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KINGWELL GROUP LIMITED

京維集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1195)

**ANNOUNCEMENT OF ANNUAL RESULTS
FOR THE YEAR ENDED 30 JUNE 2018**

RESULTS

The Board (the “Board”) of directors (the “Directors”) of Kingwell Group Limited (the “Company” or “Kingwell”) herein announces the preliminary consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 30 June 2018 (the “Year”) together with the comparative figures for the corresponding year ended 30 June 2017.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 30 June 2018

	<i>Notes</i>	2018 RMB'000	2017 RMB'000
REVENUE	<i>5</i>	21,216	10,542
Cost of sales		<u>(19,527)</u>	<u>(8,828)</u>
Gross profit		1,689	1,714
Other income and gains	<i>5</i>	1,504	5,310
Selling and distribution expenses		(617)	(460)
Administrative expenses		(13,769)	(15,307)
Other expenses		(5,410)	(3,318)
Provision for impairment of an associate	<i>11</i>	–	(73,058)
Finance costs	<i>7</i>	(70)	(66)
Share of loss of an associate	<i>11</i>	<u>(2,509)</u>	<u>(6,312)</u>
LOSS BEFORE TAX	<i>6</i>	(19,182)	(91,497)
Income tax (expense)/credit	<i>8</i>	<u>(1,600)</u>	473
LOSS FOR THE YEAR		<u>(20,782)</u>	<u>(91,024)</u>
OTHER COMPREHENSIVE (LOSS)/INCOME			
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		<u>(7,325)</u>	<u>6,094</u>
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		<u>(7,325)</u>	<u>6,094</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		<u>(28,107)</u>	<u>(84,930)</u>
Loss attributable to:			
Owners of the Company		(19,811)	(90,724)
Non-controlling interests		<u>(971)</u>	<u>(300)</u>
		<u>(20,782)</u>	<u>(91,024)</u>
Total comprehensive loss attributable to:			
Owners of the Company		(23,728)	(87,419)
Non-controlling interests		<u>(4,379)</u>	<u>2,489</u>
		<u>(28,107)</u>	<u>(84,930)</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)

Year ended 30 June 2018

	<i>Note</i>	2018 <i>RMB cent(s)</i>	2017 <i>RMB cent(s)</i>
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	<i>10</i>		
Basic		<u>(0.69)</u>	<u>(3.15)</u>
Diluted		<u>(0.69)</u>	<u>(3.15)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION*30 June 2018*

	<i>Notes</i>	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		1,197	1,482
Investment properties		6,604	5,964
Intangible assets		70,377	76,238
Investment in an associate	<i>11</i>	50,260	52,769
Deferred tax assets		6,368	5,190
Total non-current assets		134,806	141,643
CURRENT ASSETS			
Inventories		45,422	69,779
Trade receivables	<i>12</i>	10	70
Deposits and other receivables		574	405
Pledged deposits		503	503
Cash and cash equivalents		52,666	44,139
Total current assets		99,175	114,896
CURRENT LIABILITIES			
Trade payables	<i>13</i>	1,672	1,840
Other payables and accruals		27,293	20,664
Tax payable		7,559	6,247
Total current liabilities		36,524	28,751
NET CURRENT ASSETS		62,651	86,145
TOTAL ASSETS LESS CURRENT LIABILITIES		197,457	227,788

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)*30 June 2018*

	<i>Notes</i>	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>197,457</u>	<u>227,788</u>
NON-CURRENT LIABILITIES			
Non-redeemable convertible preferred shares	<i>14</i>	627	572
Deferred tax liabilities		<u>6,566</u>	<u>8,845</u>
Total non-current liabilities		<u>7,193</u>	<u>9,417</u>
Net assets		<u><u>190,264</u></u>	<u><u>218,371</u></u>
EQUITY			
Equity attributable to owners of the Company			
Issued capital		252,856	252,856
Non-redeemable convertible preferred shares	<i>14</i>	2,252	2,252
Other reserves		<u>(105,854)</u>	<u>(82,126)</u>
		149,254	172,982
Non-controlling interests		<u>41,010</u>	<u>45,389</u>
Total equity		<u><u>190,264</u></u>	<u><u>218,371</u></u>

Notes:

1. BASIS OF PREPARATION

The annual results set out in this announcement do not constitute the Group's consolidated financial statements for the year ended 30 June 2018 but are extracted from those financial statements.

