1 January 2017	540,052	(108,408)
Loss for the year	–	(9,139)
Dividend relating to 2016 paid in 2017	(80,281)	–
At 31 December 2017	459,771	(117,547)

42 Benefits and interests of directors

(A) Directors' and chief executive's emoluments

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

For the year ended 31 December 2017:

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

42 Benefits and interests of directors *(Continued)*

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

For the year ended 31 December 2016:

Name	Fees RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking RMB'000	Total RMB'000
Executive directors				
Mr. Ke Xiping	–	–	–	–
Mr. Chen, David Yu *(note)*	–	31	1,995	2,026
Mr. Albert Fook Lau Ho	–	–	258	258
Independent non-executive directors				
Ms. Wong, Yan Ki Angel	129	–	–	129
Mr. Xiao Wei	129	–	–	129
Dr. Tim Sun	129	–	–	129
Total	387	31	2,253	2,671

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

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

Note: Mr. Chen, David Yu is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

(B) Directors' retirement benefits and termination benefits

None of the directors received or will receive any retirement benefits or termination benefits during the year (2016: Nil).

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

During the year ended 31 December 2017, the Company did not pay consideration to any third parties for making available directors' services (2016: Nil).

42 Benefits and interests of directors *(Continued)*

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

During the year ended 31 December 2017, there is no loans, quasi-loans and other dealing arrangements in favour of directors, or controlled bodies corporate by and connected entities with such directors (2016: Nil).

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

Save as disclosed in the consolidated financial statements, no significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2016: Nil).

Five Years Summary

	As at 31 December				
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000	**2017** **RMB'000**
ASSETS AND LIABILITIES					
Total assets	704,016	963,867	887,177	995,373	**1,085,129**
Total liabilities	576,575	589,432	459,173	362,511	**293,928**
Net assets	127,441	374,073	428,004	632,862	**791,201**
Equity attributable to owners of the Company	127,441	374,073	428,004	632,862	**791,201**

	Year ended 31 December				
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000	**2017** **RMB'000**
RESULTS					
Revenue	4,480	159,817	284,554	733,034	**960,516**
(Loss) Profit before taxation	(90,042)	(34,007)	53,585	237,259	**324,314**
Income tax	–	–	–	(34,100)	**(84,011)**
(Loss) Profit for the year, attributable to owners of the Company	(90,042)	(34,007)	53,585	203,159	**240,303**

Definitions

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

Definitions

"Listing" or "IPO"	the listing of the Shares on the Main Board of the Stock Exchange on 29 May 2014
"Listing Date"	29 May 2014
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"Model Code"	model code for securities transactions by directors of listed issuers contained in Appendix 10 to the Listing Rules
"Nomination Committee"	the nomination committee of the Company established in compliance with Rule A.5.1 and Rule A.5.2 of the Listing Rules
"PRC" or "China"	The People's Republic of China
"Prospectus"	the prospectus of the Company dated 19 May 2014
"Remuneration Committee"	the remuneration committee of the Company established in compliance with Rule 3.25 and Rule 3.26 of the Listing Rules
"RMB"	Renminbi, the lawful currency of the PRC
"Securities and Futures Ordinance"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	shareholder(s) of the Company
"Share Option Scheme"	the share option scheme conditionally adopted by the Company under the resolutions of the Shareholders dated 5 May 2014
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Tianshan Gold HK"	Tianshan Gold Securities (Hong Kong) Limited, a limited liability company incorporated in Hong Kong on 16 April 2008 and an indirect wholly-owned subsidiary of the Company
"Xiamen Hengxing"	Xiamen Hengxing Group Co., Ltd. (廈門恒興集團有限公司), a limited liability company established in China on 14 September 1994, which is owned by Mr. Ke Xiping as to 99.34% and by Ms. Liu Haiying, Mr. Ke's wife, as to 0.66%, and except where the context otherwise requires, includes all of its subsidiaries
"Xi Wang Developments"	Xi Wang Developments Limited (熙望發展有限公司), a limited liability company incorporated in the BVI on 11 May 2012 and a Controlling Shareholders, which is wholly-owned by Mr. Ke Jiaqi, Mr. Ke Xiping's son
"Year Under Review"	the year ended 31 December 2017
"%"	per cent