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 30 June 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

1. BASIS OF PREPARATION (continued)

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKAS 7	<i>Disclosure Initiative</i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Amendments to HKFRS 12 included in <i>Annual Improvements to HKFRSs 2014-2016 Cycle</i>	<i>Disclosure of interests in Other Entities</i>

None of the above amendments to HKFRSs has had a significant financial effect on these financial statements.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and has two reportable operating segments as follows:

- (a) the gold mining segment engages in the production and sale of gold; and
- (b) the property development and property leasing segment engages in the development of villas, apartments and commercial buildings and property leasing of self-owned properties.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment loss, which is a measure of adjusted loss before tax. The adjusted loss before tax is measured consistently with the Group's loss before tax except that interest income, finance costs as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets and other unallocated head office and corporate assets, as these assets are managed on a group basis.

Segment liabilities exclude tax payable, non-redeemable convertible preferred shares, deferred tax liabilities and other unallocated head office and corporate liabilities, as these liabilities are managed on a group basis.

3. OPERATING SEGMENT INFORMATION (continued)

Year ended 30 June 2018

	Gold mining <i>RMB'000</i>	Property development and property leasing <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue:			
Sales to external customers	–	21,216	21,216
Other revenue	–	1,427	1,427
	<u>–</u>	<u>22,643</u>	<u>22,643</u>
Segment results	(3,058)	(6,732)	(9,790)
<u>Reconciliation:</u>			
Interest income			77
Corporate and other unallocated expenses			(9,399)
Finance costs			<u>(70)</u>
Loss before tax			<u>(19,182)</u>
Segment assets	134,076	91,185	225,261
<u>Reconciliation:</u>			
Corporate and other unallocated assets			<u>8,720</u>
			<u>233,981</u>
Segment liabilities	111	25,949	26,060
<u>Reconciliation:</u>			
Corporate and other unallocated liabilities			<u>17,657</u>
			<u>43,717</u>
Other segment information:			
Share of loss of an associate	(2,509)	–	(2,509)
Depreciation	–	263	263
Investment in an associate	50,260	–	50,260
Capital expenditure	<u>29</u>	<u>8</u>	<u>37</u>

3. OPERATING SEGMENT INFORMATION (continued)

Year ended 30 June 2017

	Gold mining RMB'000	Property development and property leasing RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	–	10,542	10,542
Other revenue	–	5,286	5,286
	<u>–</u>	<u>15,828</u>	<u>15,828</u>
Segment results	(5,738)	(135)	(5,873)
<u>Reconciliation:</u>			
Interest income			24
Corporate and other unallocated expenses			(12,524)
Provision for impairment of an associate			(73,058)*
Finance costs			<u>(66)</u>
Loss before tax			<u>(91,497)</u>
Segment assets	145,416	96,245	241,661
<u>Reconciliation:</u>			
Corporate and other unallocated assets			<u>14,878</u>
			<u>256,539</u>
Segment liabilities	12	19,660	19,672
<u>Reconciliation:</u>			
Corporate and other unallocated liabilities			<u>18,496</u>
			<u>38,168</u>
Other segment information:			
Share of loss of an associate	(6,312)	–	(6,312)
Depreciation	–	300	300
Investment in an associate	<u>52,769</u>	<u>–</u>	<u>52,769</u>

* Related to the gold mining segment

3. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue of RMB21,216,000 (2017: RMB10,542,000) was derived from sales to external customers located in Mainland China.

(b) Non-current assets

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Mainland China	57,938	60,062
Hong Kong	103	124
Russia	70,397	76,267
	<u>128,438</u>	<u>136,453</u>

The non-current assets information above is based on the locations of the assets, which excludes deferred tax assets.

Information about major customers

During the year, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue. During the year ended 30 June 2017, revenue of RMB6,219,000 was derived from sales to five customers of the property development and property leasing segment. Revenue from each of these five customers amounted to 10% or more of the Group's total revenue for the year ended 30 June 2017.

4. REVENUE RECOGNITION

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sales of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) rental income, on a time proportion basis over the lease terms;
- (c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset; and
- (d) dividend income, when the shareholders' right to receive payment has been established.

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents revenue from the sale of properties, net of sales related taxes.

An analysis of revenue, other income and gains is as follows:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
<u>Revenue</u>		
Sale of properties	<u>21,216</u>	<u>10,542</u>
<u>Other income</u>		
Bank interest income	77	24
Rental income	371	537
Exchange gains, net	20	912
Compensation income	<u>–</u>	<u>2,299</u>
	<u>468</u>	<u>3,772</u>
<u>Gains</u>		
Fair value gains on investment properties	640	1,538
Gain on disposal of investment properties	37	–
Gain on disposal of items of property, plant and equipment	<u>359</u>	<u>–</u>
	<u>1,036</u>	<u>1,538</u>
	<u>1,504</u>	<u>5,310</u>

6. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Cost of properties sold	19,527	8,828
Depreciation	263	300
Minimum lease payments under operating leases	583	546
Auditor's remuneration	2,329	1,933
Staff costs (excluding directors' remuneration):		
Salaries and wages	6,290	6,650
Pension scheme contributions	313	259
	<u>6,603</u>	<u>6,909</u>
Write-down of inventories to net realisable value*	4,727	–
Provision for impairment of an associate	–	73,058
(Gain)/loss on disposal of investment properties [#]	(37)	1,676
Write-off of rental receivables*	–	1,482
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties	<u>64</u>	<u>32</u>

* These amounts were included in “other expenses” in the consolidated statement of profit or loss and other comprehensive income.

[#] These amounts were included in “other income and gains” or “other expenses” in the consolidated statement of profit or loss and other comprehensive income.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Interest on:		
Non-redeemable convertible preferred shares (<i>note 14</i>)	<u>70</u>	<u>66</u>

8. INCOME TAX

The Company is a tax exempted company registered in the Cayman Islands and conducts substantially all of its business through its subsidiaries established in Mainland China (the “PRC Subsidiaries”) and Russia.

No provision for Hong Kong profits tax has been made (2017: Nil) as the Group did not generate any assessable profits in Hong Kong during the year. Taxes on profits assessable in Mainland China have been calculated at the rate of 25% (2017: 25%).

	2018 RMB'000	2017 <i>RMB'000</i>
Current – Hong Kong	–	–
Current – Mainland China		
Provision for corporate income tax	1,887	504
Provision for land appreciation taxes (“LAT”)	2,830	3,342
Underprovision for corporate income tax in prior years	340	–
Deferred	<u>(3,457)</u>	<u>(4,319)</u>
 Total tax charge/(credit) for the year	 <u>1,600</u>	 <u>(473)</u>

A reconciliation of the tax expense applicable to loss before tax at the statutory tax rate for Mainland China in which a major subsidiary of the Company is domiciled to the tax expense at the effective tax rate is as follows:

	2018 RMB'000	2017 <i>RMB'000</i>
Loss before tax	<u>(19,182)</u>	<u>(91,497)</u>
 Tax at the Mainland China statutory tax rate of 25%	 (4,796)	 (22,874)
Lower tax rates on profits arising elsewhere	3,407	18,676
Expenses not deductible for tax	69	34
Underprovision for corporate income tax in prior years	340	–
Reversal of withholding tax on the distributable profits of the Group’s PRC subsidiary	(273)	(280)
Loss attributable to an associate	627	1,579
Tax losses not recognised	111	–
Tax losses utilised from previous years	(8)	(115)
Provision for LAT	2,830	3,342
Tax effect of LAT	<u>(707)</u>	<u>(835)</u>
 Tax charge/(credit) at the Group’s effective rate	 <u>1,600</u>	 <u>(473)</u>

9. DIVIDENDS

No final dividends were proposed for the years ended 30 June 2018 and 2017.

10. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the Company of RMB19,811,000 (2017: RMB90,724,000), and the weighted average number of ordinary shares of 2,884,091,737 (2017: 2,884,091,737) in issue during the year.

The calculation of the diluted loss per share amount is based on the loss for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic loss per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic loss per share amounts presented for the years ended 30 June 2018 and 2017 in respect of a dilution as the impact of the share options and non-redeemable convertible preferred shares outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

11. INVESTMENT IN AN ASSOCIATE

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Share of net assets	76,672	79,181
Goodwill on acquisition	46,646	46,646
	<u>123,318</u>	<u>125,827</u>
Provision for impairment	(73,058)	(73,058)
	<u>50,260</u>	<u>52,769</u>

Particulars of the associate are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group	Principal activities
Port First	Ordinary shares of US\$1.00 each	British Virgin Islands (“BVI”)	35	Investment holding

Port First Limited (“Port First”) is an investment holding company and its subsidiaries, Longkou Jinxin Gold Co., Ltd. (“龍口市金鑫黃金有限公司”, “Longkou Jinxin”) and Longkou Jinhui Gold Co., Ltd. (“龍口市金匯黃金有限責任公司”, “Longkou Jinhui”), are engaged in the mining, processing, refining and sale of gold bars in Mainland China.

The gold mine of Longkou Jinxin is located near the border but part of it is within the Laishan Natural Protection Area (“萊山生態保護區”, the “LNPA”) of Longkou City. During the year, Longkou Jinxin suspended production as requested by the local government for stricter environment protection purposes. Local government is in the process of applying to the related provincial government for excluding the gold mine of Longkou Jinxin from the LNPA given that the gold mine had been developed and commenced production before the LNPA was set up and part of the gold mine as well as the processing plant and refinery plant of Longkou Jinxin are outside the LNPA. Up to the date of this announcement, no decision has been made by the related provincial government on this application. Based on the latest communication with the local government, the Group is confident that Longkou Jinxin is able to resume production in the coming year. Hence, no further provision on the investment in an associate as at 30 June 2018 is considered necessary.

Longkou Jinhui has prepared for the expansion of its production capacity as requested by the local government in order to renew the mining right. However, as a railway was built across the gold mine area of Longkou Jinhui, Longkou Jinhui has to obtain the consent from the railway operator for the construction and expansion in the mine site. The railway operator kept silent when considering the safe operation of the railway, as a result, Longkou Jinhui had to suspend production during the year. Given that the railway was built after Longkou Jinhui commenced production without negotiating with Longkou Jinhui, Longkou Jinhui claimed against the railway operator for the loss incurred due to the suspension of production. The court concluded a favourable decision for Longkou Jinhui and requested the railway operator to compensate the loss. In August 2018, Longkou Jinhui has successfully extended the exploration right of the gold mine. The Group is confident that Longkou Jinhui is able to renew the mining right and resume production in the coming year. Hence, no further provision on the investment in an associate as at 30 June 2018 is considered necessary.

11. INVESTMENT IN AN ASSOCIATE (continued)

In the prior year, as a result of the negative effect of the decrease of production volume and volatile gold prices, the estimated recoverable amount of the Group's investment in Port First, determined with reference to the cash flows expected to be generated by Port First, dropped significantly. The directors, based on the cash flow projections of Port First, considered that the Group's investment in Port First should be impaired and therefore an impairment loss of RMB73,058,000 was charged to profit or loss for the year ended 30 June 2017 (*note 6*). The pre-tax discount rate applied to the cash flow projections was 18.54%.

Port First which is considered a material associate of the Group, is a strategic partner of the Group engaged in the gold mining business and is accounted for using the equity method.

The following table illustrates the summarised financial information of Port First and its subsidiaries adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Current assets	7,240	6,053
Non-current assets	383,319	388,290
Current liabilities	(65,696)	(59,784)
Non-current liabilities	(87,671)	(87,350)
Net assets	237,192	247,209
Non-controlling interests	(93,592)	(96,440)
	<u>143,600</u>	<u>150,769</u>
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	35%	35%
Group's share of net assets of the associate	50,260	52,769
Goodwill on acquisition (less cumulative impairment)	–	–
Carrying amount of the investment	<u>50,260</u>	<u>52,769</u>
	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Revenue	4,637	49,867
Loss for the year attributable to:		
Owners of Port First	(7,168)	(18,035)
Non-controlling interests of Port First	<u>(2,894)</u>	<u>(7,772)</u>
Total comprehensive income attributable to:		
Owners of Port First	(7,177)	(18,033)
Non-controlling interests of Port First	<u>(2,894)</u>	<u>(7,772)</u>

12. TRADE RECEIVABLES

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Trade receivables	10	70
Impairment	—	—
	<u>10</u>	<u>70</u>

The Group's trade receivables arise from the sale of properties. Considerations in respect of the properties sold are payable by the buyers in accordance with the terms of the related sale and purchase agreements. Trade receivables are non-interest-bearing.

The balances of the trade receivables as at 30 June 2018 and 2017 aged within 1 month based on the invoice date, which were neither past due nor impaired. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as they are still considered fully recoverable.

13. TRADE PAYABLES

An aging analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Within 1 month	—	—
3 months to 1 year	54	46
Over 1 year	<u>1,618</u>	<u>1,794</u>
	<u>1,672</u>	<u>1,840</u>

The trade payables are non-interest-bearing and are normally settled on 180-day terms.

14. NON-REDEEMABLE CONVERTIBLE PREFERRED SHARES

The Company allotted and issued 93,000,000 non-redeemable convertible preferred shares ("CPS") at HK\$1.00 per CPS on 3 May 2011. The holder of the CPS has the right to convert the CPS into a total of 310,000,000 ordinary shares at a price of HK\$0.30 per share on any business day after the issue date. A non-cumulative dividend of 2% per annum on the face value is payable by the Company annually in arrears on each anniversary date of the issue date, subject to sufficient reserves permissible by laws from time to time. At the end of the reporting period, the Company had 3,000,000 (2017: 3,000,000) CPS outstanding.

14. NON-REDEEMABLE CONVERTIBLE PREFERRED SHARES (continued)

Initial recognition of the CPS recognised at the issuance date was calculated as follows:

	<i>RMB'000</i>
Fair value of the CPS	77,820
Equity component of the CPS	<u>(69,801)</u>
Liability component of the CPS	<u><u>8,019</u></u>

The Black-Scholes model was used to value the fair value of the CPS. The inputs to the model were as follows:

Valuation date	3 May 2011
Share price	HK\$0.32
Exercise price	HK\$0.30
Risk-free rate	0.169%
Expected volatility	35.577%
Expected dividend yield	—

The liability component represents the Company's contractual obligation of interest payment to the holders of the CPS. For the fair value of the liability component of the CPS at initial recognition, the effective interest rate method is adopted in the valuation. The effective interest rate used in the valuation is 12.867%.

The carrying amounts of the liability component of the CPS during the year were calculated as follows:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Beginning of the year	572	499
Interest expense (<i>note 7</i>)	70	66
Exchange realignment	<u>(15)</u>	<u>7</u>
End of the year	<u><u>627</u></u>	<u><u>572</u></u>

15. COMMITMENTS

In addition to the operating lease commitments, the Group had the following capital commitment at the end of the reporting period:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Contracted, but not provided for:		
Acquisition of a subsidiary	<u>9,000</u>	<u>–</u>

On 25 June 2018, Xuzhou Taihua Property Management Co., Ltd. (“Xuzhou Taihua”), an indirect wholly-owned subsidiary of the Company, and Foshan Tianan Hongji Property Services Co., Ltd. (“Tianan Hongji”) entered into the sale and purchase agreement, pursuant to which Xuzhou Taihua conditionally agreed to purchase and Tianan Hongji conditionally agreed to sell the assets, liabilities and business of Foshan Tianan Hongji Property Services Co., Ltd. Xuzhou Branch Office. The consideration payable by Xuzhou Taihua is RMB9,000,000 (equivalent to approximately HK\$10,800,000) in cash. Details of the transaction are set out in the announcements of the Company dated 25 June 2018, 16 July 2018, 27 July 2018, 10 August 2018, 28 August 2018, 7 September 2018 and 21 September 2018 and the circular of the Company dated 21 September 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

For the Year, revenue of the Group amounted to approximately RMB21,216,000 (2017: RMB10,542,000), representing an increase of approximately 101.3% as compared with last year. The increase in revenue was mainly due to the increase in sales in property development and property leasing business.

During the Year, the Group recorded a gross profit of approximately RMB1,689,000 (2017: RMB1,714,000) and loss before tax of approximately RMB19,182,000 (2017: RMB91,497,000) respectively. The decrease in gross profit was mainly due to the decrease of profit margin from the property development and property leasing business. The decrease in loss before tax was mainly due to the reason that no provision for impairment of an associate was recorded this year.

The loss attributable to owners of the Company for the Year was approximately RMB19,811,000 (2017: RMB90,724,000). Basic loss per share during the Year was RMB0.69 cent (2017: RMB3.15 cents).

Business Review

Gold Mining Business

The Company acquired 51% equity interest in a gold mining company in Russian Federation and completed the acquisition on 15 August 2012. The gold mining company is a company established under the laws of Russian Federation with limited liability and currently operates and owns the legal and beneficial interest in a mining project related to the mine. With an aggregate mining area of about 309.3 square kilometres, the mine is operated by the gold mining company and located in Molchan river, Zeyskiy region, Amur area, the Russian Federation. The Group has exploration and exploitation rights on the same area (BLG02398BR) with an expiry date on 31 December 2027.

Since the mining area is too large and the rock composition in the northern Molchan region is complex, the gold mining company planned to conduct small scale production prior to large scale exploitation, which is common for all the mining exercise. The gold mining company had submitted the plan of exploitation to the local government in October 2017. However, due to the increase in number of wildfire and environmental destruction incidents caused by mining activities during 2017, the Russian authority raised the environmental protection requirements on exploitation applications at the beginning of 2018. As the Company signed an outsourcing contract with a third party in September 2018 which modified the original submitted plan, the Company was required to re-submit a new plan of exploitation which satisfies the tightened regulation. It is expected that the rescheduled plan will be filed in November 2018 and the exploitation approval shall be obtained on or before May 2019. After signing the outsourcing contract, the outsourcing contractor will begin the foundation work for the forthcoming exploitation process in May 2019.

On 30 January 2015, the Company acquired a 35% equity interest of Port First Limited (“Port First”). Major assets of Port First are its 70% equity interest in each of Longkou Jinxin Gold Co., Ltd. (“Jinxin Company”) and Longkou Jinhui Gold Co., Ltd. (“Jinhui Company”).

The mine exploitation license of the Shanchakou Mine held by Jinxin Company expired on 1 June 2018. Also, the mine exploration license will expire on 28 September 2018. Jinxin Company has already applied for the renewal of the above licenses.

The gold mine of Jinxin Company is located near the border but part of it is within the Laishan Natural Protection Area (“萊山生態保護區”, the “LNPA”) of Longkou City. During the year, Jinxin Company suspended the production as requested by the local government for stricter environmental protection purposes. Local government is in the process of applying to the related provincial government for excluding the gold mine of Jinxin Company from the LNPA given that the gold mine had been developed and commenced production before the LNPA was set up and part of the gold mine as well as the processing plant and refinery plant of Jinxin Company are outside the LNPA. Up to the date of this announcement, no decision has been made by the related provincial government on this application. Based on the latest communication with the local government, the Group is confident that Jinxin Company is able to resume production in the coming year. Hence, no further impairment provision on the investment in an associate as at 30 June 2018 is considered necessary.

Jinhui Company holds the mine exploitation license of the Yaojia mine which expired on 31 December 2017. Jinhui Company has already applied for the renewal of the license on February 2018. Meanwhile, in August 2018, Jinhui Company got the renewal of the exploration license of the Yaojia mine for the period up to 30 June 2020.

Jinhui Company has prepared for the expansion of its production capacity as requested by the local government in order to renew the exploitation license. However, as a railway was built across the gold mine area of Jinhui Company, Jinhui Company has to obtain the consent from the railway operator for the construction and expansion in the mine site. The railway operator kept silent when considering the safe operation of the railway, as a result, Jinhui Company had to suspend production during the year. Given that the railway was built after Jinhui Company commenced production without negotiating with Jinhui Company, Jinhui Company claimed against the railway operator for the loss incurred due to the suspension of production. The court concluded a favourable decision for Jinhui Company and requested the railway operator to compensate the loss. The Group is confident that Jinhui Company is able to renew the exploitation license and resume production in the coming year. Hence, no further provision on the investment in an associate as at 30 June 2018 is considered necessary.

During the Year, the gold mining segment recorded a loss of approximately RMB3,058,000 as compared to a loss of approximately RMB5,738,000 in 2017. As at 30 June 2018, the gold mining business had segment assets of approximately RMB134,076,000 (2017: RMB145,416,000) and segment liabilities of approximately RMB111,000 (2017: RMB12,000).

Property Development and Property Leasing Business

The property development project “Anlu Taihe Paradise” at Liang Ji Bei Road, Anlu Economic Development District in Anlu city, Hubei province in the PRC (Postal code 432600), is wholly owned by the Group and is having positive contribution to the Group. The project comprises three phases, with a total gross floor area of approximately 272,568 square meters and are approved for residential and commercial composite uses. The land use rights of the properties have been granted for a term expiring on 22 August 2065.

The Anlu Taihe Paradise comprised 3 phases, constructions were completed in 2007, 2009 and 2011 respectively and majority of the units has been sold. In our inventories, there are 40 unsold villas, 24 unsold shops and apartments in Phase I and 7 unsold shops in Phase II as at 30 June 2018.

Some of the properties are held by the Group as investment purpose (as shops and kindergarten) to generate rental income. Properties held by the Group for investment purpose as at 30 June 2018 are listed as below:

Shop Nos. 101-103, 106 and 112-116 of Block 4, Shop Nos. 101-114 and 201 of Block 25, and Shop Nos. 112-113 and 117-118 of Block 53 in Anlu Taihe Paradise.

During the Year, the PRC property market condition was more difficult as compared with last year. The property average selling prices were decreased to improve the sale transaction.

During the Year, the property development and property leasing segment recorded a loss of approximately RMB6,732,000 as compared to a loss of approximately RMB135,000 in 2017. As at 30 June 2018, the property development and property leasing business had segment assets of approximately RMB91,185,000 (2017: RMB96,245,000) and segment liabilities of approximately RMB25,949,000 (2017: RMB19,660,000).

Geographic Information

Revenue from operations of RMB21,216,000 (2017: RMB10,542,000) was derived from sales to external customers located in Mainland China.

Business Prospects

In order to sustain the continuous growth of the Group and meet the coming challenges, the Group developed its property development and property leasing business in Anlu City, Hubei Province in the PRC. The real estate project, comprising various types of properties including villas, apartments and commercial buildings. Although the property market is still under great pressure, the Directors expect that the property development and property leasing business will continue to provide positive cashflow in the future. Also, the Group will search for new investment opportunities in property market. The Group is actively searching suitable site for property development project. Negotiation of these projects are still in preliminary stages and no contracts have been entered.

The Group would like to enlarge the existing property development and property leasing business to include the provision of property management services. Therefore, the Group had entered into the conditional sale and purchase agreement with the Foshan Tianan Hongji Property Services Co., Ltd* (佛山天安鴻基物業服務有限公司) to acquire the property management business in Xuzhou City, Jiangsu Province, the PRC. This business not only would provide profits to the Group, it would also enhance the Group's expertise in the daily management of properties in the PRC, enabling the Group to improve the quality of the property management at the Group's property development project for now and in the future.

As for the gold mining business, since the mining area is too large and the rock composition in the northern Molchan region is complex, the Russia gold mining company planned to conduct small scale production prior to large scale exploitation, which is common for all the mining exercise. The gold mining company submitted the plan of exploitation to the local government in October 2017. However, due to the increase in number of wildfire and environmental destruction incidents caused by mining activities in 2017, the Russian authority raised the environment protection requirements on exploitation applications at the beginning of 2018. As the Company signed an outsourcing contract with a third party in September 2018 which modified the original submitted plan, the Company was required to re-submit a new plan of exploitation which satisfies the tightened regulation. It is expected that the reschedules will be filed in November 2018 and the exploitation approval shall be obtained on or before May 2019. After signing the outsourcing contract, the outsourcing contractor will begin the foundation work for the forthcoming exploitation process in May 2019.

The gold mining company expects to obtain the exploitation license on or before May 2019. The details of the exploitation plan is as below:

Expected timetable

Events	Details
July – September 2018	Drafted and approved the exploitation plan and signed the outsourcing contract
October 2018	The outsourcing contractor will purchase all the equipment
October 2018	The outsourcing contractor will apply for the working visa for the PRC workers
March – April 2019	The outsourcing contractor will complete the preparation work
May – October 2019	The outsourcing contractor will start 2 lines exploitation work

The production results will be passed to refinery plant and the gold will be sold to the bank in Russia. According to the outsourcing contract, the outsourcing contractor will share 70% profit and the gold mining company will share 30% profit. All the production cost and capital expenditure will be paid by the outsourcing contractor.

Looking ahead, the Group will continue to implement its diversified development strategy and proactively search for potential investment opportunities.

Liquidity and Financial Resources and Capital Structure

For the year ended 30 June 2018, the Group's working capital requirement was principally financed by its internal resources.

As at 30 June 2018, the Group had cash and cash equivalents, net current assets and total assets less current liabilities of approximately RMB52,666,000 (2017: RMB44,139,000), RMB62,651,000 (2017: RMB86,145,000) and RMB197,457,000 (2017: RMB227,788,000), respectively.

As at 30 June 2018, the Group had no interest-bearing borrowings (2017: Nil).

Total equity attributable to owners of the Company as at 30 June 2018 decreased by approximately RMB23,728,000 to approximately RMB149,254,000 (2017: RMB172,982,000). The gearing ratio (calculated as the ratio of net debt: capital and net debt) of the Group as at 30 June 2018 was in net cash position (2017: net cash position).

Major Transaction in relation to Acquisition of Property Management Business

On 25 June 2018, Xuzhou Taihua Property Management Co., Ltd* (徐州泰華物業管理有限公司) (the “Purchaser” or “Xuzhou Taihua”), an indirect wholly-owned subsidiary of the Company entered into a sale and purchase agreement with Foshan Tianan Hongji Property Services Co., Ltd.* (佛山天安鴻基物業服務有限公司) (the “Vendor” or “Tianan Hongji”), pursuant to which the Purchaser conditionally agreed to purchase and the Vendor conditionally agreed to sell all the assets, liabilities and businesses of Foshan Tianan Hongji Property Services Co., Ltd. Xuzhou Branch Office* (佛山天安鴻基物業服務有限公司徐州分公司) (the “Acquisition”). The consideration payable by the Purchaser is RMB9,000,000 (equivalent to approximately HK\$10,800,000) in cash.

As the relevant percentage ratios calculated pursuant to Rule 14.07 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) in respect of the Acquisition exceeds 25% but is less than 100%, the Acquisition constitutes a major transaction of the Company under Rule 14.06(3) of the Listing Rules and is subject to the reporting, announcement and Shareholders’ approval requirements under Chapter 14 of the Listing Rules.

The extraordinary general meeting of the Company will be held on 29 October 2018 to approve the Acquisition.

Details of the Acquisition are set out in the announcements of the Company dated 25 June 2018, 16 July 2018, 27 July 2018, 10 August 2018, 28 August 2018, 7 September 2018 and 21 September 2018 and the circular of the Company dated 21 September 2018.

Significant Investments

Save as disclosed above, the Group held no significant investment during the Year.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

Save as disclosed above, the Group had no material acquisitions or disposals of subsidiaries, associates or joint ventures during the Year.

Employee Information

As at 30 June 2018, the Group employed a total of 32 (2017: 32) employees. It is a policy of the Group to review its employees' pay levels and performance bonus system regularly to ensure that the remuneration policy is competitive within the relevant industry. During the Year, the employment cost (including Directors' emoluments) amounted to approximately RMB8,290,000 (2017: RMB8,766,000). In order to align the interests of staff, Directors and consultants with the Group, share options may be granted to staff, Directors and consultants under the Company's 2010 share option scheme (the "2010 Share Option Scheme"). There were 245,179,840 share options outstanding under the 2010 Share Option Scheme as at 30 June 2018.

Charges on Group Assets

As at 30 June 2018, no Group's assets were pledged to secure general banking facilities to the Group (2017: Nil).

Future Plans for Material Investments and Expected Sources of Funding

In the future, the Group will continue to implement its diversified development strategy and proactively search for potential investment opportunities.

The Group had no future plans for material investments and expected sources of funding as at 30 June 2018.

Exposure to Fluctuations in Exchange Rates

The Group has foreign currency risk as certain financial assets and liabilities are denominated in foreign currencies, principally in Hong Kong dollars and Russian ruble. The Group does not expect any appreciation or depreciation of the Renminbi against foreign currency which might materially affect the Group's result of operations. The Group did not employ any financial instruments for hedging purposes.

Capital Commitments

As at 30 June 2018, the Group had capital commitments for the amounts of RMB9,000,000 (2017: Nil).

On 25 June 2018, Xuzhou Taihua, an indirect wholly-owned subsidiary of the Company, and Tianan Hongji entered into the sale and purchase agreement, pursuant to which Xuzhou Taihua conditionally agreed to purchase and Tianan Hongji conditionally agreed to sell the assets, liabilities and business of Foshan Tianan Hongji Property Services Co., Ltd. Xuzhou Branch Office. The consideration payable by Xuzhou Taihua is RMB9,000,000 (equivalent to approximately HK\$10,800,000) in cash.

Contingent Liabilities

As at 30 June 2018, the banking facilities of RMB3,169,000 were granted to buyers of certain properties developed by the Group (2017: RMB503,000).

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 30 June 2018 (2017: Nil).

CORPORATE GOVERNANCE

The Group is committed to statutory and regulatory corporate governance standards and adherence to the principles of corporate governance emphasising accountability, transparency, independence, fairness and responsibility.

The Group has complied with the code provisions in the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Listing Rules throughout the Year, except the following deviation:

Code Provision A.2.1

Under the code provision A.2.1 of the CG Code states that the roles of the chairman and the chief executive should be separate and should not be performed by the same individual. Being aware of the said deviation from code provision A.2.1, but in view of the current rapid development of the Group, the Board believes that with the support of the management, vesting the roles of both chairman and chief executive officer of the Company by Mr. Mu Dongsheng can facilitate execution of the Group’s business strategies and boost effectiveness of its operation. In addition, under the supervision by the Board which consists of three independent non-executive Directors, the interests of the shareholders will be adequately and fairly represented. The Company will seek to re-comply with code provision A.2.1 by identifying and appointing a suitable and qualified candidate to the position of the chief executive officer of the Company in future.

Audit Committee

The Company established an audit committee (the “Audit Committee”) in May 2001 with written terms of reference revised to be substantially the same as the provisions as set out in the CG Code. The Audit Committee acts as an important link between the Board and the Company’s auditors in matters within the scope of the Group’s audit. The duties of the Audit Committee are to review and discuss on the effectiveness of the external audit and risk evaluation of the Company, as well as the Company’s annual report and interim report and to provide advice and comments to the Board. The Audit Committee is also responsible for reviewing and supervising the Group’s financial reporting, risk management and internal control systems. The Audit Committee has reviewed these annual results with management and agreed these annual results with external auditor of the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

IMPORTANT EVENTS AFTER THE YEAR

Save as disclosed herein, no important events took place subsequent after the Year.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

The results announcement of the Group for the year ended 30 June 2018 is available for viewing on the website of the Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and on the website of the Company at <http://kingwell.todayir.com>. The annual report will be despatched to the shareholders of the Company and will also be available for viewing at the aforesaid websites in due course.

By Order of the Board
KINGWELL GROUP LIMITED
Mu Dongsheng
Chairman

Hong Kong, 26 September 2018

As at the date of this announcement, the Board comprises Mr. Mu Dongsheng and Mr. Sze Ming Yee as executive Directors, and Mr. Cheung Chuen, Mr. Ling Aiwen and Mr. Han Hongwei as independent non-executive Directors.

* *For identification purpose only*